

IT'S TIME TO RENEW YOUR INTEREST IN SOLAR

Martin Haupt, CEO of Phanes Group, writes exclusively for *WEALTH Arabia* about potential investments into renewable energy

An investment in solar is a palpable one. Global agendas seldom align in the way the renewable sector has caused them to in recent years: sustainable energy and reducing our carbon footprint are topics that are discussed by politicians and environmentalists alike. This will only have a positive effect on economies and societies across the world.

Rising populations, remote communities, and fast-growing economies will all benefit from increased solar investment in the next decade. Even in spite of the United States' potential renewable energies policy u-turn, the country doubled its solar capacity in 2016, growing nationwide solar jobs to 260,000. Its sudden change of course in 2017 fueled the conversation further among other willing nations.



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► In the Arab world, for example, the outlook is considerably bright—Middle Eastern nations are embarking on an ambitious journey to develop a sustainable, clean energy supply system. In an oil-dominated region, the turning of the tide from finite fossil fuels to clean energy is encouraging for governments, investors, and the public.

With an estimated 692 million MENA residents by 2050, the strain on national resources will become increasingly evident. Middle Eastern nations have understood the need for diversified economies, and diversified, sustainable energy supplies.

Another market that is in dire need of increased investment is one that offers all of the benefits to participating parties. Sub Saharan Africa has a surging energy demand. Currently, there are 600 million citizens without access to power. Of those that do, many suffer from power outages and steep prices. Fortunately, addressing this issue is high on international agendas. Conversation is growing year-on-year, whether it's at global renewable events, in trade publications, or in African government boardrooms.

The African continent is contributing significantly to the conversation, and it could not be at a better time. We are operating in an era where the benefits of PV investment outweigh the risks and challenges, even in Africa. This is thanks to those that have a profound understanding of the local market, political environment, and the structuring of assets and solar plants to the highest international standards. The range and appetite of institutional and private investors to dedicate their funds to PV in today's markets further demonstrates this.

Green banks, sovereign wealth funds, pension funds, and others are turning towards PV solar for mid- and long-term investments. The potential of PV solar as an asset class is especially attractive for investors who are looking for long-term, stable returns. Innovative funding patterns such as crowd funding platforms are gathering momentum in the renewable sector. Compared to other renewable resources, like wind,



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PV is much less volatile—even in less sun-abundant regions. Hence, the potential of investment into PV in Sub Saharan Africa, one of the regions with the highest irradiation, is undisputable.

SOLAR OUTPERFORMING ITS ENERGIES SIBLINGS

Solar projects continue to become more investible with each passing year, in parallel to better advancements in technology. According to a report published by EY, the annual rate of return on investment in the renewable

sector is between 6.6 and 10.1 per cent. In Africa, these figures are still comfortably above 10 per cent, reaching the mid-teens. In fact, in the last four years, renewables, and particularly solar, have significantly outperformed other traditional energy stocks.

These figures have taken solar into the mainstream, with more than \$750 billion worth of investment resulting in 200GW of solar energy production in the last few years alone. Another core reason for this interest is the adaptability, variability and scalability of the asset

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market continues to shine as a serious alternative to other fuels. The highest calibre example is probably BP, which just purchased a 43 per cent, \$200 million stake in Lighthouse. Not only is Lighthouse Europe's largest solar developer, showing how seriously BP considers the sector, but it also marks a dramatic solar u-turn from the petroleum company that withdrew from solar just six years ago. Also, Total's recent acquisition of a major stake in the French IPP Eren underscores this trend.

So why are these types of companies emptying their pockets for a slice of the solar cake? One of the factors is of course the benefits it provides for economic growth, domestic industry growth, and growth in socially challenged communities in new markets around the world, especially Sub Saharan Africa.

The region has a worrying undersupply of energy infrastructure, which is becoming an increasing obstacle for socio-economic growth. The African Union forecasts a collective growth figure that would see GDP multiple six times between 2010 and 2040, according to an article published by *Reuters*. For that to become achievable, it would need to increase its terawatt hours from 590 to more than 3,100 across that time. This is where an attractive investment opportunity lies.

Appropriate risk mitigation is a crucial factor in any investment decision—the same applies for investment into PV solar in new markets. Although the need for energy on the continent is obvious, investments are still often considered a bold move.

The key to this is the bankability of each PV project. Fortunately, today, Power Purchase Agreements (PPAs) are more defined, and the regulations between government authorities, developers, and investors are much stronger if the countries' governments are implementing frameworks according to international standards. This is lowering the risk factor for investors, which is resulting in significantly better project options for markets like Sub Saharan Africa.

Surprisingly, since access to affordable energy is one of the key factors for economic growth, the default rates in Africa are impressively low—contrary to common belief. Unfortunately, in spite of all this obvious opportunity and progress in the region, the infrastructure is still not being leveraged—even though the solar capacity for Africa is estimated at 1100 gigawatts.

This gap is something we recognised some years ago, when we started focusing on the Sub Saharan African region. It is also crucial for the private sector to come in and help in closing the energy gap since many citizens live in remote areas with no access to the national grid. With a technology like PV solar we are not only providing energy for the grid but also helping to build up necessary infrastructure that can run independently.

This very outlook stands as a blueprint for how we built our team, with a strong specialised background in structured finance, as well as industry experts across not just development and execution, but also legal matters, which allows us to thoroughly assess the most attractive, stable investment opportunities within a short turnaround time.

What we will continue doing is electrifying (not only) the African continent while shining a bright light on the diverse investment opportunities that exist. These are needed not only for a change from fossil to renewable sources of energy, but also to help underdeveloped economies. The PV solar industry itself opens up a new and exciting industry to global and local investors looking to add new pages to their investment portfolio. ■