Exclusive

Infrastructure Capital powers further into renewables

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Infrastructure Capital Group has beaten several rival bidders to take control of the Australian renewable energy portfolio of France's Engie, giving fresh impetus to a $1 billion pipeline of new wind and solar farms despite the issues dogging the sector.

ICG, which has about $2.5 billion under management, will acquire a 75 per cent stake in the Australian Renewable Energy Trust held by Engie and Japanese partner Mitsui. The deal, thought to be worth about $400 million, expands ICG's wind portfolio and also paves the way for its entry into solar power.

The trust is to be seeded with the 119 megawatt Willogoleche wind farm in South Australia, which Engie and Mitsui started up late last year. Also included are exclusive rights to a development pipeline of about 1330 MW of wind and solar projects along the eastern seaboard.

ICG managing director Tom Laidlaw, front, and executive director Edward Lloyd say renewables can still offer robust returns through the pandemic. **Nick Moir**

"We're already one of Australia's largest renewable investors, and this will certainly keep us towards the top of the tree," ICG managing director Tom Laidlaw said.

The deal is the fourth for ICG since the COVID-19 pandemic began, with potentially more in the wings given the company is believed to be in the running for the Australian wind farms of UK-based John Laing Group and for OPTrust's Kinetic bus business.

Mr Laidlaw said that from a business point of view, the pandemic had actually been helpful in terms of deals and in demonstrating that robust returns were still achievable in core infrastructure if the right assets were selected. Returns in the Sydney-based asset manager's renewables and other funds have not been affected by COVID-19 and are still running in the high single digits.

"We've talked for a number of years to our client base about how our funds are structured and tend to be low volatility, and the pandemic has proved that up to be correct," ICG executive director Edward Lloyd said.

"We've seen effectively a continuation of the same returns that the funds were earning prior to the pandemic through it."

Mr Laidlaw said ICG had been as busy as he could remember over the past six months, noting that in contrast to the large end of the infrastructure sector where deal flow largely depends on privatisations, the mid-size sector continues to see about 20 deals a year as it has done for the past decade.

"We're pretty excited about the future, and not worried at all as a business about COVID and about whatever the recovery looks like," he told *The Australian Financial Review.*

So far this year, ICG has notched up its first public-to-private transaction with Zenith Energy, partnering with OPTrust and Pacific Equity Partners. It also made a play for Infigen Energy, taking almost 5 per cent of the renewable energy generator before Filipino investor UAC Energy launched a bid and then selling into Iberdrola's higher offer for what Mr Laidlaw describes as a "pretty tidy profit". It also sold part of the TasGas portfolio it acquired last year from Brookfield to commercial rooftop solar outfit CleanPeak Energy.

For the Engie business, which the Paris-based firm put up for sale in January, ICG was up against rivals said to include Palisade Investment Partners, Dutch Infrastructure Fund and China's State Development Investment Corporation.

The deal brings ICG into partnership with Engie and Mitsui in both Willogoleche, which is underpinned by a power sales contract with Engie's retail arm Simply Energy, and for the development projects.

Engie's local CEO, Augustin Honorat, said that in order to accelerate the development of the company's healthy pipeline of large-scale wind and solar

projects it had selected an experienced partner who sees the value of joining forces and co-investing.
"ICG's long-term vision and expertise in the sector will help Engie ANZ build more competitive renewable energy projects in Australia while supporting the ongoing operations of our assets and contributing to the communities where they're located," he said.

Renewable project development has slowed sharply in the past 12 to 24 months as connection delays and transmission bottlenecks hamper new projects and slash returns for some investors, but Mr Laidlaw said that had not put off ICG.

"Are we deterred? No, but are we cautious, yes," he said, noting that the new projects were well located on strong parts of the grid.

"We're just picky in what we go for, and that's always been the case."

Mr Lloyd said ICG would take the same cautious approach to the development projects as it has to acquisitions of producing farms, with the aim of getting at least a couple of them over the line in the next two to three years.

ICG's Australian Renewables Income Fund, the entity acquiring the stake, already has stakes in several producing wind farms backed by long-term sales contracts, including Mumbida in Western Australia, Bald Hills in Victoria and Hallett 4 in South Australia.

Among the development assets in the Engie/Mitsui portfolio are the Gregory and Warhook solar farms in Queensland, and the Silverleaf solar farm in NSW as well as two wind projects.

The sale marks another successful divestment for Engie, which offloaded the Loy Yang B coal-fired power station to Chinese-owned Alinta Energy for a more-than-expected $1.2 billion in late 2017, leaving it with a more flexible, lower-carbon portfolio.

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