Trinergy: the good, the bad and the epilogue

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Over the past year, the 648MW Trinergy wind portfolio has twice drawn a collective 'ooh' and 'aah' from renewable project finance community - first for its €1.13 billion refinancing with Royal Bank of Scotland last December and, more recently, for the €1.839 billion acquisition by International Power

With all but 67MW of the wind farm assets operating in Italy and Germany, International Power paid Irish fund Matrix Group and CJS Capital Partners a whopping €2,837 per kW (*IJ News* 6 August 2007).

That seems high - even when compared to the already inflated standards set by EDP's acquisition of Horizon in the US or JPMorgan and Prudential's investment in the Zephyr portfolio in the UK.

However - as one shortlisted bidder puts it - 'the Trinergy assets are just that good'. But are they worth it?

International Power seems to think so, and despite market rumours which clouded this deal's final act, Babcock & Brown and E.ON did too. They rounded out - with HgCapital and First Reserve - an 'A-list' cast of investors and utilities who gunned it out to the very end.

In the wild, wild, west of renewable energy deals this was a classic Spaghetti Western.

When the dust settled, E.ON shot out of town on a completely different horse - paying €722 million for DONG Energy's 260MW portfolio of mixed renewables on the Iberian Peninsula (*IJ News* 8 August 2007).

International Power, meanwhile, road off into the sunset with the Trinergy assets - the good, the bad and the ugly.

The Good

International Power more than doubled its operational wind power capacity to 1,013MW with the Trinergy acquisition. It also moved into the top 10 of global wind suppliers and has a further 117MW under construction.

Not bad for the UK-based IPP. It may have paid a premium, but it got a PR cherry and a lot of positive exposure to compliment the fundamentally sound Trinergy assets.

In a measure of performance versus capacity, Trinergy's Italian wind farms - which make up 86 per cent of the portfolio - have a good track record and rate well on both.

Good sites and Italy's famously high tariff for wind power give the portfolio an irresistible allure.

A potential bidder, who never made it beyond the information memorandum, says he could easily see how people might be seduced by it. However, with bids looking to sky near the €2 billion mark, he said he couldn't really justify trying.

Other bidders had fewer reservations - though some were later resentful about the portfolio's complicated tax structure.

The Bad

This set the stage for the sale's dramatic climax.

As International Power was heading in to close the deal, a flurry of reports began coming into the *IJ* newsroom.

At first, insiders suggested E.ON and Babcock & Brown were having reservations over the price and the deal's transparency.

It appears that the Matrix Group - to give its clients the best possible leverage - structured the investment to provide as many tax shelters as possible for high net-worth individuals.

Getting to the true tax numbers was said to be difficult and revealed a potential liability for depreciation recapture should the buyer seek to unwind the complex web of companies.

The tax position had a negative effect on value even before any restructuring costs.

Therefore, on a stand alone basis, it was hard for financial investors to win - never mind the credit squeeze.

Being a utility, International Power saw a golden opportunity to bolster its renewable energy mix - added value that perhaps justified the price and the hassle.

Short-list bidders were all provided with a vendor due diligence report on the tax structure compiled by Ernst & Young. It was argued that if they didn't have the stomach for undertaking that due diligence - or paying the costs in a competitive bid situation - they wouldn't have got there.

At the close of bidding, E.ON and Babcock were said to be pulling out (*IJ News* 3 August 2007), though conflicting reports suggested the Australian investment bank was trying everything possible to steal the deal in its final hours.

As for E.ON, with the DONG deal signed and sealed, the German utility was hardly going home empty handed.

Still, it had to smart a little to go through all that trouble and expense just to lose out on the last hurdle. However, the risk was worth it for a chance to secure quality assets - well most of them.

The Ugly

Amongst the Italian assets are a few sour grapes.

In a justification of the price per MW, one investment analyst suggested Trinergy must have projects under development. However, one source close to the deal insists there is no such pipeline.

Then there is the looming cost of re-powering. Trinergy's assets are aging and with more than 1,000 turbines - most of them Vestas - currently in operation; technical issues are bound to crop up.

Finally, there is also the curious case in which some individual turbines - previously operational - have been shut down by an Italian court citing noise pollution. When or if, the units go operational again is anybody's guess.

However, that does not sufficiently diminish the overall value of the portfolio.

Last spring, Trinergy received a number of informal approaches. That prompted the Matrix Group to launch an auction run by RBC Capital Markets.

While it's not clear if International Power was behind the unsolicited offers - it did get through its due diligence quicker than anyone else.

Once the utility saw what happened with the Zephyr sales, it made an effort to 'shorten the process' and buy Trinergy outright.

The auction went on, and, as it turns out, the UK utility landed the portfolio at a price not far off its strategic bid.

Despite the portfolio's blemishes, Matrix investors still made out with a fist full of euros.

The Epilogue

According to one source, the Matrix Group initially acquired Trinergy's Italy assets for 'practically no money' from the Italian Vento Power Corporation.

Based on the latest audited results for the year ended 31 December 2006, the gross assets of Trinergy amounted to €1.536 billion and the loss before tax was €39.4 million.

The drama that unfolded to acquire these assets and the price paid was not unusual in a year which has featured some big ticket transactions.

E.ON's winning bid for DONG Energy's Energi E2 Renovables Ibericas wind, hydro and biomass portfolio in Spain and Portugal had an implied value of €2,770 per kW - nearly on par with Trinergy.

However, it is worth noting - whereas Trinergy had no pipeline - E2 has about 560MW under development.

Then there was EDP's US$2.9 billion acquisition of Horizon Wind Energy in the US (*IJ News* 28 March 2007).

At the time, Horizon owned 559MW of operating wind projects and had 997MW under construction.

In the UK, JPMorgan and Prudential - advised by RBC Capital Markets - have made two transactions this summer to each acquire 33.3 per cent of Zephyr Investments' 391MW Beaufort wind farm portfolio.

In the first deal, the two firms paid £145 million for Englefield Capital's stake (*IJ News* 21 June 2007). They later added a further £145 million for Arcapita's (*IJ News* 24 August 2007).

The next big deal could be the sale of Noble Environmental Power in the US.

Though Noble lacks operating assets, it did reach a financial close this summer for 282MW spread across three wind projects in New York state [case study].

Based on the other transactions, you can make two safe bets on Noble: first, they'll get a good price and second, the buyer - if not GE Energy Financial Services - will likely be an IPP.

In a post sub-prime market, investors are uneasy about pricing. Utilities on the other hand don't have a choice. There are renewable obligations to meet which will continue to feed demand.

Surely by now, everyone who owns renewable assets have to be considering their exit.

The Matrix Group did - and they made off like bandits.