

Renewable M&As market rallies

LONDON, UK: North America's switch on to energy efficiency has driven their position in the global renewable M&A market in the last 12 months, and could act as a driver for the region to become the dominant renewables market within three years, according to new analysis by PwC. In Europe, however, regulatory uncertainty clouds European deals.



PwC Renewables Deals, the annual sector analysis of M&A transactions globally, reports that globally volumes of transactions in the sector were up, but overall values were down to US\$33.4 billion* (2009: US\$48.8 billion). Across the world, market interest returned, with North America bouncing back to almost match deal values in Europe in 2010, with close to US\$13 billion spent on 181 deals.

Key findings:

- Strong growth in energy efficiency deals globally;
- UK and Germany account for a third of European market activity;
- Regulatory uncertainty clouds deal environment in Europe;
- Significant deals bring nuclear energy companies into renewables market;
- US deal market bounces back to equal European transactions.

Ronan O'Regan, director, renewables and cleantech, PwC said:

"Strong confidence has come back to the market after financing issues caused the sector real problems in 2008 and 2009. In addition, in 2010 buyers and sellers expectations are more realistic, which has supported higher deal volumes.

"We expect confidence levels to remain relatively strong throughout 2011, despite regulatory uncertainty in some markets."

Energy efficiency deals treble

Globally, energy efficiency deals trebled in volume to represent over US\$3 billion, or 11% of all renewable transaction value, overtaking last year's dominant market segment, Hydro power. Overall, wind and solar power continue to dominate

global transactions in the sector. The US market dominated growth in the energy efficiency market in 2010 reflecting both the potential for energy savings per capita, and renewed regulatory interest, such as new US building codes aimed at delivering a 30% energy saving in new builds.

Ronan O'Regan, director, renewables and cleantech, PwC said: "The growth in energy efficiency deals is not surprising, particularly in North America, because when you're trying to reduce emissions, it's where the quick wins can be found. There's increasing consumer awareness around managing energy usage which, when supported with appropriate regulations, is creating an attractive market for energy efficiency service providers. This, combined with government stimulus packages, should see the US become a dominant player in the renewables deal market over the next few years."

Significant moves

In other significant moves, market activity by US and French nuclear power generators and engineering firms into wind and solar sectors, are part of a wider move for the nuclear sector to extend its reach in renewables, further developing their low carbon offering.

Ronan O'Regan, director, renewables and cleantech, PwC said:

"Many of these moves by nuclear companies are driven by diversification. The reaction to the Japanese nuclear situation has been to take stock. While it won't raise a red flag to investment in nuclear, it could in the short term spur further moves by nuclear companies into renewables."

Despite increased transaction volumes, the 'green premium' on renewables deals - the price investors were willing to pay for a business with products exposed to the renewables sector has narrowed, partially due to sellers' lowering their price expectations, and partially due to greater stability in the economy.

Shift in focus

Power utilities purchases were down to a third of previous levels, in part due to regulatory reviews in Spain, Germany, Italy and the UK, but also as their focus has switched to delivering on massive capital investment challenges.

The largest deals were dominated by the flow of renewables flotations, including the US\$3.4 billion spin-off of Enel's green energy arm, and Chinese transactions, raising valuable capital for reinvestment in product and market development.

Ronan O'Regan, director, renewables and cleantech, PwC concluded:

"The recent return to US\$100+ priced oil and the reaction to the nuclear tragedy in Japan should provide some support to valuations and act as a timely reminder to governments that a shift to a low carbon economy is not only about its environmental commitment, but also about security of supply."

Notes

1. *PwC Renewables Deals* includes analysis of all global renewable energy and clean technology M&A deal activity. This year, the analysis is based on transactions from Clean Energy pipeline's proprietary M&A database, provided by Venture Business Research. Figures relate to the actual stake purchased and are not grossed up to 100%. The analysis also includes deals with undisclosed value. Deals where the transaction value is undisclosed are assigned an average transaction value using a methodology derived from Clean Energy pipeline's proprietary M&A data.

2. Deal volumes and values:

- European deal volumes rose 50%, but overall values fell by over half to US\$13 billion
- North American deal volumes rose 71%, with deal values rising 43% to US\$12.9 billion
- South American deal volumes rose 111%, with values more than doubling to US\$3.3 billion

- Asia Pacific (including Australasia) deal volumes almost doubled, but values fell by half to US\$3.5 billion

3. Nuclear investments in renewables: In the US, the US\$900 million purchase of John Deere Renewables by nuclear power generator Exelon demonstrates the evolution of wind power and its integration into mainstream power generation. It's Exelon's first move into owning and operating wind project, and gives the company more options for future growth given the lack of momentum in US nuclear power development. The French nuclear engineering company Areva made its first move into the solar power market with a US\$200 million purchase of US company Ausra, a developer of solar thermal power technology

4. UK renewables deals in 2010 were worth US\$1.469 billion, 11% of all European deal value

**Exchange rate at time of publication: US\$1=R6.88.*

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