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Global M&A Intelligence Report

Trends and outlook for renewables in Australia and New Zealand

We're seeing a buoyant renewables market in Australia and New Zealand. Throughout 2022/2023 we've seen consistent growth and increased interest in companies with underlying renewable assets. And there's sustained high demand for quality secondary renewable portfolios too, particularly for portfolios with operating assets, burgeoning under an Australian government focused on renewable energy and refreshed federal policies on emissions (like the Long Term Emissions Reduction Plan).

New Zealand is seeing an increased demand for investments in renewable assets for similar reasons. It's New Zealand's aim to achieve 100% renewable electricity by 2035, and to transition to a carbon neutral economy by 2050. ESG is a top consideration for buyers and sellers, and we expect it to continue to be a focal driver for deal-making in 2023.

Recent market activity

Energy transition is a key priority for investors. We expect large volumes of capital, from both local and international investors, to be heavily invested in this area, despite current global markets softening in other sectors.

In Australia, we've seen several large portfolio sales in the last year driven by a range of investment drivers:

- **Spark Infrastructure's** sale of the **Spark Renewables** renewable energy portfolio and platform business. **Spark Infrastructure** is owned by **KKR**, **PSP** and **OTPP**. The **Spark Renewables** business comprised a 6.9 GW Australian renewable energy development project portfolio (wind, solar and BESS), 100 MW operational solar farm and full Australian renewable energy development business – reflecting one of largest portfolios brought to market in Australia.
- **Squadron Energy** acquired vertically integrated renewables energy business **CWP Renewables** in December 2022 for AUD4 billion. **CWP Renewables'** assets at time of transaction included wind, solar, and battery farm portfolios, including a portfolio of onshore windfarms with ~1.1 GW of generation capacity in operation or late-stage construction, and approvals for eight projects in the pipeline.[1]
- **Gentari** (the clean energy company formed by **Petronas**) acquired renewable energy solutions provider **Wirsol Energy** in February 2023 for AUD1 billion, marking **Gentari's** entry into the Australian renewables market. **Wirsol Energy** at time of transaction controlled 422 MW of operational capacity across solar and battery energy storage system (BESS) assets, and 765 MW of potential capacity under development. This acquisition supports **Gentari's** strategy to increase its solar and BESS capacity and position itself as a green hydrogen producer with Australia as a strategy key market.[2]
- **Ark Energy** acquired renewable energy developer **Epuron Holdings** in May 2022. This supports **Ark Energy's** long-term ambition to become a leading green independent power producer and green hydrogen business. **Epuron Holdings** at time of transaction controlled ~4,200 MW of early-stage wind and solar development projects, ~4,800 MW investigation pipeline, ~7 MW of fully contracted off-grid solar generation assets and 50% stake in renewables tech company **Fulcrum3D**.[3]

It's clear operating asset portfolios remain the big-ticket item for investors with significant capital to deploy. But investor appetite for long-term investments in non-operational development projects has also increased in the past year. Recent renewable deals such as the **CWP** and **Wirsol** acquisitions have seen higher valuations of non-operational development projects, indicating bidders are attributing more value to early-stage developments, which has not always been the case.[4]

In New Zealand, recent investments in renewables have focused on early-stage development projects. The number of operational renewable assets available for sale is still comparatively low in New Zealand, predominantly down to the majority of the developed large-scale assets being state owned and the number of developed large-scale assets being limited. This is likely to change as more large-scale renewables projects are developed.

1 CWP Renewables is now Squadron Energy, Squadron Energy
2 Gentari completes acquisition of WIRSOL Energy, Australia – Wirsol
3 Ark Energy completes acquisition of Epuron
4 Wirsol gets $1b odd for its solar farms; Petronas's Gentari buys, afr.com

Portfolio diversification in oil and gas

High commodity prices have strengthened the balance sheets of energy and natural resources businesses – like oil and gas companies – that don't need bank debt to finance M&A transactions. We've seen these businesses increasing activity in the renewables space to diversify their energy portfolios:

- **Banpu Energy** acquired **New Energy Solar's Manildra Solar Project** and **Beryl Solar Project**.
- **Shell** acquired 50% of windfarm operator **WestWind Energy**.
- **Shell** and **Foresight Group** acquired the 370 MW hybrid wind energy **Kondonin Project** from **Goldwind International So Ltd**.
- **Contact Energy** in New Zealand has invested significantly in renewables, with a new NZD300 million geothermal power station at **Te Huka** providing 51.4 MW from late 2024 and **Tauhara** station opening late 2023 for 168 MW. **Contact Energy** also entered a joint-venture agreement with **Lightsource bp** in 2022 to develop up to 200 MW of solar energy generation. And it's investigating a pipeline of flexible and low-cost wind projects with **Roaring40s**.

Over the past year, we've also seen new market entrants in adjacent industries such as the industrial chemicals, oil and gas, and automotive industries entering the energy market, with the aim of diversifying their investment portfolios. We expect to see more of this convergence occur in tandem with the global energy transition as asset portfolios are reshaped to align with increasingly ESG-conscious commercial strategies.

Future growth

Moving forward, we see further growth in green technology, having seen elevated interest and investment in strategic green technology investments for returns in the long term. This appears to be driving more deals in early-stage developments than seen historically, where secondary sales with more mature assets were considered most lucrative. By way of example, in late 2022 alone **BlackRock** invested into two early-stage green technology companies: Australian battery storage developer **Akaysha Energy** and New Zealand virtual battery storage and energy services provider **solarZero**.

In comparison with traditional renewable energy sources (such as onshore wind and solar energy) there are emerging investors and projects in new and developing renewable energy generation and storage technologies and asset classes in Australia and New Zealand – including compressed air, offshore wind, and utility scale battery projects.

- **Compressed air**: Innovative companies such as utility-scale energy storage facility provider **Hydrostor** are leading the charge on alternative renewable energy sources. The industry is growing, with the **Australian Renewable Energy Agency** (ARENA) funding AUD45 million in 2022 in relation to the **Silver City Energy Storage Project** in Broken Hill, which is slated to be one of the largest compressed air projects globally.
- **Offshore wind**: There's growing activity in offshore wind projects in Australia and New Zealand. The Bass Strait area off Gippsland has been declared Australia's first offshore wind region. The feasibility license application period is currently open for projects in this region, with site assessment and planning to occur in the next eight years. Numerous projects have been publicly declared in the Gippsland region alone, including the Star of the South, with most projects proposing to generate between 1.5 and 3.5 GW.

  These five other regions across Australia have been identified as the next areas to be declared as offshore wind farm zones:
  - Pacific Ocean region off the Hunter in NSW
  - Pacific Ocean region off the Illawarra in NSW
  - Southern Ocean region off Portland in Victoria
  - Bass Strait region off Northern Tasmania
  - Indian Ocean region off Perth/Bunbury, WA

In New Zealand, investments in wind to date have predominantly focused on onshore wind farms, with 17 currently operational and more in the pipeline, such as **Meridian's** Turitea wind farm.[5] There's early interest in offshore wind projects, such as the **Taranaki Offshore Wind Project**, a joint venture between **NZ Superfund** and **Copenhagen Infrastructure Partners**.[6]

5 Mercury Turitea Wind Farm, turiteawindfarm.co.nz
6 New research into the Wind industry begins, nzte.govt.nz

- **Utility scale batteries**: Institutional investors, government investors, and private equity firms alike have invested or pledged investments towards utility scale battery projects (like the **Clean Energy Finance Corporation's** investment in the 300 MW Victorian Big Battery, **Aware Super's** investment in various battery storage projects, and **BlackRock's** AUD1 billion commitment to development of battery storage assets in Australia).

  There is increased government buy-in with the latest public-private partnership appointing **Akaysha Energy** to develop the NSW Waratah Super Battery with the **Energy Corporation of NSW**. We expect further investment and deal activity in energy storage to support Australia's increased energy generation capacity.

  In New Zealand, investment in battery energy storage projects is growing. The recent investments have been predominantly by existing players in the New Zealand energy market (with the exception of the **SolarZero** acquisition by **BlackRock** referred to above). **Meridian Energy** will start building New Zealand's largest battery energy storage system 100 MW in 2023, having been granted resource consent in late 2022.

Conclusion

We expect the renewable energy and broader sustainability sector in Australia to continue to grow over the coming years, as Australia's large-scale renewables projects evolve past planning stages to construction mobilisation.[7] This growth is expected to be mirrored in the small-scale renewables market, with the Australian Clean Energy Regulator (CER) having started opening the market up to more accredited installer and designers as part of the Small-scale Renewable Energy Scheme in 2023.[8]

The rise of alternative renewable energy solutions and projects is expected to continue to grow, as the industry sees further diversification and increased opportunities afforded by technology and government support at both the federal and state levels. As such, we expect to continue to see investment and deal flow in the Australian energy market to continue at an elevated rate in the medium to long term.

Similarly in New Zealand, we expect the renewable energy and broader sustainability sector to grow, particularly in the context of the government's climate target of carbon-neutrality by 2050.[9] Strong government support and numerous new projects indicate that the space will continue to expand and evolve as more projects break ground. Investment in onshore and offshore wind is expected to increase, and interest in solar energy is already significant. New Zealand's untapped resources would allow it to meet its carbon-neutrality target three times over – all that's missing is the investment, and regulatory frameworks that are easier to navigate. We expect investment pathways to become smoother as the market matures and project structures become more sophisticated.

7 Fitch Solutions Australia Renewables Report Q2 2023

8 Small-scale Renewable Energy Scheme (SRES) installer and designer accreditation scheme application round closes 15 March 2023

9 Investment opportunities in NZ's renewable energy sector, Invest New Zealand, nzte.govt.nz