

Energy investors

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With the Middle East needing to find billions of dollars to fund infrastructure projects, governments are hoping private investors will dip into their pockets.

The Middle East is experiencing a new golden age. Awash with petrodollars, the region is reinventing itself through iconic and ground-breaking real estate developments, opening its arms to welcome foreign investors and residents alike.

It is repositioning itself on the world stage as a hydrocarbon-rich powerhouse that retains its religious and cultural heritage, yet also knows how to have fun. But there is an ominous threat overhanging the region that could derail everything.

The explosive industrial, economic and population growth is putting tremendous pressure on critical infrastructure, such as power, water and wastewater networks. Utility companies are facing an uphill struggle to keep pace with the developers and there is a very real possibility that the region could be hit with a power and water crisis.

Already, industry observers are forecasting that electricity demand will overtake generating capacity in the next couple of years, leaving GCC countries with up to a 35% shortfall in supply by 2010. Without these essential utilities, the Middle East will grind to a halt.

Estimates say the power industry in the Middle East, North Africa and South Asia (MENASA) region needs US \$155 billion worth of investments over the next 10 years in order to match consumption growth. The figure for the water and wastewater sector is slightly lower at US \$133 billion.

These are huge sums for governments to find, even with their oil-driven budget surpluses. So, increasingly, they are pinning their hopes on private sector capital to relieve some of the burden.

Fund raising

Private sector involvement does not have to be limited to established international utility firms participating in greenfield projects and buying up and expanding divested state-controlled assets.

There are also plenty of financial institutions with potentially millions of dollars to invest, and over the past year their interest in the energy sector has noticeably increased, spurred on in large part by several countries amending laws governing private and foreign asset ownership.

The power sector, in particular, is attracting much attention due to the broad scope of involvement it offers, such as independent (water and) power projects (I(W)PPs), renewable energy schemes and also the potential for electricity and carbon credit trading.

A number of investment banks have set up funds targeting the energy and infrastructure sectors. Among them, Abraaj Capital, which jointly with Deutsche Bank and Ithmaar Bank, has launched a US \$2 billion infrastructure and growth capital fund for the MENASA region. The fund will focus on the key areas of power, water, healthcare, education, transportation, petrochemicals and mining.

Abraaj says investment opportunities would include taking controlling stakes in newly privatised companies as well as

partnering with international and regional firms in power and water projects. It is already eyeing privatisation opportunities in power sector in Oman, Saudi Arabia, Jordan, India and the UAE.

Similarly, Creative Energy Resources (CER) is an energy investment company that was set up specifically to capitalise on the opportunities in the power sector. It is owned by Saudi private equity vehicle Swicorp Joussur, which provides the capital for CER to develop and acquire projects.

"The idea of CER is that it will be a platform for a regional power company that will own and operate and acquire power plants in the MENASA region and we will be involved in not only conventional thermal power plants, which is what we are starting with, but also we will be looking at investments and projects in alternative energy, such as wind, solar, biomass and so on," explains the company's CEO Shahzad Qasim.

The firm's management team has a wealth of experience in the power industry. Qasim himself developed three IPPs and two IWPPs during his years with energy giant AES. CER recently bought an 18% stake in a 586 MW power plant in Pakistan from GE Capital.

"We aim to invest about US \$500 million in equity over the next three to five years," he adds. "The acquisition in Pakistan is the first asset we have acquired. And we are looking at some projects in Turkey, Saudi Arabia, Algeria and Oman.