



Finance: Credit crunch throws up opportunities

By Mike Scott

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The credit crunch was not good news for clean technology. Full of start-up, high-tech companies with unproven technologies and only dreams of profitability, the sector was one of the hardest-hit.

Investment in clean energy fell by 6.6 per cent to \$162bn last year from \$173bn the previous year, having grown threefold from 2004 to 2007, according to analyst Bloomberg New Energy Finance.

“The dip in investment between 2008 and 2009 shows the effect of the credit crunch on the availability of debt for projects and the impact of the stock market downturn on initial public offerings,” says Michael Liebreich, chief executive.

Even in the more established parts of the industry, such as wind power, investment in project finance dried up, says James Macnaught-Davis, managing partner at WHEB Ventures, the clean-technology venture capital firm. “Building a renewable energy project is quite capital-intensive and the credit crunch froze bank lending.”

“The setback would have been a lot more significant but for record clean-energy investment in China and a pick-up in project finance in Europe and the Americas in the second half of last year, driven by the first instalments of stimulus funding.”

A large proportion of stimulus funding around the world was directed at green investment. HSBC, the bank, estimates that governments allocated more than \$430bn in fiscal stimulus globally to “climate change themes”. The US, China and South Korea were among the biggest green stimulus spenders, with South Korea allocating almost 80 per cent of its funding to greening its economy.

However, by February of this year, only 9 per cent of the allocated total had been spent, according to Bloomberg New Energy Finance.

“There is still strong momentum behind green growth, driven by resource fundamentals,” says Nick Robins, head of the Climate Change Centre of Excellence at HSBC.

The part of the environmental sector that was reliant on a deal emerging from Copenhagen climate conference last December has suffered a big fall, however. “The carbon trading theme has drastically underperformed,” he says, “but sectors with their own resource logic have done well.” Carbon trading has fallen significantly in the bank’s Climate Change Index, but energy efficiency and energy storage stocks have outperformed because these companies help their customers use fewer resources and save money.

As the sector deepens and smart-grid infrastructure is rolled out, aggregated savings from energy-efficiency measures are coming to be seen as another form of energy supply. In addition, energy efficiency requires little capital expenditure and offers rapid payback.

Bruce Jenkyn-Jones, managing director at Impax Asset Management, a specialist investor in clean technology, is bullish.

“The key drivers of these sectors are government policy, legislation, rising energy prices and energy security,” he says.

Renewable energy sectors, particularly solar and wind, became massively overvalued in the run-up to the recession, but valuations are now much more realistic, he says.

“The sector is likely to remain volatile but there is potentially a real opportunity because valuations are at their lowest point for seven years.”

Energy prices, having fallen hugely in 2008, continue to rise and steps such as the UK’s introduction of feed-in tariffs, Australia’s Renewable Energy Target, China’s latest Five-Year Plan and the EU’s challenging 2020 targets are driving investment.

The public markets are also slowly coming back to life. The clean-energy IPO market was worth \$14bn in 2007, but dropped to \$3.4bn last year, says Bloomberg New Energy Finance, with none at all recorded in the first quarter of this year.

There is a huge backlog of companies looking to access the public markets – Jefferies, the investment bank, estimates that in the US alone, 78 companies are waiting to come to market hoping to raise \$13.7bn.

Early-stage companies are still finding it difficult to raise capital, says Mr Macnaught-Davis. “But we have found later-stage growth businesses quite cheap. There are good deals to be had below the radar of most mid-market buy-out firms.”

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