Agenda

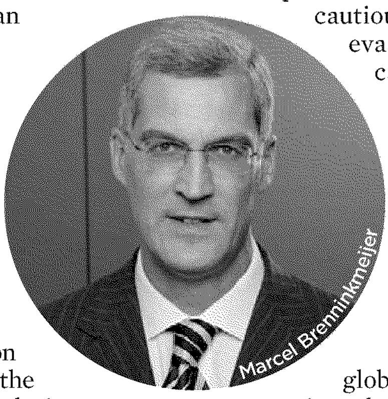
SUSTAINABILITY

Green deals go into the red

By Mike Foster

Last year's green deals have gone into the red, leaving the weight of frustrated ambition resting uneasily over the sector.

In the red corner, clean energy deals totalling $13.3bn (€9.5bn) in the first quarter were 53% lower than the equivalent period in 2008, according to data provider New Energy Finance, although recovery is in progress.



Marcel Brenninkmeijer

The WilderHill New Energy Global Innovation index has lost ground to the mainstream. At its worst during 2008, during November, it was down more than 70%.

Lower oil and gas prices have made clean energy less competitive, although the situation is starting to improve. A benign spell of weather in the US and Europe in 2008 defused panic over climate change, although fierce heat in Australia played a part in the election of a greener government.

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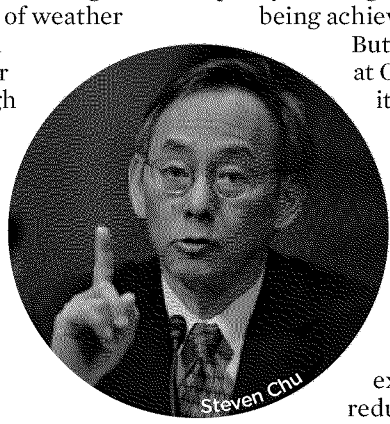

Steven Chu

Tendencies to pollute have stopped making a difference to share ratings.

Robert Schwob of data provider Style Research says: "Investors are more concerned about value for money than the environment."

Banks including UniCredit, Royal Bank of Scotland and HSH Nordbank, the keenest private sector suppliers of project finance in 2008, have pulled in their horns. There is talk state agencies will fill the gap. But progress is slow.

Arno Harris, chief executive of Recurrent Energy, told the Wall Street Journal: "There are a lot of thinly capitalised developers that are struggling to figure out how to develop projects."

Socially responsible funds have suffered. According to Morningstar, the UK-domiciled average fall over the year to March was 24% against MSCI World's 18.8%.

In the green corner however, companies ranging from Wal-Mart to Unilever are burnishing their green credentials. They are putting suppliers under pressure to behave better.

Pressure is mounting on governments to invest in clean technology to prevent climate change and dig the world out of depression. Few sectors offer politicians such a winning combinations.

UK climate tsar Lord Nicholas Stern is among a growing number of powerful lobbyists. After a cautious start, he has become evangelical in his belief carbon emissions need to fall to prevent a rise in temperatures which could undermine societies. US President Obama gets the point. His Energy Secretary Steven Chu has strong climate credentials.

Around $475bn globally is being pumped into the clean energy sector in the short term, against $120bn in 2008. Solar photovoltaic power capacity has risen sixfold since 2004 and wind is up 250%, according to an upbeat report published by the Renewable Policy Network.

There is a risk state subsidies supplied to make clean energy competitive will be withdrawn, due to state cutbacks. A cut in Spanish funding recently led to more investment in Italy, where pricing parity on the grid is close to being achieved.

But Sean Gorman, partner at Osmosis Capital, says it is hard to withdraw subsidies, given the impact on users.

He adds: "The cost of solar energy is becoming more competitive as a result of a fall in the price of silicon."

Solar provider Q-Cells expects industry cost reductions of up to half by 2015.

Ahead of this year's Copenhagen summit, Simon Thomas, chief executive of data supplier Trucost, is confident Obama will introduce a tough pricing regime for carbon by 2012 which could add $80bn to US corporate energy bills, or 5% of earnings. This would be in line with pricing regimes in Japan and Europe.

Trucost has created index tracking funds in partnership with sponsors such as Standard & Poor's and UBS. They tilt weightings in favour of energy-efficient companies and broadly perform in line with the index.

They will outperform when carbon trading costs rise: trading on the Chicago and European climate exchanges in May was 200% higher than last year, suggesting things are hotting up.

Henry Boucher, Sarasin's head of sustainable investment, says: "You need a mix of investments. Clean energy is part of the story, but we set out to invest more broadly, now sustainability has gone mainstream."

Boucher says energy-efficient buildings are enjoying a premium value. "Companies like Unilever are leading efforts to improve sustainability, pulling up others, like Nestlé, in their wake." HSBC, advised on climate change by Stern, has wheeled out a string of funds.

EXCELLENT VALUE

Ben Goldsmith, millionaire backer to Wheb Ventures, targeting £150m, says state initiatives are providing the private sector with incentives. He said deals offer excellent value now capital has been withdrawn from the sector. Hard-pressed operators are selling quality assets, typified by a cluster of wind farms in Portugal sold by Babcock & Brown to Magnum Capital for $1.4bn.

Hard-pressed developers in Spain are offering assets on yields of 10% to 12%.

A spokeswoman for a wealth syndicate managed by Hotbed said it had turned a wind farm site assembled for £800,000 into a £16m sale.

European Union rules stipulate that 20% of energy should come from renewable energy against the current 3% to 4%: "We are a long way away from hitting these targets," she said. Local resistance to national climate initiatives is pervasive, leading to opportunities for the persistent, but frustration for many.

Stiff competition for capital means no less than 78 separate funds are seeking money, according to data provider Preqin. According to Osmosis' Gorman, a backer of funds and co-investment situations, investors need to back people experienced in operations, technical knowledge as well as finance.

Gorman used to be a banker at Royal Bank of Scotland, where he backed Trinergy in 2004, sold for €1.8bn ($2.5bn) three years later. Osmosis is raising €200m.

Hudson Clean Energy, led by former Goldman Sachs alternative energy co-chief Neil Auerbach, employs one of the largest numbers of former bankers. It is seeking $1bn. His colleague John Cavalier is sensitive to the funding situation: "We need to moderate our perspectives and expectations around valuations how much capital needs to be husbanded."

Outfits that invested the most last year according to New Energy Finance were Magnum Capital, Doughty Hanson and First Reserve, according to New Energy Finance. The most frequent investors were Good Energies, Draper Fisher Jurvelson and US-based Kleiner Perkins. WB

Europe's Top 10 Green Moguls

1 Marcel Brenninkmeijer
All-weather
Backer to solar and wind farms

2 Ditlev Engel
Wind power
Under Engel's lead, Vestas turnover and profits have soared

3 Bert Heemskerk
Agri-banking
Chairman of Rabobank – majority owner of very green Sarasin

4 David Blood
investment issues
His Generation IM's sustainable investment strategy is popular with institutions.

5 Nigel Doughty
Pathfinder
Leads Doughty Hanson private equity firm, which went carbon neutral in 2006.

6 Frank Asbeck
Shooting out the lights
Asbeck's Solar World is Europe's best performing listed family business over five years

7 Zac and Ben Goldsmith
Broad portfolio
Zac is a leading UK lobbyist. Ben is involved in green venture capital

8 Olivier Dupont
Research driven
Chairman of Demeter Partners – funding for a series of green funds

9 Samer Salty
Technology
CEO of Zouk Ventures, Salty is raising a €200m ($282m) clean-tech fund

10 Nino Tronchetti Provera
Clean energy
Leading Italian fundraiser

Source: Wealth Bulletin