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Private equity makes a pitch for decarbonising Asia

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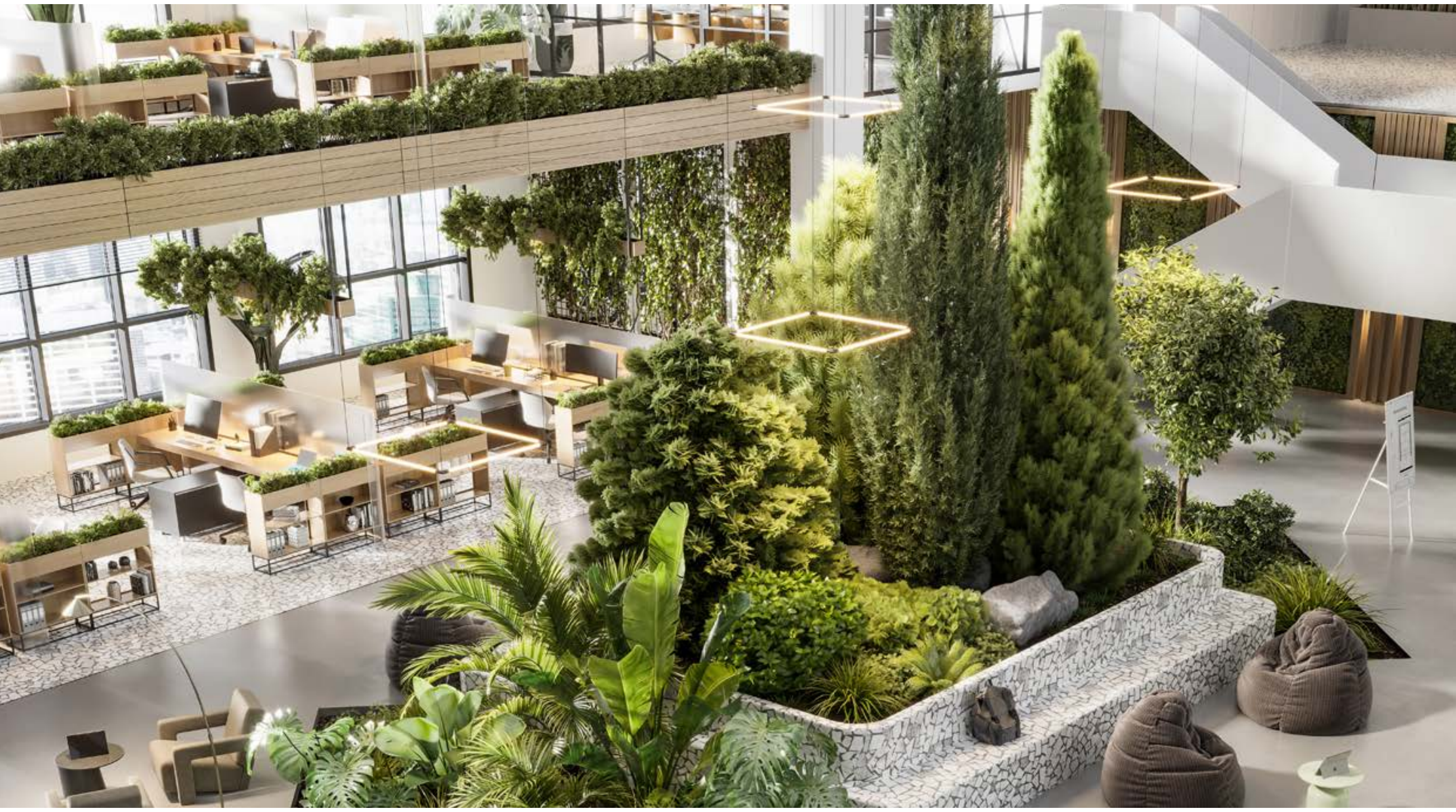


Asia needs to decarbonise, and that creates opportunities for private investors.

The decarbonisation of Asia will need an extraordinary amount of capital: up to $37tn just to bring its energy supply in line with net zero by 2050.[1] For private capital looking to 'green' businesses and drive value creation, there will be investment opportunities in several sectors, including renewable energy, electrification and manufacturing.

Deal activity over the past two years demonstrates this potential: the value of private equity deals targeting Asian companies in the energy, mining and utilities sectors, which are all relevant to the energy transition, peaked at US$25.3bn in 2021.[2]

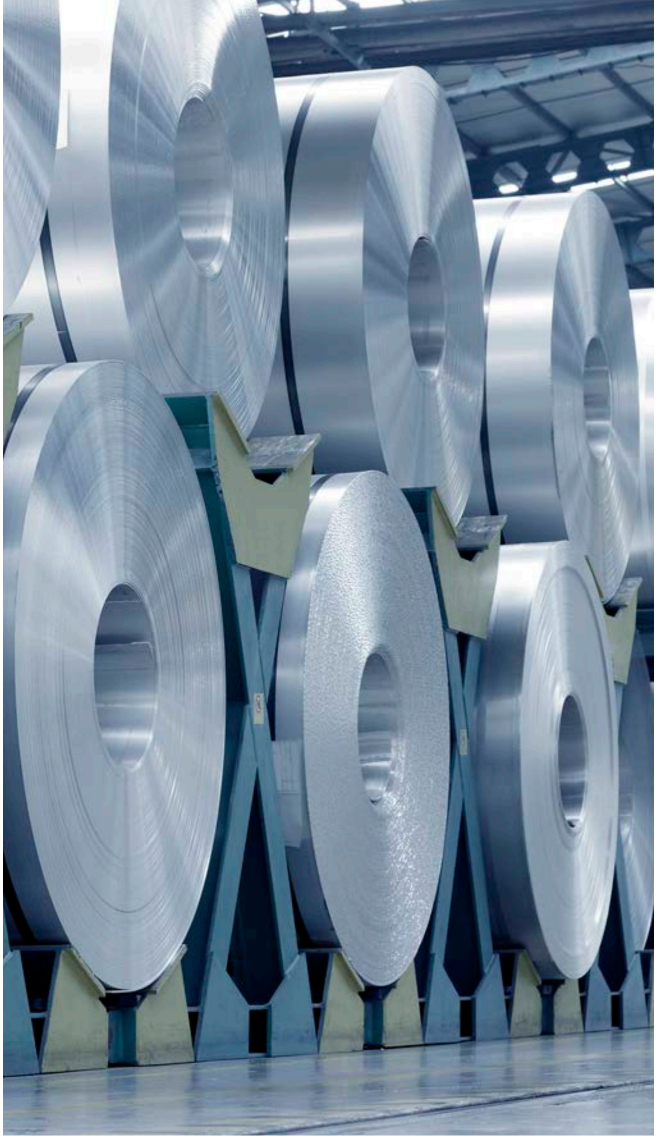
Renewable energy in particular — even in Asia's low-emitting countries — is growing fast and attracting private equity funds: Asia accounted for 60 per cent of new renewable energy capacity in 2021,[3] and deal activity continued in 2022 with transactions such as Actis's acquisition of a stake in Vietnam's Levanta Renewables.[4]

1. https://www.aigcc.net/wp-content/uploads/2021/03/March-2021_-Asias-Net-Zero-Energy-Investment-Potential-English.pdf
2. https://mergers.whitecase.com/#
3. https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2022/Apr/IRENA_-RE_Capacity_Highlights_2022.pdf?
4. https://www.privateequitywire.co.uk/2022/08/11/316702/actis-acquires-majority-stake-levanta-renewables

Investment goes beyond renewables

Renewables are a compelling opportunity, but the 'greening' of carbon-intensive sectors such as steel production also offers attractive returns in the region, according to Kelvin Fu, managing partner of the Singapore-based private investment management firm Gunung Capital. To achieve greater decarbonisation in industry and manufacturing, technologies such as carbon capture, storage and utilisation and green hydrogen will have to be rolled out at scale. Fu points to the recent deal between Gunung Raja Paksi, one of the largest steel companies in Indonesia, and Fortescue Future Industries, as an example of a partnership that is investigating how a value chain can be developed for green hydrogen and green ammonia to decarbonise steel.[5] "The potential for green hydrogen is a real theme of industrial decarbonisation and cannot be ignored," he says.

Private investors are beginning to see the potential. "We need to fund the switch to green energy and support the purchase of the new equipment that actually generates it," says Fu. "These are very tangible ways in which an investment firm can influence a company."



Active management can steer businesses towards net zero

But private equity firms can offer Asian businesses more than access to capital. They can also unlock value through operational improvements or with innovative technologies.

"I believe strongly in active investment management — actually helping companies to hire or build capabilities," says Fu. "Most companies say they want to improve their operations, but they don't know exactly what is needed."

Private equity firms also typically have greater proximity to management, which enables them to exert influence over climate and ESG initiatives. Furthermore, there is also greater long-term investor alignment with management when it comes to private equity. Fu says that manufacturing is one important sector where private investors can make a difference. "The amount of waste being generated across the manufacturing sector, for example, is immense," he says. "There are lots of things investment firms can do to help a company be more ESG compliant and cost-competitive in the future."

"The green economy in Asia is like a giant reset button, especially for smaller firms that can move faster and are nimbler," says Fu. "Or investors can buy and build – buy a few companies and combine them."

5. https://www.fmgl.com.au/in-the-news/media-releases/2022/11/14/fortescue-future-industries-to-support-indonesian-steel-giant-gunung-raja-paksi-on-path-to-decarbonisation

Decarbonisation can come with healthy returns

The opportunities in Asia have also created good returns for private equity investors. In 2020, Asia-Pacific private equity returns rose to a 10-year high at 14.2 per cent median net internal rate of return, and in 2022 private equity exit value more than doubled from the previous year to $172bn.[6]

Tan Huck Khim, head of Alternatives at Fullerton Fund Management believes Asia is only at the onset of the decarbonisation wave. “In areas such as South-east Asia, India and China, we see financially compelling investment opportunities in sub-sectors such as the renewable energy value chain, building and construction, electric vehicles and mobility, food and agriculture. These sectors are undergoing fast growth boosted by regulatory tailwinds, but are still underpenetrated,” says Tan.

Tan adds that he sees a huge investment opportunity in Asia’s decarbonisation drive.

> “
> At Fullerton Fund Management, we have developed a tailored strategy with like-minded partners to capture potential investment opportunities that deliver financial, ESG and carbon emissions reduction. We have curated a strong pipeline of companies that fulfils these objectives.

As the private equity market in Asia matures, the region’s ambitious net zero targets and varied growth opportunities are likely to continue to attract private capital.

6. https://www.bain.com/insights/asia-pacific-private-equity-report-2022/