

EUROPE'S SMART GRIDS TO LIGHT UP INDUSTRIALS

For Europe's austerity-hit industrial companies, plans to upgrade the continent's electricity infrastructure with smart grid technology offer growth potential at a time of savage public works cuts. Investment bank Goldman Sachs reckons spending in Europe on transmission, distribution and metering systems could reach \$187 billion through the next 30 years, as utilities turn to smart grids to better track household energy use, smooth demand surges and curb overall usage.

Industrial companies with a rich smart grid portfolio such as Schneider Electric SA, ABB AG and Siemens AG, whose earnings have taken a hit by government austerity measures, stand to benefit from an investment splurge designed to meet regulatory requirements and pressure from consumers for less outages and lower bills.

"Industrial firms like General Electric (GE), ABB and Siemens that sell very widely into smart grids will benefit the most," said Steef Bergakker at fund manager Robeco, whose infrastructure-themed fund has 160 million euros of assets under management.

Certainly GE sees the potential. "The integration of renewable energy sources into the grid and the need to maximize reliability of supply are driving the expansion of smart grids," said Keith Redfearn, northern and eastern Europe regional manager at GE Energy Services. "They are key to Europe meeting its 2020 climate change targets, so that both consumption and energy losses can be cut by 20%."

CAPITAL GOODS

- For network equipment maker Cisco Systems, smart grids will eclipse the Internet as a business opportunity -- an opportunity which Goldman reckons at \$750 billion globally for equipment makers, with Europe making up a quarter of that total.
- Among European capital goods firms, France-based Schneider Electric stands to benefit most, with Goldman analysts estimating the opportunity represents an additional 1 times multiple to Schneider's 2011 target enterprise value to operating profit.
- Smart grids make up 59% of Schneider's sales, encompassing sectors such as distribution equipment, energy management systems, metering infrastructure and IT, Goldman analysts said. They have a 12-month price target which is some 50% higher than Schneider's current share price.
- Investors looking for direct exposure to the smart grid sector often opt for smart electricity meter manufacturers such as Itron, Echelon and Germany's Elster Group, which earlier this month filed for an initial public offering it hopes will earn it \$152 million.
- "The EU has set a 2022 deadline for the full roll-out of smart meters across member states, so there is huge investment that will take place," said analyst Bob Gohn at market research firm Pike Research. The number of installed smart electricity meters in Europe is expected to increase from 45.2 million at the end

of 2010 to 111.4 million at end 2015 as the percentage of households with smart meters rises from 18 to 44%, according to market research firm Berg Insight.

Academic studies have found that, taking into account not just the savings for utilities but also social and environmental benefits such as energy efficiency, the benefits of developing smart grids exceed costs by more than five times.

Sweden and Italy have taken the lead in smart grid technology: Sweden already boasts 100% penetration in smart meters, while Italy, whose main utility Enel was one of the first in Europe to roll out the technology, hopes to have 95% of customers on smart meters by 2011.

The main European hotspots of activity are in the Nordics, Britain, France and Spain, while Germany is seen as lagging behind, although it is engaged in several pilot schemes. France, led by EDF, started a national rollout of 33 million smart meters in 2008, while Britain set a 2020 goal for all 26 million households to be equipped with smart meters. Yet such household devices are only part of an investment programme some reckon as the largest in Europe's electricity network infrastructure since World War II.

"Smart grids may be niche but the huge capital expenditure involved offers a major source of long-term growth for investors in the infrastructure space," Robeco's Bergakker said.

Source: (Reuters/30 September 2010)