COMPANIES UK: GLOBAL ENERGY GROUPS LOOK TO CLEAN UP AS RENEWABLES LOOK RIPE FOR INVESTMENT

By Chris Hughes, Financial Times
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Global energy groups are scrambling to get into clean energy just as many small, high-technology renewable energy groups are running out of cash, writes Chris Hughes.

It should be a fantastic opportunity for investment banks to broker mergers and acquisitions. But are they up to the task of "green M&A"?

The clean energy sector received twin boosts in 2006.

Sir Richard Branson, the Virgin entrepreneur, signalled $3bn (£1.53bn) of investment in the area. Then the government- sponsored Stern Review made an economic case for combating climate change, concluding that 1 per cent of global GDP should be spent on tackling the problem annually.

This may not be a new sector - global investment in it will be $63.3bn this year, up from $48.9bn in 2005, according to New Energy Finance - but it is ripe for corporate activity.

For large energy groups such as BP and Shell, it may be wiser to acquire portfolios of early- stage clean energy companies spanning several technologies rather than sink money into home-grown projects.

Mergers among smaller firms may provide scope for efficiencies when cash resources are scarce.

Meanwhile, the increased awareness among institutional investors should make equity financing easier to come by.

But if mergers and acquisitions are the next step for the sector, it is open to question whether investment banks are prepared to harness this commercial opportunity.

Few possess dedicated clean energy teams. Typically, there may be a utilities team, an oil and gas team and then entirely separate small-cap and technology groups, with little communication among them.

Given their existing M&A expertise in these fields, investment banks do not need to embark on a hiring spree to create clean energy teams, as they did when recruiting internet analysts in the dotcom boom.

However, they may need to reorganise existing teams to cross-fertilise expertise and ensure that there are sufficient incentives for, say, the energy group to refer business to the technology group, or vice versa.

"In investment banking terms, clean energy today is like IT in the early nineties," says Douglas Lloyd, founder of Venture Business Research, a boutique that tracks investment trends.

Industry observers point to UBS and Credit Suisse as making a particular effort to expand their capability to advise corporate clients on clean energy investments in Europe.

In the US, Lehman Brothers and Morgan Stanley revealed their ambitions in the sector when they handled the recent float of VeraSun Energy, the US biodiesel group.

However, the relative slowness of the large integrated firms to adapt to this emerging area has also opened up opportunities for smaller boutique and mid-cap advisory firms such as Edinburgh-based Noble & Company and London-based Ambrian Partners, which are making names for themselves in the sector.