Hamilton Lane

Catching the Wave: Infrastructure Sectors

May 26, 2021

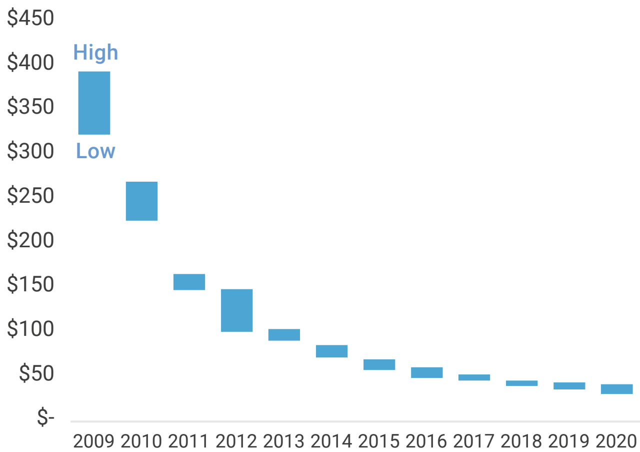
Energy and passenger transportation assets faced headwinds in 2020, while data/telecom, renewable power and freight/logistics showed strong performance and attracted significant private capital.

Energy and transportation, both cyclically exposed infrastructure sectors, have faced significant headwinds from the COVID-19 pandemic. However, these types of broad-brush generalizations can fail to capture a far more nuanced story, with winners and losers becoming increasingly apparent as much of the developed world emerges from the depths of the pandemic. The devil is in the details, as some would say.

'Unprecedented' is a word commonly ascribed to the pandemic's effects, and the same characterization certainly applies to activity within energy sector since the start of 2020. At the time of writing, oil prices sit comfortably above levels observed at the end of January 2020, prior to the pandemic taking hold. What is lost in these numbers is the unprecedented volatility, decrease in demand and speed at which energy markets have rebalanced, having recently passed the one-year anniversary of oil prices turning negative.

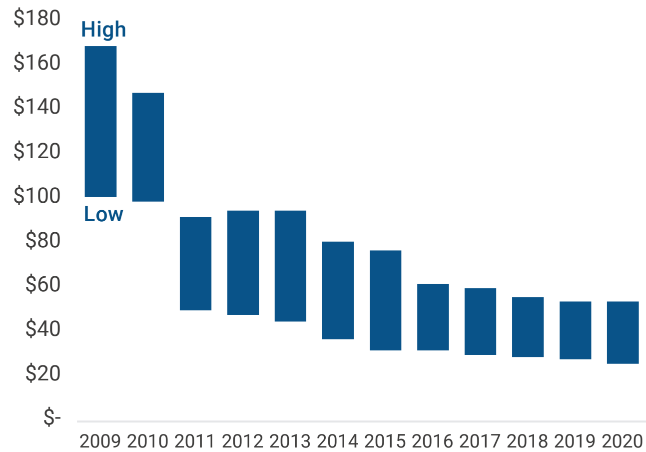
On the losing end were those ill-equipped to deal with shocks due to excessive leverage, inefficient cost structures and direct or indirect exposure to price volatility. Losers included sub-scale E&Ps, refiners, as well as midstream and power assets exposed to volumes, pricing and adversely impacted counterparties. That said, sub-segment exposure matters, and our experience has shown that seemingly unlikely winners have emerged. One example is a power utility we approved in February 2020, which benefits from exposure to contracted renewable generation yet ended up thriving during the pandemic from providing ancillary services.

Solar Unsubsidized LCOE
LCOE ($MWh)



Source: Lazard Levelized Cost of Energy and Levelized Cost of Storage - 2020. Published October 2020

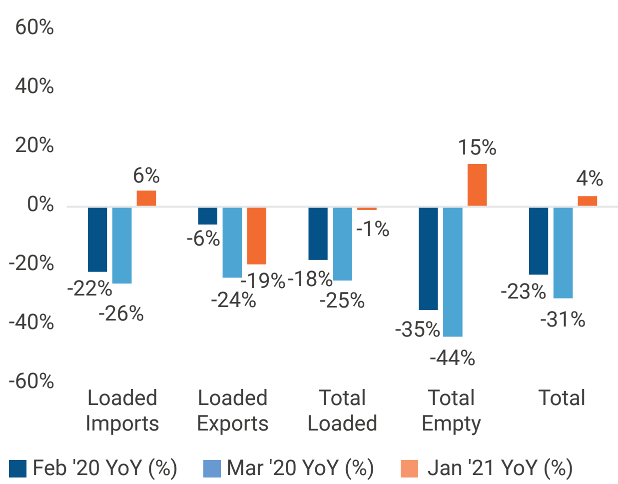
Wind Unsubsidized LCOE
LCOE ($MWh)



Source: Lazard Levelized Cost of Energy and Levelized Cost of Storage - 2020. Published October 2020

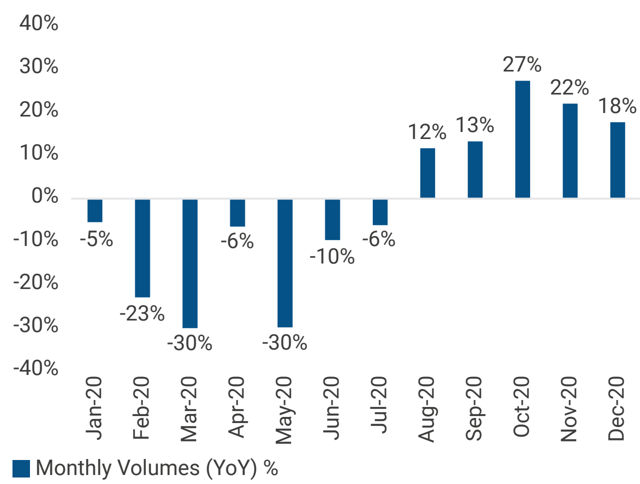
Speaking of renewables, despite lower input costs for a number of traditional generation assets, renewables have managed to “come of age” in the last year, with improvements in technology and cost efficiencies reaching an inflection point.

Port of L.A. Monthly Container Volumes



Source: Port of Los Angeles as of January 2021

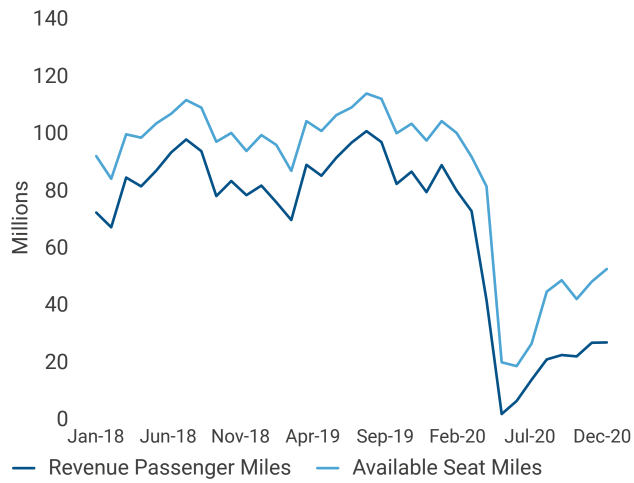
Port of L.A. Monthly Container Volumes



Source: Port of Los Angeles as of January 2021

When COVID-19 took hold, the movement of goods and people came to a near halt, as governments around the world sought to halt the spread of the virus. However, following sharp initial declines, supply chains adapted to a new paradigm, with monthly U.S. port container volumes ending 2020 with year-on-year overall growth, as consumer spending shifted from services to goods. A similar phenomenon occurred elsewhere in the logistics space, with the rise of e-commerce and consumer preferences driving activity.

Available Seat Miles and Revenue Passenger Miles

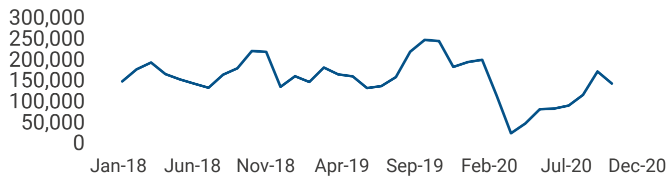


Source: Bloomberg as of November 30, 2020

U.S. Domestic & International Unscheduled Airline Flights

Source: Bloomberg as of November 30, 2020

U.S. Domestic Unscheduled Revenue Passenger Miles



Source: Bloomberg as of November 30, 2020

Transportation infrastructure assets focused on the movement of people, versus services, have been more adversely impacted by the pandemic. As a result, demand for airports, passenger aircraft, public parking facilities and public transportation was temporarily decimated. However, there are clear signs of hope on the horizon. After significant cuts to capacity at the outset of the pandemic, airlines including Quantas, Virgin Australia and Delta Airlines have recently signed agreements for additional planes in anticipation of or in order to meet strong domestic demand.

Read more in our next excerpt or request a copy of our [2021 Real Assets Market Overview].