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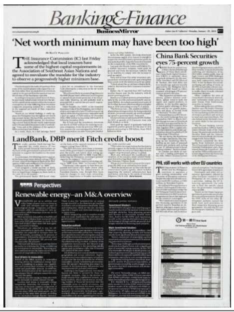

KPMG Perspectives

Renewable energy–an M&A overview

VALUATIONS are up as utilities and other larger players strive to keep up with new entrants and the pace of technological change. Corporate and financial buyers alike are searching for new opportunities, while keeping a close eye on the potential risks.

M&A activity in renewables is healthy and growing. Deal volumes have increased every year since 2010 and continue to climb. In the first half of 2017, there were 198 deals globally, worth €22.5 billion.

Valuations are expected to rise for offshore renewables in particular. Offshore renewables are expected to increase over the next 24 months, according to 82 percent of respondents, followed by photovoltaic solar (81 percent), hydropower (68 percent) and thermal solar (51 percent).

There are still bureaucratic and legislative obstacles to overcome for those considering an investment in renewables. Planning permits and licenses are the main concern for 25 percent of respondents in the survey.

Deal drivers in renewables

MUCH of the M&A activity in renewables is being driven by traditional energy businesses scrambling to acquire new capabilities and institutional investors looking for stable and predictable returns. In addition, we see diversification of the landscape with new players like oil and gas companies coming into the game.

Utilities are also racing to keep pace with public demands to tackle climate change.

Another deal driver is renewable-energy integration. Australia, for example, is facing some of the most complex integration of renewables in the world, with coal down 20 percent since 2008 and wind power up 325 percent in the same time period, according to the Australian Energy Market Operator. There is also the "potential for an annual energy shortfall in the domestic gas market" in eastern and southeastern Australia. Solar and wind power, while on the rise, are dealing with a fragile and stretched energy grid in many areas.

While integrating such a complex energy mix can cause headaches for end-users and government policy-makers, it gives investors opportunities.

Valuation outlook

VALUATION is a factor in investment decisions, with investors anticipating major shifts in value for some renewables subsectors. Among the deal-specific factors influencing the valuation of individual renewable assets are asset quality, cost of finance, regulatory stability, the state of the wholesale energy market, evolution of the competitive environment, the lifecycle stage of the asset relative to the prevailing subsidy regime and curtailment risks that lie beyond the control of the asset owner.

All of these factors vary markedly between geographies and across subsectors. Eighty-two percent of respondents expect valuations to rise over the next 24 months for offshore renewables, closely followed by photovoltaic solar (81 percent). Majorities also expect increases in the hydropower (68 percent) and thermal solar (51 percent) subsectors.

Looking to the bigger picture, two macro factors are likely to account for these anticipated increases. One is the decline of fixed income from traditional sources, e.g. bond markets, which has driven an increasing number of financial investors into the renewable arena in search of returns, and intensified competition for assets. Another factor is the commodification and relative maturity of renewable technologies—particularly offshore wind—which now makes renewables a far more appealing bet for traditionally cautious investors.

Investment blockers

INVESTORS looking for their next big opportunity in this relatively nascent industry face multiple obstacles, from planning permits and licenses to uncertainty around incentives, feed-in tariffs (FiTs) and regulations, as well as the ongoing disruption and pace of technological change and the perennial challenges involved in financing such projects.

Main investment blockers

TWENTY-FIVE percent of respondents cited that acquiring planning permits and licenses was the most significant obstacle to investment.

Twenty-one percent of respondents say that uncertainty around incentives and FiTs is blocking potential investment.

Technology challenges can block investment, particularly as digital forms such a significant part of renewable-energy systems. As the CFO of a renewables developer in Brazil points out, technology keeps evolving and keeping up with that evolution is expensive and difficult for most companies, especially in such a young industry.

Legislation and regulation remains an issue, as well, cited by 18 percent of respondents, as governments around the world struggle to create policy that both understands and encourages renewables.

The article "Renewable energy—an M&A overview" by Charles Abbey, KPMG in France, was taken from KPMG's publication, entitled Great expectations: Dealmaking in the renewable energy sector.

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