

KEYNOTE INTERVIEW

The continuing rise of Asian renewables



Opportunities in Asia's renewable energy market are booming but require a careful case-by-case approach and local expertise, say Partners Group's Andrew Kwok and Tim Michalas

Q How has the Asian renewables market evolved in recent years?

Andrew Kwok: The Asian renewables market continues to grow. There are clear differences, country by country, in terms of policy direction, installed capacity and access to thermal energy resources. But, generally speaking, all markets across the region are following the same upward trajectory. Of course, that speed of growth is also creating some challenges around intermittency and grid instability. We saw that in China around five years ago, but we are now also seeing grid connection issues in other areas, such as India and

Australia. That is a risk that Partners Group continually looks to manage. But it is also an opportunity.

The energy transition, as an investment theme, has expanded beyond renewables. The opportunity to support clean energy generation continues to grow and there is now also the opportunity to help firm up the grid or build new grids and all the necessary infrastructure to support renewables generation. That is where we would like to spend more of our time. Last year, we

made a couple of related investments on behalf of our clients, with Enfra-Gen, a power generation platform in Latin America, and Greenlink, a subsea interconnector between the UK and Ireland. It is definitely something we are looking at carefully in Asia as well.

Q What impact has the transition away from renewables subsidies had on investment in the region?

Tim Michalas: There has been a clear reduction in feed-in tariff regimes and government support in regions such as Australia. At the same time, the falling cost of renewable energy, coupled with

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the willingness of corporates to take advantage of cheaper renewable generation, means that in a lot of cases we are contracting directly with corporate customers instead of governments and utilities. Renewables platforms are having to become much more market-centric in the way they do business. That is a real evolution that we have seen. You have to be savvy about how you contract power, and that means more scope to add value for players that have that capability.

AK: As Tim says, the falling cost of technology means that the old ways of building and contracting have changed. As renewables become economically competitive, we are now moving towards a reverse auction model, which means you have to get closer to the customer and secure your own PPAs. At the same time, rapid capacity growth is creating challenges around grid firming.

Those two trends combined are creating interesting opportunities to operate on customers' own premises. That means you are closer to the customer relationship and can start to provide energy as a service. These new forms of power provision, and these new customer relationships, are something that gets us really excited, particularly in Asia.

Q Which technologies are proving especially attractive?

AK: It is far from a generic market. The nature of the opportunities varies, not only country by country, but also region by region. Grid stability, the regulatory regime, the capital markets, are all very different depending on where you are operating. The advantage Partners Group has is that we can take a global view and then fine-tune our risk/return radar to pick sectors and geographies that can generate returns. The technologies are broadly the same across markets, but the investment dynamics are nonetheless very localised.



A sense of community

Empowering local stakeholders through participation opportunities

In 2016, Partners Group invested in Sapphire Wind Farm, a renewable energy development with a planned capacity of 270MW in New South Wales, Australia. In addition to establishing high health and safety standards, the firm identified community engagement as a material ESG issue. To address this, the wind farm's board of directors formalised a community engagement approach as a means of securing a social licence to operate.

Partners Group's objective was to "extend opportunities for the local community to be meaningfully involved in and empowered by our renewable energy projects and to leave a lasting legacy with the community". The engagement programme consisted of partnering with contractors to deliver a range of legacy projects and establishing a \$3.8 million community benefit fund to support longer-term initiatives. Sapphire Wind Farm also launched a community co-investment fund to enable local residents to participate in the success of the project. The fund was the first of its type in Australia.

Q With that localised approach in mind, which geographies are currently generating the most interesting opportunities?

AK: That depends on the type of investor. There has been a lot of investment activity in India during the past three or four years. That capital has generally been deployed in advanced platforms where there is a baseload of operating capacity. Those are typically core investments, attracting pension funds and the large strategics, with lower return targets and lower appetite for risk.

Then you have the offshore wind market in Taiwan, which is attracting

a lot of strategic capital on a late-stage development, construction-risk basis. The biggest investment market for private equity-style infrastructure investment in the region, meanwhile, is Australia, in terms of both volume and size of transactions.

Q What are the key differences between the renewables market in Asia when compared with other regions?

AK: One of the major differences is scale. In Europe, you can invest an efficient cheque size into a single project. The same can be said for Australia. But

in Asia, that is very hard to do outside of offshore wind. In the rest of the region, you need to back a platform, build a team and then expand from there to achieve. The investment strategy changes from building single core projects to growing platforms. Examples within Partners Group's portfolio include Taiwanese solar power platform Green Island.

Q Are there any other notable challenges associated with investing in Asian renewables?

AK: A lot of the developing countries, and even some of the developed countries, in Asia, do not always have the same health and safety standards that we find in Europe or Australia. That means we spend a lot of time educating teams to make sure they are adhering to international best practice.

There are also differences in the capital markets and competition. We find that in a lot of the South-East Asian and North Asian markets, there are local, low-cost, strategic capital providers, which can lead to an aggressive bidding up of value for assets.

Q How would you describe institutional appetite for this part of the market? And is that impacting competition?

AK: It depends on the stage of maturity. Institutional appetite is extremely strong for core operating assets in developed countries. That is where we see a lot of pension funds and that, in fact, is the market that we look to sell into. Partners Group is a builder of assets. Institutional appetite thins as you get into construction and late-stage development projects. At the construction stage, we see more local investment and smaller private equity renewable energy-focused investors. At the development stage, it is a different pool of capital again – VCs and developers with a few million dollars in their pockets going around acquiring land.

Q What is your approach to environmental, social and governance issues with your Asian renewables projects?

TM: For starters, we only pick projects that have a very high degree of environmental compliance. We also make sure that we have a positive and proactive approach to dealing with landowners and communities, ensuring there is as much local procurement and job creation as possible. All of Partners Group's Aus-

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TIM MICHALAS

tralian projects have community benefit funds, which provide ongoing grants over the life of the project. We are not here to push the boundaries of environmental compliance. We make sure that we source the right projects and do the right thing by the environment and the local community. Ultimately, that de-risks the investment for our clients.

Q What is your approach to asset management in Asian renewables?

AK: Partners Group is very active when it comes to asset management. We have a private infrastructure asset management team, made up of

engineers and project managers. They, along with the investment team, carry out the value creation function.

TM: I would add that both the transaction team and the asset management team are involved in diligencing an asset and signing off on a value-creation strategy, because ultimately, when the transaction is signed, these are the people that are going to have primary responsibility for implementing that strategy. Equally, however, transaction team members will remain involved post-transaction. The transaction team members and the asset management team members maintain ownership of the asset, sit on the board together and realise value together. It is a very integrated approach.

Q What does the future hold for the Asian renewables market and how do you intend to capitalise on the opportunities the future will bring?

AK: We are a value creation manager. Partners Group prefers to build value rather than buy it. But, at the same time, we do see excessive risk at the early stage of development. We typically get involved at the construction stage or just prior to it. We do some topping and tailing of key contracts before putting a spade in the ground. We de-risk through construction, through revenue contracting and by bringing assets to the operating stage.

The difference, in Asia, is that we typically build platforms, developing a pipeline of bolt-on acquisitions. At the same time, we are increasingly looking at opportunities to shore up the grid, getting involved with behind-the-meter platforms and building closer relationships with customers that displace grid power. Those are the things that really excite us about the future of Asian renewables. ■

Andrew Kwok is Partners Group's head of private infrastructure in Asia and Tim Michalas is a senior investment leader for the region