

Seeing green in IPOs

Enel offering of renewable-energy unit will test investor interest

By LIAM MOLONEY

ROME—Enel SpA's initial public offering for **Enel Green Power SpA**, its renewable energy subsidiary, could serve as an indicator of how much market interest there is in green-energy projects as growth returns to the global economy.

The Italian energy company hopes to raise €4 billion (\$5.4 billion) from the IPO, which would make it the biggest green-energy project debut on the market since the €4.5 billion offering of the world's largest wind-power generator, Iberdrola Renovables SA, in 2007.

Enel is looking at selling a roughly 30% stake in the renewables company, Chief Executive Fulvio Conti said last month. He pointed to June as the earliest IPO date but said it could take place in September or October. He didn't rule out a direct sale to an investor or a combination of the two.

The green-energy sector has attracted investment as skyrocketing oil prices and the need to cut greenhouse-gas emissions put the spotlight on renewable power sources and their potential growth. Prior to the credit crunch and global economic slowdown, markets expected a torrent of renewable-energy-based IPOs, but tumbling stock markets and tight credit resulted in only a trickle.

Analysts are now looking at Enel's offering as an indicator of the degree to which appetite for green-energy investment has recovered. Bloomberg New Energy Finance says it expects IPOs in this sector to raise \$9.6 billion globally this year, more than three times last year's total.

In the first quarter of 2010, venture capitalists invested \$1.9 billion globally in renewable energy and other clean-technology companies, up 83% from a year earlier, Clean-tech Group and Deloitte said.

"Enel Green Power's IPO can boost visibility in this fashionable sector," said Alessandro Marangoni,

head of Italian energy consultancy Althesys and a professor at Milan's Bocconi University.

Enel Green Power—with activities in hydroelectric, geothermal, wind, solar and biomass energy generation—has an installed capacity of 5.7 gigawatts and aims to boost this to 9.2 gigawatts in 2014 with €5.1 billion earmarked for investments over the period.

It is geographically diverse with a presence in 16 countries, as well as 20 U.S. states. For 2009, unit posted earnings before interest, tax, depreciation and amortization, or Ebitda, of €1.3 billion and it estimates these will grow to €2.1 billion in 2014.

Enel plans to sell a minority stake in Enel Green Power as part of an effort to reduce its net debt by €6 billion to €45 billion by the end of the year. The company's debt load soared after its takeover of Spanish electricity utility **Endesa SA**.

Stock-market performance suggests it might be a good time for renewables to take the IPO route. The WilderHill New Energy Global Innovation Index, a basket of 86 renewable energy stocks in markets around the world, advanced 40% last year after a 61% drop in 2008.

Spain's **Renovalia Energy SA**, which produces renewable energy in eight countries including the U.S. and Canada, has said it plans to list at least a quarter of its shares in coming weeks and U.K.-based solar-energy developer, **Engyco**, plans to float on the London Stock Exchange.

"Are investors willing to put money in green companies? That is the question—but there is money for good projects," said Per-Henrik Grasberg, a fund manager at DnB Nor Renewable Energy Fund in Oslo. "It's a difficult market with the financial system not working properly yet, although it's better than before."

Investment in renewable energy carries political and regulatory risk. Public incentives and government stimulus packages, which give the

sector that extra shine, can be adapted or withdrawn quickly.

A number of renewables IPOs have recently been pulled or delayed for lack of demand, weak market conditions or excessive valuations in the sales price. Last month, Brazil's **Renova Energia SA** said it will delay its plans to list on the São Paulo Stock Exchange for up to 60 days. In December, Chinese solar-module maker **Trony Solar Holdings Co. Ltd.** postponed its IPO—slated for the New York Stock Exchange—indefinitely due to market conditions after failing to price.

The Enel Green Power IPO could prove a catalyst for other green companies, some analysts say, although the next likely candidates are expected to be much smaller.

"There's nothing as big as Enel Green Power in the pipeline, other IPOs that could come are midsize ones," said Andreas Schneller, a fund manager at EIC Renewable Fund in Zurich. He defined a big IPO as one valued at more than €1 billion.

In any case, green-power equity sales are unlikely to make investors drool. High price valuations and a large pipeline of projects that have yet to yield much revenue will limit their attractiveness. "Investors aren't looking to buy [project] pipelines; they want value for what is already there," Mr. Schneller said.

Renewable energy still represents a tiny proportion of electricity generation globally but offers massive opportunity for growth. The U.S. Energy Department has said that wind could generate as much as one-fifth of the country's electricity by 2030. Today wind accounts for only 2%, while about half of the country's power comes from burning emissions-rich coal.

The European Commission, the executive branch of the European Union, has set an ambitious mandate of 20% of electricity production from renewable sources by 2020 in the 27-country bloc.

—Sabrina Cohen in Milan contributed to this article.