KEYNOTE INTERVIEW

Finding the right ingredients for energy transition success

Emerging markets present a broad canvass of opportunities that shouldn't be overlooked, says Actis' Lucy Heintz

Emerging markets need to invest up to $2.8 trillion a year to meet global energy demand, according to the International Energy Agency. The scale of the opportunity is enormous.

Lucy Heintz, head of energy infrastructure at Actis, says investors can reap rewards with the right strategy.

Private investment can turbocharge the transition, she adds, especially when governments adopt ambitious targets, provide an attractive enabling environment and ensure supporting infrastructure is in place.

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Q Why focus on emerging markets infrastructure?

Infrastructure – especially critical infrastructure – in emerging markets is under served by the world's capital. Two-thirds of the world's infrastructure capital goes to developed markets, which make up only one-third of the opportunity set. While many people still lack access to electricity in emerging markets, we also see industrial activity increasingly relocating to those markets, driving further demand.

As an emerging markets investor, with over 20 years' experience of investing and delivering strong returns for our investors, we attract many investment opportunities. Over 70 percent of our deals are off-market, partly as a result of this dynamic.

It is important to emphasise that emerging markets are highly diverse. We do not take a binary view and through our Actis Atlas taxonomy, we have developed a more nuanced lens through which to assess the 80-plus emerging markets rather than as a single monolithic group.

Q What needs to be in place for the private sector to invest successfully in the energy transition?

There's a set of ingredients that a country needs – take India for example. The world's most populous nation has a government with concrete ambition in the form of a 500GW target for renewables by the end of the decade. India has an attractive regulatory framework and has already delivered 200GW.

India has been holding auctions for renewable energy projects since 2017, which means there's a repeated route to market. You can win a power purchase agreement in India every six-to-eight weeks, underscoring the intense need for new capacity. That builds a huge amount of momentum.

India has also invested in the enabling environment. Previously, the country suffered from high levels of curtailment but has since built a leading transmission investment programme and holds auctions that encourage wind, solar and storage together onsite. This has helped address intermittency challenges.

Over the last decade, India has also grown to the third-largest infrastructure market in the world. Previously few firms were investing in India, but now we see both the large global funds and the smaller local players investing. As a result, risk premiums and tariffs have reduced. It's created an extremely attractive and scalable market.

Q Is it possible to replicate India's success in other countries?

Scale is really important as there are other growth market countries with large populations, such as Nigeria or Egypt. South Africa is a much smaller country, but it's run a renewable energy procurement programme that has now reached round seven. Tariffs started off at above $0.22 per kilowatt hour. Now that's come down towards $0.05 per kilowatt hour. That's extraordinary.

India is in a good position because of growing industrial activity there. Places like Vietnam, Malaysia and the Philippines are also benefiting from supply chain relocation, as is Mexico.

> *"You can win a power purchase agreement in India every six-to-eight weeks, underscoring the intense need for new capacity"*

We benefit from being able to access off-market deals in these markets, where management teams want to partner with us because of our 20 years of experience. A good example is Atlas Energy Solutions, which was formerly the South American arm of SunEdison.

When SunEdison collapsed in 2016, the team approached Actis saying: "we rate you as a partner, from what we've seen in the industry. Will you back us to grow our business and take us out of insolvency?" They had 500MW at the time and we took them to 3.2GW over the next five years. It became the second-largest independent renewables developer in Latin America and we sold it to GIP in 2022.

Another super-exciting project is our Terra Solar project in the Philippines, which has 3.5GW in solar PV capacity and 4.5GWh of storage. It's designed to do the job of a mid-merit gas plant because it produces power 12 hours a day, six days a week. And it's already cost-competitive with gas. Solar plus storage projects will also become even more competitive as gas turbine prices rise. We think about storage everywhere we invest.

Q How much risk should managers take on when investing in emerging markets?

We are disciplined in how we focus on critical infrastructure – meaning infrastructure that provides basic services. People are happy to pay for those services such as power, provided they are delivered in a cost-effective way. Simply put, it matters if those services aren't delivered. This gives a product market-fit and it underpins our whole approach to risk mitigation. Even in markets that might be perceived as riskier, we have a huge degree of resiliency.

Q How can managers mitigate the potential risks?

We think carefully about the countries where we operate, as well as the sectors that we enter. And we choose our assets to focus on long-term contracting cashflows from assets that deliver cost-competitive power reliably and cleanly.

If you do these things well, you can find assets that are well-structured, resilient and continue to earn revenues in times of crisis. This creates incredible resilience and very low default rates. Default rates on African power projects that have the right structural

Why focus on investment opportunities in India?

We're building our third renewable energy business in India, called BluPine Energy, which we started in 2021 and has built-up to 2.3GW of operating and under-construction capacity.

Back in [2013], when others were not comfortable investing in India, we built a team on the ground that knew the power sector extremely well and built a wholly owned business called Ostro. We built 1.1GW over three years. In 2017, we then sold it to renewables firm ReNew Energy, which was looking to do an IPO and wanted to add growth and substance to its business.

Our second business, Sprng, followed the same model. We grew it to 2.3GW, before selling the firm to Shell in 2022. The company was particularly attracted to our business in India due to our track record on sustainability, particularly governance.

We focus on safety and sustainability across all of our businesses and look to create a strong license to operate with local communities. We do this very deliberately and can evidence that through the sustainability subcommittees and heads of sustainability across all our businesses. If you do it well, it translates into more competitive dynamics at exit, and that translates into better returns for investors.

"Over the last decade, India has grown to the third-largest infrastructure market in the world"

characteristics in place are only 1.4 percent, compared with about 8-9 percent for power projects in the North American market, according to credit rating agency Moody's.

In terms of how we mitigate risk, we are usually a control investor. That allows us to make sure we have a high-quality management team in place with the right incentives. And then we have a very deliberate and intentional focus on sustainability, which helps ensure a social license to operate and helps avoid disruptions or delays, as well as on anti-corruption. We train all our management teams on a regular basis with a specialist within our sustainability team. That's an important hygiene factor we employ to avoid any nasty surprises that could get in the way of delivering projects.

How concerned are you that the 'Trump effect' might impact opportunities in the global energy transition?

We're investing in the fundamentals of the energy transition, delivering critical infrastructure in markets where electricity demand is growing quickly. In many of these countries, renewable energy is the lowest-cost option and it makes commercial sense.

In fact, there may not be any other option for delivering power. And don't forget that air quality is another driver. We've seen that in places like Beijing. Governments care a lot when populations are struggling to breathe. So, there are some very, very strong fundamentals and we're in a very resilient asset class. ■