



In-house expertise and the right investment strategy make the difference in financing fiber

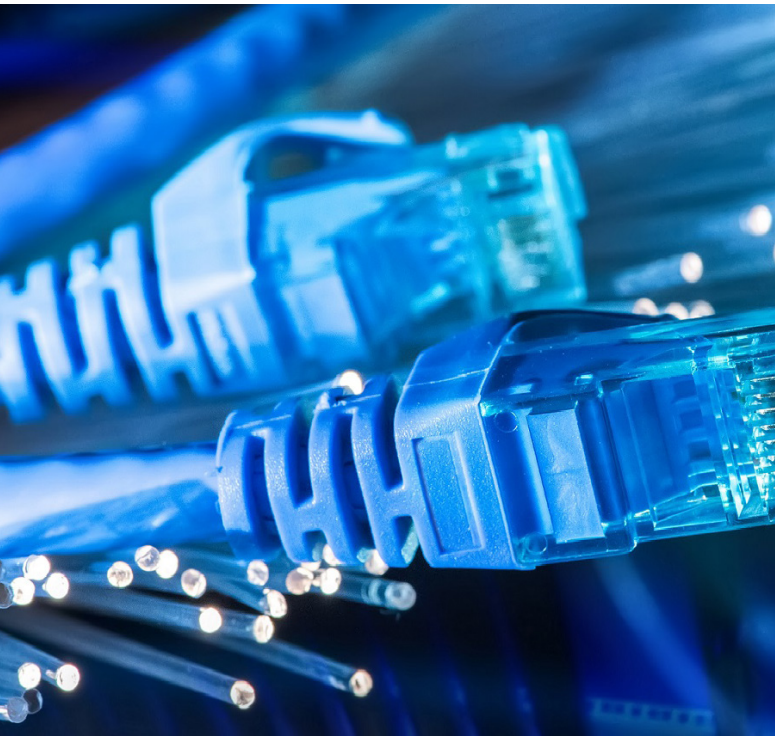
Fiber optic cable networks are fast becoming an important asset class and the successful partnership between Primevest Capital Partners (Primevest CP) and Germany's Hamburg Commercial Bank (HCOB) highlights how a distinctive approach to investing is bringing super-fast internet into even more homes.

To date, the Netherlands-based Primevest CP and HCOB have worked together on four deals to develop fiber optic networks in Germany, totalling more than €100 million. The relationship is mutually beneficial. HCOB provides customized financing which meets Primevest CP's requirements. Primevest CP, in turn, selects the assets, brings in general contractors and monitors construction, and then leases the newly-built network to the specially selected internet service provider (ISP) on a long-term agreement.

It is not a new field for HCOB, which began investigating the opportunities offered by fiber optic cable networks

in 2014, starting with greenfield sides. 'The parameters are very different to other asset classes,' says Inka Klinger, HCOB's Head of Project Finance. 'We were a pioneer when we started and it took a while to build up an understanding of the market.'

The market has moved on rapidly since then, as has HCOB's expertise. 'One of our tasks is to identify new trends and opportunities in the energy and infrastructure market. At the same time, you have to build up knowledge and experience quickly to achieve a good market position as an expert, and to benefit from early mover advantages,' she says.



HCOB's first broadband transaction involved a German fiber optic subsidiary set up by Dutch construction group Volker Wessels. 'Germans are generally late adopters and the Netherlands was advanced in fiber rollout,' says Gerrit Hecking, Senior Vice President Project Finance for Infrastructure at the Hamburg-based bank, as he looks back to the early years.

Cashflow is king

The relationship with Primevest CP itself dates back to 2021 with the first fiber projects in Baden-Württemberg. 'The first financing transaction took a while to set up because our investment strategy was clearly different from that which HCOB had seen before and it really took time for both of us to understand each other's viewpoints,' says Bas van Dongen, who is in charge of managing Primevest CP's communication infrastructure activities.

'Primevest CP manages an investment fund that only invests in fiber cable itself, the so-called passive infrastructure. Our assets, held by special purpose vehicles, provide the bank with exposure to infrastructure networks but that is it. There is no direct exposure to any ISP and the organizational costs needed to run an operating company,' says Bas van Dongen.

'We have a de-risked strategy because our close relationship to the ISPs and assets generates an immediate cash return resulting from demand aggregation. We invest area by area and do not claim big regions without securing customers on the network. Furthermore, as a neutral investment manager working with multiple ISPs, we are prepared for a possible replacement scenario. In short, our investment approach took some explaining.'

Nevertheless, in the 18 months since then, HCOB and Primevest CP have signed three other deals, the most recent being in March to supply fiber optic services to 120,000 private households in Freiburg, Hadamar and Cham. 'After the first project, when we understood each other's position, the other three were much easier to finance because HCOB now knows how we work,' says Bas van Dongen.

While creating trust in the fiber business took time, 'the relationship between HCOB and Primevest CP is not an anonymous one and that is something the bank cherishes,' says Gerrit Hecking. 'Our contacts are personal. If we have issues I can call the senior asset manager in charge and that makes it much easier for us to communicate internally. Primevest CP works with people from the industry, so I can say, "Look, I have known this guy for years and what he tells me is correct".'

Germany remains an underserved market

The market for fiber optic cable differs widely but still shows a lot of build-out potential in many areas. Countries like Sweden, Spain and Portugal may have private household penetration rates of over 40%, but in Germany and Britain, for example, home penetration is only around 6%. 'It is a huge gap,' says Inka Klinger. 'Germany remains an underserved market and there was a major discussion about how to proceed. Do we need subsidies or not, do we need any regulation? In effect, the strong demand has led to very large investments in recent years, notwithstanding very limited regulation, which has led to the development of a large number of active ISPs. HCOB does expect the market to consolidate, but not yet.'

Primevest CP's role as a facilitator has enabled it to bite off a chunk of the fiber market because, unlike ISPs, it does not have a huge organisation, staffing and other costs which need to be funded by paying customers. The beauty of this model is that Primevest CP only decides to roll out if it is convinced that the target community will be profitable. And the company still has the option not to invest, as growth, in itself, is not a driver because it does not have a large overhead to service.

Nevertheless, finding the right ISP is crucial. 'That means we work with bigger ISPs, which makes it easy for the bank,' says Bas van Dongen. 'We do work with smaller ISPs as well, but we always make sure we get the contracts in before we start building. Basically, we are de-risking our model, but still capture the upside potential of increasing values. We have applied a real estate model to the infrastructure market.'

The banks, he says, look at the situation from a different angle. 'They say, "you only have one tenant, and if they have a problem, you won't have any more revenue";' he points out. 'So it is important to show the bank that our ISPs are a profitable business but if something happens to them, we also have a plan B. After all, this is also in Primevest CP's interests. And don't forget, in the end it is all about the consumer who wants access to high-speed internet.'

The bottom line, says Gerrit Hecking, is the stability of the cash flow. 'That means we ask if we have a well-managed ISP. And if we have a small ISP, can we replace it in case it goes bust? It is also crucial to ensure the roll-out area has limited competing broadband networks so there is healthy demand by the end-customer.'

An appropriate financing structure is also key. Funds from German development bank KfW have been an attractive option for Primevest CP and continue to be so, despite increased interest rates. KfW products can cover investment horizons of up to 10 years and the fixed interest rates make additional costs for hedging products unnecessary. In today's volatile financial markets, this provides security for the investor.

Despite rising interest rates 'there remains very strong trust in the asset itself and we know in Germany at least there is a lot of investment to be done in the coming six to 10 years to enable the digitalization of society,' says Gerrit Hecking. 'This is not an asset that will go away.'

Long-term investment

The underlying theme, of course, is that everyone needs access to high-speed internet and the big question is, how fast is the market developing? In Germany, where the penetration rate is still low, other foreign players have entered the market and are making assumptions about the take-up rate, assuming it will be similar to the Netherlands or Sweden – which is not the case.

But ultimately, everything is going to be dependent on fiber, says Bas van Dongen. 'Business, consumers, all developments are dependent on having access to high-speed internet. So we are confident that projected increases in take-up will materialize and the strong demand for the projects we have rolled out already confirms this.'

A further benefit of fiber is its impact on ESG requirements. 'Fiber is a sustainable, long-term product, you have much lower energy consumption and less raw material compared to copper,' says Inka Klinger. At the same time, all ESG-related developments depend on data and that means having access to high-speed internet. 'But fiber does not tick the same official boxes as, say, renewable energy, and is not classed as a sustainable product,' says Bas van Dongen. 'There is still work to do on this.'





In the meantime, there is also much to be learned about how the market will develop in Germany. 'It is clear that the sector has grown into an important asset class and is generating high interest among both banks and institutional investors,' says Bas van Dongen. 'There is still a lot to do in Germany. Within Primevest CP, we believe in our approach and we have a positive outlook.'

Hamburg Commercial Bank AG (HCOB) is a private commercial bank headquartered in Hamburg, Germany. HCOB offers its clients a high level of structuring expertise in real estate financing and has a strong market position in international shipping. The bank is one of the pioneers in the pan-European project financing of renewable energies and digital infrastructure.

Primevest Capital Partners is a pan-European investment boutique that specialises in investments in innovative real assets. At Primevest Capital Partners, our vision is to help our clients to provide for their sustainable financial future by investing in the future of our cities in realising sustainable urban living, improving connectivity, and enabling mobility.

From our offices in Utrecht, Eindhoven and Berlin, a team of 70 professionals manages c. EUR 3 billion of real assets across 12 European countries. In total the group initiated over 60 funds, of which 28 currently active.

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