

Green mandate

Cleantech has emerged as a hot investment topic in Asia, but generating returns is a work in progress. Peter Kennedy, head of CLSA's Clean Resources Fund, gives advice on navigating the space

Q: Some investors in the clean resources space suggest that returns are difficult to come by. What's your take on this, and how do you leverage your opportunity for returns?

A: There are certain subsectors in which we believe returns are very attractive. How you source and structure these opportunities really impacts returns. We tend to source deals proprietarily, by mapping subsectors and identifying pinch points; we then seek to identify best-in-class solutions for those subsectors.

Q: Could you give an example of this?

A: Our investment in Aqualyng, an innovative water company, was sourced by mapping out the

one of China's key desalination players.

Q: On the whole, what's the average return on investment in this space?

A: If you look at the headline segments such as wind or solar, where there are a lot of investors, we are seeing returns in the low teens. But if you look at areas such as agricultural technologies, you can get returns in excess of 20%. In terms of China and India, where there is obviously a lot of capital, leveraging investments is very much about how you source the deal and

interlinked, given that 75% of water is used for irrigating crops. Economic growth in Asian countries is driving demand for power, which is also water-intensive and competing for water sources.



Q: How are valuations right now? What's an appropriate deal size in this space?

A: For early-stage investments, it's \$100 million. For growth capital, it's \$200-300 million, and much higher for buyouts.

Q: What sorts of exits are you hoping to achieve?

A: I think it'll be a combination of trade sales and listings, though the majority will come from trade sales. In terms of our water asset, we've already seen interest from strategic investors and other conglomerates looking to enter the water market in China. And for our agriculture asset, potentially we'll move toward the IPO route.

Q: What are the risks of investing in this space in Asia right now?

A: Obviously we're worried about mainstream generalist funds driving up value in our segments, but that's a more natural progression in the market. Essentially, we try to avoid areas where there's generally always a risk. This predominantly means we avoid sectors that are linked to a lot of policy risk, where subsidies can disappear. Our approach has been to mitigate these risks by adopting technologies that make sense today and not betting on subsidies. For example, we've adopted sensor technologies for our irrigation system that increase the value of our fertilizer by 50%, which increases the yield of our final product by more than 50%. For this, there are no subsidies, and we're not polluting as much, so we're hedging on future cost of these inputs and labor cost. It makes sense. ▀

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various components of the water space including desalination. Through this research we found that energy efficiency is an important part of the desalination process. We looked through industry contacts to find the key players and this led us to three companies, including a Norwegian company – Aqualyng – whom we ended up investing in. We then helped identify and negotiate a joint venture with Beijing Enterprise Water, one of the leading Chinese wastewater treatment companies. The joint venture is now localizing the Norwegian company's technology and has become

the value you bring to these companies besides capital. In Indonesia, there is less competition so leverage comes from enhancing your ability to structure deals uniquely, as well as choose the right local partnerships.

Q: Your two existing investments in Aqualyng and PT Sariwangi AEA are quite different. What was their appeal?

A: We were looking for a degree of portfolio diversification. Water and agriculture – which are Aqualyng in China and PT Sariwangi in Indonesia, respectively – are somewhat

As far as PT Sariwangi is concerned, we also believe the agricultural technology sector is underserved by traditional funds. Land prices, labor costs and input cost such as fertilizers are making it very economic to install precision agri-technologies. Varying sectors will go through peaks and troughs, and then for instance, there's the wind industry where I think there will be another round of consolidation. This means more buyout opportunities for cheaper assets. For growth capital, there are a lot of opportunity in the water and agriculture sectors.