

Renewable Energy Bubble Emerging: KPMG Study

While one-half of the world's energy leaders are concerned that a bubble may be developing in the renewable energy sector, Australia is seeing an increase in opportunities as the European market redeploys value to the emerging Australian market, according to a survey released by KPMG International.

In Turning Up the Heat – an insight into M&A in the renewable energy sector in 2008, a poll of director-level executives across more than 200 global power and utilities companies, suppliers, and financial investors reveals a significant increase in the number of deals and a surge in prices being paid for renewable energy companies. KPMG partner and head of the energy and natural resources Australia practice Antony Cohen says that the over-heated European market is creating opportunities in Australia as renewable energy market participants seek to invest in the emerging and growing market.

“Buyers offshore are paying big multiples for assets in an effort to be ahead of the curve as governments seek to cut emissions. In Australia a number of state based initiatives introduced in late 2006 and 2007, the proposed carbon trading scheme and the expanded mandatory renewable energy target are assisting project development in Australia,” says Cohen.

The survey reveals that the rate and size of mergers and acquisitions activity in the renewable energy sector has been growing rapidly. Analysts estimate that 2007 saw US\$55.7 billion in mergers and acquisitions transactions globally – up by 47 per cent from 2006.

While the reasons for this increase in activity are varied, the overall effect has been to push valuations to record levels, according to KPMG. Despite these high valuations, 56 per cent of respondents believe that valuations will increase compared with just 10 per cent expecting the opposite) and that the size and ambition of deals will grow in the next three years.

“The pace of consolidation will accelerate, but not for all technologies. Roughly 60 per cent of executives surveyed expect to see further consolidation in wind, solar and biofuels and 30 per cent expect to purchase such a company themselves between now and 2010.

“The figures are about half for hydro, and even less for tidal. This is purely a question of economics: wind especially, but solar and biofuels to a lesser degree, are becoming more financially viable and have pricing structures designed to support them as technology improves,” says Cohen.

KPMG advisory practice director Mathew Panopoulos, who focuses particularly on renewable energy, explained that the renewable energy industry is at an early stage of its development with wind energy likely to be the primary beneficiary of higher targets.

“The difference between wind and most other renewable energy sources is that it is cost effective when compared to other competing technologies. Australia has a significant pipeline of wind energy projects in feasibility, approval or construction stage which is providing significant investment opportunity for all market participants,” says Panopoulos.

Looking ahead, KPMG says the majority of respondents surveyed in the Asia-Pacific region (64 per cent) identified this region as having the greatest growth potential and showing the best prospects for renewable energy ‘buy’ opportunities. Europe was identified as the region most likely to see consolidation followed by North America.

“This result is not surprising when you consider the huge growth predicted in electricity demand within the Asia-Pacific region being led mainly by China. “These are exciting times with the upsurge in renewable energy project spend, however investors should take care and not ignore the risks of investing in an embryonic industry,” adds Panopoulos.

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