# The Energy Sector and Covid-19

The partners of the Finadvice Group convened their biweekly conference call to discuss the current market developments including the effects of Covid-19 on the power and utilities sectors. The following is a summary of our views and insights.

## Final outcome is unclear yet

The short- and medium-term consequences of the Covid-19 outbreak cannot yet be fully assessed and there is a significant risk that the ultimate consequences are currently underestimated by the markets, which were up to recently still busy assessing the impact of a subdued demand and of a faltering worldwide growth. The impact of the virus, ongoing government countermeasures as well as falling energy and stock prices will continue to send shockwaves throughout the energy sector for some time.

## Benign outlook for brownfield infrastructure assets

Brownfield infrastructure assets such as wind or photovoltaic plants with FiTs in place will mostly be safe from the current market turmoil. Thanks to falling interest rates, such assets will be much sought-after investment opportunities and are expected to increase in value. However, with respect to subsidies, one needs to be aware of the potential for capricious government interventions to retroactively change subsidies. With respect to infrastructure assets with PPAs in place, one will have to watch out for counterparty risks, as businesses take a hit from the global downturn.

## Energy prices and therefore merchant plants will come under pressure

The reduced energy demand following the virus outbreak seems to have triggered an insight with oil producers: volumes which are not sold may not be sold for some time. In the past, OPEC countries were ready to reduce production in order to maintain target price levels. This was based on the experience that unsold volumes could be sold later at high prices. The combination of reduced demand with decarbonisation plans creates the risk that unsold oil cannot be recovered later with higher sales. Therefore we expect the prices of fossil fuels to remain under pressure, unless conflicts in the Middle East or other temporary predicaments in the industry trigger price spikes. As a consequence, the generally expected increase of European power prices will be delayed and the resulting upturn may be lower than previously expected.

**Service businesses and equipment manufacturers will likely require the use of a lifeline from public resources**

Service providers and project developers are running into difficulties due to travel restrictions and lockdowns unless they can utilize digital platforms, e.g. to efficiently manage and remotely monitor their asset portfolios. Equipment manufacturers struggle as factories will be temporarily closed down and investments will be delayed, postponed or even cancelled and supply chains interrupted. As the restoration of complex supply chains takes time even after recovery from Covid-19, we expect that many service and manufacturing businesses need to be lent a short- to mid-term lifeline through public intervention.

**Some technology plays will face a challenging equity fundraising environment - an appropriate time for opportunistic investors**

We already see that some financial investors become hesitant to invest in new technologies, from new mobility concepts to energy storage solutions to new (mostly digital) business models. However, given the long-term energy market play embedded in such ventures, we believe that savvy investors should consider the buyers´ market which is likely to result in the coming months as an opportunity to build a top performing portfolio of innovative ventures upon attractive terms.

**Difficult times can provide ample opportunities**

Besides the abundant opportunities in the tech scene, some integrated utilities or project developers may be forced to sell assets in order to compensate for financial shortfalls. This could indeed be a very good opportunity for specialized investors to enlarge their portfolios.

Please do get in touch if you would like to discuss investment opportunities, divestitures and/or strategic planning with us. Much of our team are now working from home offices as we continue to support our clients through online work and conference calls. We wish you and yours good health during these unprecedented times.