DTEK Renewables committed to finishing Tyligul as external funding challenges mount

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Strategic Considerations: DTEK Renewables is committed to bringing its largest investment project, Tyligul Wind Power Plant, onstream even as sources of external funding have thinned, according to its spokesperson. The project's remaining total cost is EUR 217m, out of the total EUR 587m. As European lenders retreat from the Ukrainian renewables market, there are concerns about the medium- to long-term prospects of external project financing, which has been used to fund the industry's growth. Several European ECAs and lenders previously active in Ukraine have temporarily closed their new limits on the country following increased country and regulatory risks, turning their attention to more stable markets like Poland and Romania. At the same time, non-project financing is still abundant for those producers that do not sell electricity to the Ukrainian government.

- Tyligul WPP requires EUR 217m investment this year, says spokesperson
- EUR 325m 8.5% 2024 bond trades at 85, or a yield of over 15%, down 17 points since November

DTEK Renewables is planning to finance the remainder of the required capex in Tyligul Wind Power Plant (WPP), its main investment project in Ukraine, from cash flow, equity, and potentially external financing, a company spokesperson told this news service.

But as lenders and partners adopt a more cautious approach to investing in Ukrainian renewable energy, external project financing is becoming harder to obtain for Ukrainian private renewable energy sources (RES) producers, agreed the DTEK Renewables spokesperson and an industry-focused lawyer in Kyiv.

Tyligul WPP requires a EUR 217m (USD 247m at today's exchange rate) investment this year, the remainder of the project's total EUR 587m (USD 669m) cost, most of which was already financed last year, according to the spokesperson. The spokesperson would not disclose the company's current cash position.

The 500MW project is located in Mykolaiv region in the south of Ukraine and is expected to generate 1.8 billion kilowatt-hours of green energy a year. Once commissioned, Tyligul will be one of the top three onshore wind farms in Europe based on existing capacities as of today (18 January).

Although DTEK Renewables – one of the largest renewable energy producers in Ukraine – is fully committed to bringing the Tiligul project on-stream, the company said it is concerned about the medium- to long-term funding prospects for the Ukrainian renewable energy industry.

"We are seeing a change in the attitude from financing partners that were previously active in Ukraine," the company spokesperson said, adding that German banks and several export credit agencies (ECAs) that were previously active in funding RES producers in Ukraine are temporarily closing new limits to the country.

The lenders cooled off following several developments last year that affected their perception of Ukraine risk, and that of DTEK Renewables specifically, according to the company spokesperson.

First, there was the non-payment in November of USD 110m in historic state debt to the company for produced green energy – a move widely seen as discriminatory by market participants. Then S&P Global Ratings proceeded to downgrade DTEK Renewables on “liquidity pressures” on 6 December. At the same time, Ukraine country risk shot up on the heightened threat of an invasion by Russia.

A Kyiv-based lawyer, active in the renewable energy industry in Ukraine, agreed that the availability of project financing in the sector has dwindled. Ukraine’s volatile regulatory environment and recently escalating geopolitical tensions have been behind the sentiment shift, the lawyer said.

“Today, non-recourse project financing does not exist,” the lawyer said.

Germany’s ECA **Euler Hermes** and Denmark’s **EKF**, along with turbine suppliers **Vestas** and **General Electric**, have been among the most active international partners for the Ukrainian RES producers, according to the lawyer. The recent trend, however, is that the European players who got “burned” by Ukraine’s green feed-in tariff have been retreating from the Ukrainian market and turning their attention to Poland and Romania instead, the lawyer said.

Interestingly, Chinese investors continued to invest in RES projects in Ukraine last year, added the lawyer, commenting that the Chinese appear to be more “flexible” when it comes to volatile regulatory markets like Ukraine.

Access to financing is still open to those producers who are not taking on Ukrainian government risk and are selling their electricity into the open market, said an international investor who is overseeing an investment company focused on the Ukrainian renewables sector.

The fact that DTEK Renewables is still waiting to be compensated by the state for the energy produced in 2020 and partly in 2021, as confirmed to this news service by its spokesperson this week, is the loudest evidence yet that the lenders’ fears may well be justified.

S&P downgraded DTEK Renewables to CCC+ on 6 December, citing liquidity pressures. Ongoing construction of the Tyligul project has exhausted the Ukrainian renewable energy producer's liquidity cushion, leaving the company with only EUR 18m in cash by mid-November 2021, plus USD 42m in a debt-service reserve account, the rating agency said at the time.

The company’s only outstanding Eurobond, the EUR 325m 8.5% 2024 notes, have dropped 17 points since mid-November. The 8.5% 2024 notes traded at 85, or a yield above 15%, yesterday (17 January), said a trader.

by Yulianna Vilkos