Investing in Asia's multi-trillion-dollar energy transition

Guest comment by **Torbjorn Caesar**

Both the need and opportunity for investing in the region's transition to cleaner energy is great. A senior partner at Actis explains the need and offers advice on how to make the most of the opportunity

Nowhere is the enormity of the global energy transition more evident than in Asia. Across the continent a combination of challenging climate commitments from governments and ambitious environmental targets promised by multinationals has created a significant urgent need for low carbon power infrastructure. There is now a multi-trillion-dollar investment imperative to unlock the construction and delivery of this pipeline.

Electricity is man's biggest ever investment, and we now need to replicate that investment. Some $90 trillion of capital spend alone is required for APAC between 2021 and 2050 to meet net-zero pledges.

Energy investment in Southeast Asia is expected to rise to an annual average of $190 billion by 2030. In Japan, adding renewable and battery storage capacity will require around $150 billion of investments by 2030, according to Wood Mackenzie. In India, the construction of large-scale data centres and processing businesses is estimated to require power generation capacity of around 10GW over the next five years.

These are huge numbers and point to a significant opportunity for energy infrastructure investors offering the necessary scale, experience and capital.

What's behind this low carbon power need?

Vietnam, Thailand, Indonesia, and several other ASEAN members have been successful in recent years in attracting multinationals to relocate their manufacturing and industrial centres to the region. Similarly, the growth in demand for consumer products procured online have steadily increased data demand, and with that a need for warehousing and data storage.

With these trends, companies also bring their own carbon reduction targets and increased demand for renewable power delivered at scale. For example, in Japan, Amazon is proactively seeking clean power solutions from local utility providers for its expanding data centres.

Local corporates in Japan are also increasingly under pressure to decarbonise. The country has been relatively slow in adopting renewables, with around 65 percent of its power generation still coming from coal and gas. To counter this, the government is planning more than 65GW of renewables capacity over the next 10 years – a truly massive amount. The corporate PPA market in Japan is, therefore, developing rapidly, even if project delivery capability remains limited.

Using gas as a transition fuel

The energy transition in Asia is not just about delivering renewables capacity, however. Gas – as unpopular as it may be with some interest groups – is an important and pragmatic transition fuel for the global economy. That is particularly true in Asia.

Over the past two years, and with the war in Ukraine raging, many Asian countries have been compelled to prioritise coal due to the unbearably high price of the cleaner gas alternative. But, as energy markets and prices have settled, gas is an important part of the energy transition. Asian countries intend to transition their gas plants in the future to also run on hydrogen. As part of that shift, we are expecting energy storage solutions, such as batteries, to play a major role.

Not every country moves at the same pace

Some countries are proceeding faster than others in developing policies that are supportive of renewables. Vietnam, for example, has only recently approved the Power Development Plan 8 following lengthy delays and political flux with the removal of two deputy prime ministers. The first wind auctions are expected in the first half of 2024.

By contrast, other ASEAN markets such as the Philippines are roaring ahead, with two multi-gigawatt rounds of renewables auctions expected to be launched this year. In Thailand, more than 5GW of new auction-based renewable energy capacity is expected by 2030.

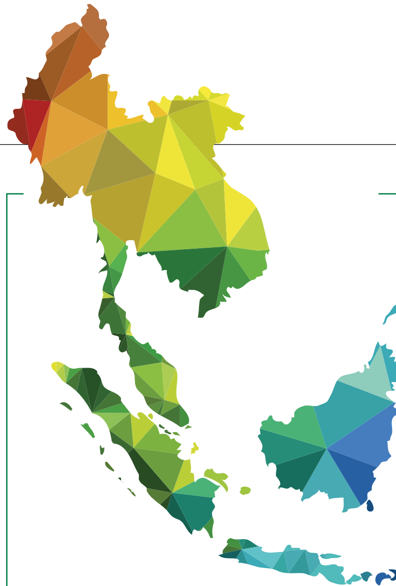
A 'smart investment strategy'

Given the supply-and-demand dynamics at play in Asia, being both a builder and operator of lower carbon energy infrastructure is a smart investment strategy to deploy across the continent.

We are focused on enabling the region's transition to cleaner fuels and our goal is to invest around $2 billion across the market, with renewables platforms in India, Southeast Asia and Japan, as well as a gas power business in the ASEAN countries and Bangla desh.

In Japan, we see a specific opportunity to aggregate operational assets and make operational improvements to provide greater efficiency and value. Investors in Japan tend to look for lower risk and lower return assets for infrastructure and energy, and they are prepared to pay a premium for large portfolios and businesses.

In India, BluPine Energy has become a fully fledged, credible renewables company through both M&A and new builds. In Vietnam, Levanta Renewables' business plan is a mix of new builds and buying operating assets. Bridgin Power, a buy-and-build platform for gas power projects in the ASEAN countries and Bangladesh, has developed a solid investment thesis, the creation of a leading senior manage ment team is advanced, and the pipeline is progressing in line with its plan.



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While the fundamentals for investment in Asia's energy transition are compelling, it is also a competitive market for investors with some continuing misalignment around valuations. Despite the global macroeconomic uncertainty, buyer discount rates have not gone up, nor have sellers' valuation expectations in general gone down. That puts a premium on disciplined buying: looking for distressed sellers, constructing well and on time, and capturing value as construction risk is removed.

Being a trusted partner is key

The energy transition is critical to Asia's future. Nowhere are the challenges so great but also perhaps nowhere are the opportunities more significant for an investor.

To support the transition, operators should aim to build businesses in a flexible manner, shifting between M&A and new builds as the markets change and offer a diversity of opportunities. Having a fully funded business plan with a defined strategy and clear goals upfront is crucial. So is a commitment to sustainability to ensure you remain focused on making the right decisions, not just for investors, but for end users of the power you are helping to create. A partnership mentality is vital.

It can take a long time to gain trust and credibility in Asia. That means having a proven track record, which demonstrates a thorough and holistic understanding of what is needed to make a platform both sustainable and operationally and commercially successful.

Businesses that can demonstrate that they meet these criteria are best placed to support the region as it transitions towards cleaner energy. ■

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