

RBC'S DECISIVE ROLE IN ENERGY TRANSITION EFFORTS

Team of the month

Demand for less carbon-intensive solutions across a range of industries is keeping the bank's energy transition team very busy. Edward Russell-Walling reports.

PRESSURE ON COMPANIES to move to net-zero carbon emissions is creating capital market needs of every kind. The utilities and renewables team at Royal Bank of Canada (RBC) is taking full advantage of the opportunities thrown up by the attendant wave of energy transition initiatives.

"The utilities and renewables sector is core to our overall infrastructure franchise, and we see energy transition as a natural evolution of that business," explains Ed Golder, RBC's head of utilities and renewables Europe.

"We have provided renewable power advisory services for the past 10 years, and was one of the first banks to give mergers and acquisitions (M&A) and debt advice in this area."

WIDE RANGE

Today, the team's clients are spread across a range of industries — some traditional, such as power and utilities, and others more modern, such as electric vehicle (EV) charging and smart metering.

"We are helping clients across the spectrum to achieve net zero," says Ralph Ibendahl, RBC's head of Europe, the Middle East and Africa (EMEA) energy transition. "That could be with M&A, [equity financing] through an initial public offering (IPO) or private placement, or by raising debt."

One early and loyal energy transition client is Greencoat Capital — the UK's first and now largest renewables infrastructure fund.



From left: Evgeni Jordanov, Erika Singer, Matthew Coakes, Ed Golder, Ralph Ibendahl, Mark Rushton

In 2013 it listed in a London IPO worth £260m. Today its market cap is more than £3bn and, alongside its UK interests, it has assets in Ireland, France and Finland.

RBC has been working with Greencoat since 2011 and was an adviser on the IPO. It was sole sponsor and joint global coordinator and bookrunner financial adviser on Greencoat UK Wind's recent £450m equity raise — the largest ever for a UK renewable investment fund.

"This was RBC's 14th primary equity raise for the company, including the IPO," says Matthew Coakes, RBC's head of energy EMEA and co-head of broking for Europe. "We have helped them to raise a cumulative £2.8bn."

At the same time, RBC was Greencoat's financial adviser on its acquisition of 25% of the Burbo Bank Extension offshore wind farm from PKA, a Danish pension fund, for around £400m.

"Offshore wind has been a very active market for RBC," Mr Ibendahl notes. He points to the work that the bank has done with Eni, the Italian oil major, in the North Sea's Dogger Bank. When it reaches full capacity in 2025, this will be the largest offshore wind farm in the world, supplying

5% of UK demand.

In late 2020, RBC was the exclusive financial adviser to Eni on its acquisition of a 20% stake in the first two phases of the project, Dogger Bank A and Dogger Bank B. The sellers were UK electricity utility SSE and Equinor, Norway's state oil company.

This was Eni's first investment in the offshore wind sector and will make a significant contribution to its own medium- and long-term renewable generation targets.

The £5.5bn financing deal was delivered by 29 banks and three export credit agencies, and was the largest offshore wind project financing deal in the world to date, RBC says.

LENDING BOOM

If investors have developed an appetite for energy transition, so too have lenders, according to Erika Singer, a managing director in RBC's capital structuring advisory group. As recently as four years ago, it could be challenging to raise meaningful debt for renewables deals, she recalls.

"Market capacity has now expanded significantly, with considerable amounts of private capital going into infrastructure debt funds and increased bank appetite," Ms

Singer says. For the Dogger Bank project finance package, demand from would-be lenders was keen, to say the least, she adds.

Late last year, RBC was again sole financial adviser to the Italian company when it bought 20% of Dogger Bank C, the project's third and final phase. The total construction budget is more than £9bn, and each phase will have an installed capacity of 1.2 gigawatts, with each expected to generate an annual six terawatt hours of electricity.

In the summer of 2021, RBC was sole financial adviser to Vattenfall, the Swedish state energy utility, when it sold 49.5% of the Hollandse Kust Zuid (HKZ) wind farm to German chemicals conglomerate BASF. The up-front purchase price was €300m, but BASF's total commitments, including its share of future construction costs, are €1.6bn.

BASF will use its electricity share to support chemicals production, forming part of its transformation towards climate neutrality.

"This is the first chemicals company to buy into offshore wind," Mr Ibendahl reports. "HKZ is the first offshore wind farm to be built without subsidies, so the investors are taking full power-price risk." Conversely, the divestment of the stake derisks the project for Vattenfall.

This year, the RBC team advised Vattenfall on the sale of part of the Prinses Ariane wind farm in the Wieringermeer to Dutch insurer ASR. The purchaser will own 32 of the 82 turbines in the Netherlands' biggest onshore wind farm. The price was not disclosed.

ASR has said that it wants to reduce carbon emissions in its investment and insurance portfolios significantly, and plans to have €4.5bn in sustainable investments by 2024.

"These deals show how utilities will recycle capital in order to reinvest in new projects," Mr Ibendahl says. "Financial investors, on the other hand, want exposure to renewables. As renewables investment grows, we will see more capital recycling."

COMPLEX ARRANGEMENTS

Mr Golder believes that the team's M&A mandates are split roughly 50:50 between buy-side and sell-side, in what is becoming an increasingly complicated shareholder landscape. As the infrastructure market has developed, it has become common to see businesses acquired by multiple financial investors, such as infrastructure and pension funds. This can result in complex shareholder agreements.

"Our experience in both buy-side and sell-side mandates gives us a good perspective of what each side is looking for," points out Mark

Rushton, an RBC managing director in infrastructure M&A. "A lot of transactions are stake deals involving minority interests. We can help them to navigate these complexities."

As well as drawing in multiple players, energy transition deals increasingly involve a mix of geographies. In 2021, RBC was financial adviser to OPTrust, one of Canada's largest pension funds, and Loma, a private Spanish investment vehicle, on the sale of a 50% stake in Bruc Energy, a Spanish solar photovoltaic platform.

The buyer was the Universities Superannuation Scheme, the largest pension scheme for universities in the UK. A global investor, it paid €225m for this stake, its first renewables investment in Spain.

Last year, RBC was sole financial and sponsor to Drax on its C\$741m (\$591m) acquisition of Pinnacle Renewable Energy, the world's second-largest producer of industrial wood pellets. Drax, the UK's largest power station, completed its conversion from coal- to biomass-fired generation in 2016.


Doubts have been raised in some quarters over the sustainability of Drax's wood pellet-burning process, and it was recently removed from the S&P Global Clean Energy Index.

"The Pinnacle acquisition is a vertical integration that secures its supply of sustainable biomass," counters Evgeni Jordanov, a managing director in RBC's utilities and renewables unit, specialising in heating, smart metering and biomass. "Pinnacle uses waste wood from sawmills which would otherwise end up in landfill."

Infrastructure investors have also been showing a strong appetite for smart metering, according to Mr Jordanov. "Smart metering has been incredibly busy in the past two years," he says. "It is driving energy transition in terms of connecting with the end-customer and how they manage their own energy consumption."

Once EV charging at home becomes more widespread, the sector will become even busier, Mr Jordanov predicts, adding that the UK currently leads the way in smart-metering transactions.

RBC was joint bookrunner and broker on a recent and "substantially oversubscribed" £175m accelerated bookbuild for the UK's Smart Metering Systems, the only listed business of its kind in Europe.

The pace of investment in energy transition will accelerate, Mr Coakes believes. "As the technology becomes more established, it will be possible to tap a wider pool of capital," he says. "That includes everything from waste, through hydrogen to carbon capture and batteries." 



THE UTILITIES AND RENEWABLES SECTOR IS CORE TO OUR OVERALL INFRASTRUCTURE

FRANCHISE *Ed Golder* 