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Clean Energy Targeted for Mergers After $400 Billion Evaporates 2010-11-10 00:00:01.1 GMT

By Ben Sills and Christopher Martin

Nov. 10 (Bloomberg) -- Wind turbine and solar panel makers may be vulnerable to takeovers after clean-energy stocks lost almost $400 billion in value this year and factories expanded faster than product demand, investment bankers said.

UBS AG said Gamesa Corporacion Tecnologica SA became a target in October after the Spanish wind-turbine maker fell by more than one-half and cut its 2010 sales forecast by about 15 percent. Trina Solar Ltd., a Chinese solar-cell producer, said it's interested in teaming with or investing in developers in Europe, where solar-panel makers have extra capacity.

"It's just a matter of time before we see more consolidation," Marc Schmid, head of renewable energy investment banking at Credit Suisse AG in London, said in an interview. "With potential oversupply in solar and wind, the pressure may be rising and that could trigger more activity."

China's Shanghai Electric Group Co. and Dongfang Electric Corp. may follow General Electric Co., United Technologies Corp. and Siemens AG in buying companies to enter markets, analysts said. The biggest manufacturers are jockeying for position in clean power and energy efficiency that will need $9.7 trillion in capital investment through 2020, HSBC Plc has estimated.

United Technologies, the U.S. jet-engine maker, last month agreed to buy the Clipper Windpower Plc stock it didn't already own in a transaction that valued the purchased company at 139.5 million pounds ($222 million). Officials at Shanghai Electric and Dongfang couldn't be reached for comment.

In the same month, GE acquired the waste-heat power generation business of closely held Calnetix Inc. and announced a partnership with Japan's Showa Shell Sekiyu KK to make solar panels. Japanese liquid-crystal display maker Sharp Corp. said last week it completed the purchase of U.S. solar-project developer Recurrent Energy LLC for $305 million.

Siemens AG bought Israeli solar-thermal developer Solel Solar Systems Ltd. last year for $418 million.

Oversized Factories

Global annual manufacturing capacity for solar panels may reach 23,500 megawatts next year, exceeding demand by almost 40 percent, according to John Hardy, a solar analyst at Gleacher & Co. in Connecticut. Wind turbine makers will increase capacity to 64,200 megawatts, 30 percent more than expected orders, Bloomberg New Energy Finance forecasts.

The glut may make Gamesa, which hired former investment banker Jorge Calvet as chief executive officer last year, vulnerable to a bid from Dongfang or Shanghai Electric, both of which are looking to tap the European market, UBS said. Chinese manufacturers may look to buy a solar-panel maker, said Lars Dannenberg, a solar analyst at Berenberg Bank in London.

Gamesa has received no approaches from potential buyers and has no knowledge of any bids, said a spokeswoman who asked not to be named, in line with company policy.

China's Trina wants a partner to help develop projects and is looking at potential investments in southern Europe, Chief Financial Officer Terry Wang said in an interview on Oct. 13.

Fleeing Stocks

Even so, fund managers may stay away from renewable-energy stocks rather than speculate on takeover premiums this year.

The benchmark 87-member WilderHill New Energy Index has lost about 14 percent this year, or $375 billion in value, and has rebounded less than the MSCI World Index in the last three months. Investors bailed out of companies from Gamesa and California's SunPower Corp. to German panel makers Solarworld AG and Solar Millennium AG, which have dropped 36 percent and 42 percent this year, respectively.

The average size of alternative-energy takeovers has actually fallen this year, with 517 deals averaging $75 million each, according to Bloomberg data on Nov 8. The year earlier period saw the same number of deals averaging $104 million.

"There will come a time when some people are going to decide that they are sub-scale," said Chris Thiele, head of European utilities at Morgan Stanley in London. "So you could see bigger deals as well."

The Weakest

As the industry shifts from expansion to consolidation, German solar panel makers with weaker balance sheets may be the most vulnerable, Schmid said.

Hamburg-based Conergy SA and Solon SE of Berlin have the tightest cash positions of the seven German members of the Bloomberg Global Leaders Solar Index, according to Bloomberg data. Their cash and near-cash items are about 9 percent of sales compared with Solarworld's 70 percent.

Some analysts disagree with Schmid, arguing that German panel makers are too weak to be takeover targets. Berenberg Bank's Dannenberg said Conergy and Solon are more likely to go bust because their brands are weak and their equipment outdated.

"There are companies that are close to bankruptcy --Solon, Conergy, Q-Cells," he said. "Why should you take something like that over?"

Conergy has a policy to not comment on buyout speculation, spokesman Alexander Leinhos said. At Berlin-based Solon AG, spokeswoman Therese Raatz said the market is big enough for many companies. Q-Cells couldn't comment on financial questions until after its Nov. 12 earnings, spokesman Paul Schreiter said.

Turnkey Approach

Instead of an acquisition, companies may reap better returns hiring an operator such as Centrotherm Photovoltaics AG to build a plant from scratch, Dannenberg said. That's what Hyundai Heavy Industries Co. did in Korea and Samsung Group may adopt a similar approach, he said.

Some manufacturers, particularly German, may have to become buyers to remain in business, said Gordon Johnson, a solar analyst at Axiom Capital Management Inc., who forecasts global demand for panels will fall 13 percent next year.

"Q-cells, Solarworlds, Evergreens are going to be forced to buy the Chinese and if they don't they will lose big time," said Johnson. "Even some of the bigger companies are at risk of going under."

Evergreen Solar spokesman Chris Lawson declined to comment on whether the company was seeking a buyer or planned any acquisitions.

Many manufacturers "are not that well-capitalized," said Edward Fenster, CEO SunRun, the largest U.S. residential solar developer. "I'd expect to see some of the big power companies get involved. We've received interest from all of them. We're not looking for a buyer."

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