Renewable Energy Becomes An Investor Safe Haven

Renewable energy investments are now beginning to be perceived as safe and stable as conventional infrastructure asset classes, like water companies and electricity grids, according to Matthew Herring, KPMG Australia's National Leader of Renewables.

Green Power 2012: KPMG *renewable energy M&A report*, released in May, provides insight into global mergers and acquisitions (M&A) activity in the renewable energy sector, with the findings based on a survey of 500 senior executives in the renewable energy industry worldwide.

"Falling costs will drive further investment into the renewable sector and in Australia we could see further investment in wind and solar PV in particular without the need for subsidies," said Herring.

According to *Green Power 2012*, private equity and infrastructure funds are preparing to fly in the face of the downturn and kick-start an increase in deal activity in the renewable energy sector over the next 18 months.

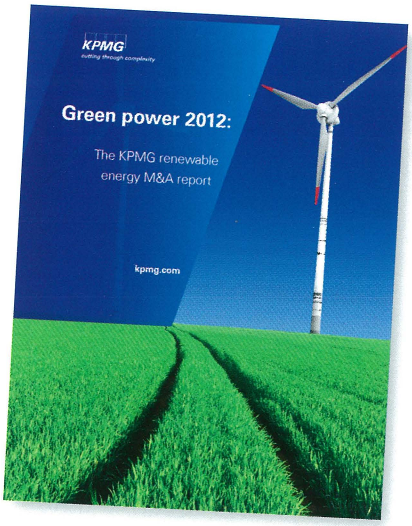
At the same time seven out of 10 respondents to the survey indicated that it was now harder to secure debt financing to fund acquisitions of renewable projects and companies.

The report, which gathered opinion from utilities, manufacturers of renewable equipment, governments and sovereign wealth funds, found that 85% expected renewable energy deal flow to remain robust in the next five years. Over 70% said they were particularly attracted to hydro, onshore wind and solar photovoltaic investments, confirming that they are seen as a safe haven for long-term money.

"This survey highlights the significant opportunity for Australia and the message is clear – the industry needs to develop quickly so that we can become a leader throughout Asia and globally," said Herring.

Although the renewable energy industry entered 2012 on a subdued note in terms of deal volumes, in to 2011 with a total of 591 deals valued at US$51.2 B, this represented a significant increase from 2010, which witnessed 431 transactions worth $24.2 B.

The surge in activity was focused in wind and solar sectors; however, both were far



outstripped by the rapid increase in deal activity in the biomass sector which rose by an impressive 300%.

However, despite the general positivity surrounding the industry, regulatory uncertainty could badly affect the positive sentiment of investors, the report stated.

"The investment climate remains fragile," said Herring.

"While it is exciting to see so many respondents expecting to invest in green energy in the near future, this could all turn quickly if struggling governments continue to retrospectively change policy and so damage confidence.

"This is also true in Australia," he said.

"Although Australia's renewable energy policies have become more supportive of the industry in recent years, like the bi-partisan support of the Renewable Energy Target (RET) scheme, there is still uncertainty about state-based policies which does little to fuel investor confidence."

The report predicted that major future investment would come from Asia, where investment in Japan is expected to be stimulated by low interest rates, and in China by equipment manufacturers seeking to expand into new markets.

"Given our proximity to – and strength of relationships with – these countries, we should be making Australia a more attractive place for renewable energy investment by continuing to progress policies, addressing infrastructure challenges, collaborating better with the resource sector and motivating domestic investors," said Herring.

"The positive is the prevailing strength of the Australian economy, which is bucking global downturn trends and adding some comfort to prospective inbound investors. We expect the M&A activity locally to be led by suppliers trying to enter our market, like wind turbines groups and infrastructure and super funds that have been able to better evaluate the risks and participate as long term investors in the sector."

A study commissioned by the Clean Energy Council said $4.25 B had been invested into Australian wind power projects and wind farms could pump more than $17 B into the Australian economy by 2020. This figure could be doubled if all proposals go ahead.

...we should be making Australia a more attractive place for renewable energy investments

Clean Energy Council's director Russel Marsh said this proved that wind farms had direct economic benefits for local communities, as well as boosting the national economy.

"Wind farming can help farmers generate significant extra funds for local suppliers, contractors, shopkeepers, community facilities and more. They can help farmers earn vital extra income, make better use of farming land and ensure against downturns in key commodities." Marsh said.

NSW Parliamentary Secretary for Renewable Energy Rob Tokes said the report painted an "encouraging snapshot" of the wind energy potential.

"NSW is keen to develop a sustainable wind industry that supports rural and regional communities and promotes opportunities for further growth within the industry," Tokes said.

"This involves the development of clear planning processes that provide guidance and assurance to all stakeholders – while driving innovation and investment," Tokes said. ■

PESA News No. 119 (2012)