

# AC ENERGY GOES FOR GREEN BONDS

IN EARLY 2019, PHILIPPINES-BASED AC ENERGY INC COMPLETED ITS DEBUT ISSUANCE OF CLIMATE BONDS, RAISING A TOTAL OF US\$410M ACROSS THREE TRANCHES OF TWO SERIES OF NOTES. THIS INAUGURAL CLIMATE BOND OFFERING BY AC ENERGY MARKS THE FIRST PUBLICLY-SYNDICATED CLIMATE BONDS INITIATIVE CERTIFIED US DOLLAR CLIMATE BOND ISSUE IN SOUTH-EAST ASIA TO BE LISTED ON THE SINGAPORE STOCK EXCHANGE, AND PROVIDES A STRONG INDICATION OF THE APPETITE WITHIN THE REGIONAL MARKET FOR SUSTAINABLE CAPITAL MARKETS PRODUCTS. BY **JAMES GRANDOLFO, PAUL PERY AND CHEYNE CUDBY, MILBANK.**

The notes were issued by AC Energy's wholly-owned Cayman Islands subsidiary, AC Energy Finance International Ltd, under its recently-established US\$1bn medium-term note programme.

The MTN programme is unconditionally and irrevocably guaranteed by AC Energy, the energy subsidiary of Ayala Corporation. Ayala Corporation is one of the oldest and largest conglomerates in the Philippines, with interests, apart from power, in property development, banking and finance, telecommunications, industrials, healthcare and education, among others.

Ayala Corporation's implicit support of AC Energy and the credit reputation of the Ayala group of companies resulted in the covenants for the AC Energy issuance moving from a traditional high-yield package to a hybrid covenant-lite construct, similar to reputable market peers and comparables in the region.

Following the commencement of the transaction in November 2018, the MTN programme was established on January 16 2019. The initial drawdown of US\$225m of 4.75% five-year notes due 2024 took place on January 29 2019, taking advantage of a market window ahead of the Lunar New Year holidays, followed by a second drawdown of US\$75m of 2024 notes on February 12 2019.

A private placement of US\$110m of 5.25% 10-year notes due 2029 was also completed on February 12 2019, bringing the aggregate issuance of notes to US\$410m.

The International Finance Corporation (IFC), a member of the World Bank Group, invested US\$75m in the 2024 notes, while the Asian Development Bank (ADB) invested US\$20m in the 2029 notes.

The transaction also garnered strong domestic investor support, with three of the Philippines' largest financial institutions, namely BDO Capital and Investment Corporation, BPI Capital Corporation and China Bank Capital Corporation, serving as domestic lead managers for the issuance of the 2024 notes.

Milbank LLP represented Bank of America Merrill Lynch, HSBC and CLSA as joint arrangers and dealers in connection with the establishment of the MTN programme and the issuance of the notes, particularly given that the issuance also marked AC Energy's entry into the international capital markets.

Playing a significant role in this groundbreaking transaction demonstrates Milbank's hand in helping to develop the Green bond market in South-East Asia.

In December 2017, Milbank also represented BDO Unibank (BDO), the Philippines' largest bank, in relation to its US\$150m Green bond offering, the first of its kind by a Philippine commercial bank.

These recent transactions exemplify the firm's premiere position in assisting issuers and investment banks with innovative capital markets in line with the evolving markets and changing investor demand in the region.

The issuance of bonds by AC Energy bearing CBI certification is expected to result in a significant expansion of its renewable energy portfolio and further enhance global sustainability measures.

CBI certification of the notes provides assurance that the proceeds of the issuance will be used to finance projects and assets that are consistent with delivering a low-carbon and climate resilient economy.

Under the terms of the offering, the net proceeds of the notes will be used to finance AC Energy's renewable energy projects, such as solar, wind and geothermal energy projects, in Vietnam, the Philippines, Indonesia and other countries within the Asia-Pacific region in accordance with AC Energy's green bond framework.

Formulated prior to the issuance of the notes in line with AC Energy's strategic objectives, the Green bond framework sets out well-defined guidelines for the use of proceeds for renewable energy projects, including comprehensive monitoring and reporting commitments.

AC Energy received a second-party opinion from Sustainalytics in relation to its Green bond framework, which opinion verifies and certifies that the framework is credible and impactful and aligns with the four components of the Green Bond Principles 2018 published by the International Capital Market Association.

Although the Green bond framework was established specifically for AC Energy issuance, it is applicable to all companies within the wider Ayala group, potentially resulting in efficiencies should other affiliates within the group undertake similar issuances. This ties into the Ayala group's broader

goal of being a more responsible corporate citizen across its businesses.

The issuance of AC Energy's climate bonds were notable not only because it was the first publicly-syndicated CBI certified US dollar-denominated climate bond in South-East Asia, but also because of the participation of both the IFC and ADB, each of which invested anchor amounts of US\$75m in the 2024 notes and US\$20m in the 2029 notes, respectively.

The CBI certification process and involvement of the IFC and ADB added additional timing considerations for the transaction, which had to be balanced against AC Energy's internal funding requirements and the need to take advantage of favourable market conditions.

Although the Climate Bonds Standard Board of the CBI approved the certification of the notes as climate bonds under the Climate Bonds Standard on January 14 2019, the offering of the notes were split into two tenors in order to secure the participation of the IFC and ADB in the issuance.

Accordingly, the issuance of the first tranche of 2024 notes took place in late January, followed by the issuance of the second tranche of 2024 notes and the 2029 notes in mid-February.

The participation of these multilateral institutions, which have been vocal in their support for more sustainable financing initiatives in recent years, was key for the transaction, as it validated AC Energy's goal of being a key regional energy player with a focus on large-scale renewable energy projects in high-growth markets such as South-East Asia.

Another key feature of the AC Energy issuance structure is that it provided AC Energy with the option to take advantage of the Monetary Authority of Singapore's Asian Bond Grant Scheme on the basis that the notes classified as "qualifying debt securities" under the relevant Singapore laws and regulations.

By availing itself of the Asian Bond Grant Scheme, AC Energy is able to recover up to 50% of certain of its expenses related to the issuance and listing of the notes, which provided a significant saving in terms of its upfront costs.

AC Energy's decision to mark its debut on the international capital markets with a Green bond offering corresponds with the company's overall focus on renewable energy. AC Energy has an underlying strategy of expanding its energy capacity to 5GW by 2025, with the specific aim of having at least 50% of its total energy output backed by renewable energy by that time.

By issuing Green bonds with a third-party certification under a defined framework, AC Energy also effectively commits to delivering on its strategies in the energy space, as a key part of the framework and certification relates to post-issuance reporting and monitoring to ensure the proceeds of the bonds are used for the projects disclosed in the offering documents.

This reporting feature promotes transparency between the issuer and its investor base, assuring a tangible and objective means by which the issuer can periodically report on its progress with respect to the use of the proceeds of the bonds.

By opting to undertake its Green bond offering as a drawdown under a medium-term note programme, rather than a standalone offering, AC Energy has provided itself with the flexibility to tap further into the international capital markets should it require additional funding in the future to support its two-pronged growth strategies of selective acquisitions and value realisation.

This strategic structuring decision also enables AC Energy to minimise the time and costs involved with pursuing additional debt-raising activities, allowing it to move quickly as and when market conditions permit.

AC Energy's climate bond issuance is expected to influence other market participants within the Philippines and the wider South-East Asian region to undertake similar offerings of debt securities, whether through a medium-term note programme or standalone issuances.

AC Energy has set the standard for new and seasoned corporate issuers alike to tap into unmet global demand for green investment products as a way of financing renewable projects and investments. The Green bond market also provides myriad opportunities for financial institutions within the region to get involved in sustainable investing.

Corporations and financial institutions that choose to issue Green bonds can generally expect to benefit directly from more favourable pricing terms. Offering such bonds also provides issuers with access to a pool of investors whose mandate is limited to, or primarily geared towards, green products.

Particularly strong projects with a solid strategy of promoting renewable or sustainable business practice also encourage the participation of multilateral institutions, such as the IFC and ADB, which will help to further enhance the profile of the issuer concerned.

The advantages of undertaking an issuance of climate bonds are not limited to the issuer. Sponsors and investors that promote and invest in green products are also able to reap the benefits of such issuances by enhancing their own profile in the international markets and increasing their corporate citizenship.

As an example, multilateral investors typically have specific internal qualitative and quantitative targets for investing in and supporting similar products and initiatives, while certain institutional investors are building out separate units within their organisations specifically to assess green projects and opportunities.

It is therefore reasonable to assume that successful green financing transactions, such as AC Energy's issuance, will create a knock-on effect in establishing a robust market for sustainable investing in the region.

The heightened global awareness of, and drive to promote and encourage, renewable and sustainable business practices has helped fuel the growth of the Green bond asset class in emerging and developed markets. The recent success of AC Energy's debut offering sets the stage for companies and financial institutions in South-East Asia to take advantage of this developing asset class as a means of funding new and existing projects that have a positive environmental or climate impact. ■