

R O U N D T A B L E

SPONSORS

INFRANODE • PRIME CAPITAL • TAALERI ENERGIA

# The Nordic opportunity

*Political sensitivities keep Nordic infrastructure privatisations off-limits. Nevertheless, there is a rich seam of investment potential, find Amy Carroll and Zak Bentley*

Nordic infrastructure investors have been pleasantly surprised by the resilience of the asset class through the depths of the pandemic. “The market has functioned remarkably well, which I don’t think any of us would have predicted in March last year,” says Mikael Lundin, chief executive of Polhem Infra, commenting at our recent virtual roundtable.

“Right at the beginning of the pandemic, we closed on a large wind farm in Sweden,” Lundin adds. “There have been no material delays in construction there and our original plans for commissioning at the end of 2021 are still valid. We also managed to negotiate

and sign on the acquisition of Telia Carrier, which operates more than 74,000km of global fibre. That was a very large deal for us and acquiring a significant piece of a utility during a pandemic was a real achievement.”

Kai Rintala, managing director of Taaleri Energia, echoes Lundin’s positive experiences. “Despite concerns in the early days of the pandemic, when debt margins in Nordic wind went up slightly, this has been a positive year for the industry and our wind portfolio has weathered the crisis, largely unaffected,” he says. “Dealflow has been robust and any delays in getting specialist staff on to sites has been minimal, meaning we have been able to make up the time elsewhere.”

Meanwhile, Philip Ajina, co-founder

of Infranode, says that coming out of a strong 2020, the firm’s pipeline was the richest it had been since inception. He acknowledges there was a brief hiatus in auctions, but off-market opportunities continued.

Fortum’s Finnish district heating business alongside utility Vantaa Energy was among Infranode’s pandemic acquisitions. “We were able to complete that deal because we were backed by local banks and because of the partnership between ourselves, the utility and the municipality,” says Ajina.

That local profile is considered critical in Nordic markets, where the nuances of the individual countries are often overlooked. Covid has only served to highlight those idiosyncrasies, with Sweden taking a very different



## **Mathias Bimberg**

Head of infrastructure, Prime Capital

Bimberg joined Prime Capital as an investment manager in 2015 and became a managing director three years later. He was named head of infrastructure last year. He previously spent almost five years as a manager in EY's transaction advisory services team, where he focused on private equity clients.

## **Kai Rintala**

Managing director, Taaleri Energia

Rintala is responsible for a 2.8GW portfolio of development, construction and operational assets for the Taaleri SolarWind funds, part of Taaleri Energia, a Helsinki-based renewables fund manager and developer. He has more than 20 years' experience in the infrastructure industry, having previously worked for KPMG in Helsinki and London, advising public and private sector clients on infrastructure strategy and transactions across energy, transport and social infrastructure.



## **Philip Ajina**

Founding partner, Infranode

Ajina is both a founding partner and chief investment officer at Infranode. He is involved in all aspects of the firm's activity, from fundraising to origination, execution and asset management. He has 12 years of infrastructure experience in the Nordics. Prior to founding Infranode, he was senior advisor to SEK Advisory Services, where he helped to set up an export-dedicated infrastructure fund.



## **Mikael Lundin**

Chief executive, Polhem Infra

Lundin has more than 25 years' experience in the power and utilities industry, spanning companies including Vattenfall and Nord Pool. He also has extensive operational and executive experience, including restructuring large organisations and executing M&A programmes in Europe.

approach to lockdown. “It is important to have an on-the-ground presence in each market to ensure you fully understand those differences,” says Ajina. “It is far easier to manage assets if you have a local footprint.”

### Power prices

The past year has not been without its challenges, with energy prices hitting new lows in the region. However, the recent dip in the price of electricity is not predominantly a result of covid, but rather the extremely warm winter and a strong hydro-balance surplus.

“As that hydro balance changes, and with the economic growth that everyone is predicting as being just around the corner, power prices should rise,” explains Rintala. “That is just the natural cycle of power prices in this region and has little, or nothing, to do with the pandemic.”

Plans to accelerate the industrialisation of northern Sweden and northern Finland will also lead to higher power consumption in the region, says Mathias Bimberg, head of infrastructure at Prime Capital. “There are some really interesting projects planned, particularly involving hydrogen, but also data centres and other more power-intensive industries like steel production,” he adds. “This is an exciting opportunity, not just to produce energy, but to find new hybrid solutions for wind projects.”

Lundin is also sanguine about power prices. “Prices go up and prices go down,” he says. “This is normal volatility for the region and I don’t think it should impact decision-making for long-term investors.” However, Ajina points out that recent volatility has highlighted the need for Nordic national grids to be updated. “Transmission capacity is insufficient,” he explains. “If we had more transmission capacity, that volatility would be reduced. That has been a topic of conversation for many years and unfortunately, I think it

will continue to be a topic of discussion for many more years.”

Because, unfortunately, these national transmission grids are unlikely to become investable propositions for institutional capital. “While there is an element of private capital in Fingrid, when it comes to the Swedish TSO, I see that as highly unlikely,” Ajina says. “The grids are very closely integrated into the state system.”

The North Sea Link between the UK and Norway, a joint venture between the UK’s National Grid and Norwegian system operator Statnett, last year, is an exception – albeit supported by utility-based investors. The space is still largely deemed off-limits for financial investors.

Bimberg, meanwhile, sees potential for more interconnectors between Sweden and central Europe, specifically Germany. Germany’s efforts are currently focused on increasing interconnector capacity between the north of the country and the south, where most consumption occurs. “But within 10 to 15 years, I expect the connectivity between Scandinavia and Germany will increase, ultimately leading to lower volatility and lower price differences between continental Europe and the Nordic region,” says Bimberg.

### Political sensitivity

Sensitivity around investment in the national grids and associated interconnectors is just one area where political

*“You need to structure deals that are financially attractive for your clients, but also politically attractive for the politicians and decision makers”*

PHILIP AJINA  
Infranode

*“You have to look at the specific dynamics of each region and then make your decisions about offtake strategies”*

**MATHIAS BIMBERG**  
Prime Capital

considerations influence infrastructure activity in the Nordic markets. Municipalities are a critical source of dealflow in the region and the expectation is that dealflow will increase in the months and years ahead.

On the one hand, Nordic municipalities have received generous grants from central government to help them deal with covid, which has postponed any severe capital squeeze. On the other hand, says Lundin, those municipalities are having to prioritise what is most important, from a service delivery perspective: “In the midst of a catastrophic health crisis, that may not be the electricity grid or fibre network, therefore we expect the pandemic to lead to additional dealflow.”

Ajina adds that while municipalities may be flooded with government pandemic aid packages now, they are

also planning for post-covid cash management, as well as the ability to add operating capacity and knowledgeable ownership at a board level. “And so, I see dealflow coming out of the municipalities as continuing to be strong,” he says.

Full privatisations will remain rare in the Nordic region, however. “It is just too politically sensitive, and I don’t expect that to change much any time soon,” Ajina adds. He points to high-profile examples of failed full privatisation deals, such as Ørsted’s sales of Danish grid business Radius and Öresundskraft in Sweden, which fell through amid political concerns.

“Instead, we will continue to plough on with the co-ownership route, which is much more viable in this region,” he explains. “Municipalities can free up capital but continue to be involved and

participate in the governance to some extent. You need to structure deals that are financially attractive for your clients, but also politically attractive for the politicians and decision-makers. When you have mastered the art of that balancing act, then you will truly be successful in the Nordic infrastructure sector.”

### **Permitting problems**

Rintala adds that even in sectors where there is a functioning market, such as wind, the political aspect to infrastructure investment is pronounced, primarily due to political influence on permitting.

Bimberg, meanwhile, warns that there has been a decline in consultations around new permits in the Swedish wind farm market in recent years, which could potentially lead to

a shortage of available construction projects in the medium term. “There seems to be a conflict between people trying to save the environment and those trying to prevent climate change,” he says.

Permitting problems for onshore wind are just one of the drivers behind what Rintala describes as the relentless march towards offshore wind. However, he points out that there are still question marks around how wind turbines will work in the Gulf of Bothnia, which freezes over in winter.

“Ørsted has just entered into a joint venture with wind energy producer Enefit, to explore the development of offshore wind in the Baltics, so clearly it is coming,” he says. “But I think it might take a little bit longer to arrive in the sea between Finland and Sweden where winter conditions can be particularly harsh.”

Lundin, meanwhile, questions whether there is a shortage of onshore wind projects in the first place. “Many developers have large pipelines already,” he says. “I do think offshore wind will come to the Baltic Sea but there are still plenty of onshore projects to be getting along with in the meantime.”

### The march towards merchant

The evolution of the offtake environment is clearly another key factor in the Nordic wind market. Anecdotally, appetite from the tech giants is waning, although Bimberg says Prime Capital entered into a PPA with a large tech company at the end of last year. He adds, however, that the direction of travel is increasingly merchant, particularly in certain markets.

In Finland, for example, even last year the average power price was €28 per MWh, while the average in the last five years has been €36 per MWh. “That means it makes less sense to enter into PPAs in that market when compared to Sweden or Norway,” says Bimberg. “You have to look at the

specific dynamics of each region and then make your decisions about offtake strategies. Overall, though, we will be going more merchant with our projects – perhaps 50 percent secured offtake, compared to 70 to 80 percent historically. We don’t want to be only working for the banks in the first 10 to 15 years, hedging away the upside while having to accept substantial discount to average power prices in these long-term PPAs.”

It appears that limited partners are increasingly getting comfortable with a merchant or semi-merchant strategy. “They are actually seeking out these discussions proactively,” says Bimberg.

Rintala adds: “There are two different camps of investors. There are those that come from a more traditional infrastructure background that do want you to hedge revenues – that do want that stability. But there are also those with experience of participating in other parts of the energy market, that are more comfortable with the merchant risk proposition.”

“I don’t see why you should have to enter into these kinds of agreement when you have a long-term strategy,” adds Lundin. “Power prices go both up and down. I believe there has been too much focus on PPAs recently and I am not sure they represent the future.”

*“With the economic growth that everyone is predicting as being just around the corner, power prices should rise”*

KAI RINTALA  
Taaleri Energia

### Digital infrastructure

Although wind farms undoubtedly loom large in the Nordic infrastructure market, they are far from the only game in town. Lundin points to excellent opportunities in the digital infrastructure space and in fibre, in particular. “There are exciting opportunities for consolidation, to create companies with the confidence and critical mass that is required to move forward,” he says.

The Nordic region is also ideally suited to data centres, due to both climate and access to the grid, adds Ajina. He cautions that these deals are not without risk, however. “It depends where you are in the value chain,” he says. “A lot of data centres are being approached by opportunistic real estate developers, rather than traditional infrastructure investors. But infrastructure investors are definitely making their way into the space. Digital infrastructure will undoubtedly play a

bigger role in Nordic infrastructure portfolios going forward.”

Rintala adds that the proliferation of digital assets is, of course, also good news for power prices. “We are only going to be consuming more data, and the amount of electricity that activity consumes is fantastic for renewables,” he says.

The social infrastructure opportunity in the Nordics is also vast. This includes typical municipal level infrastructure, built decades ago, that has not been properly invested in and now needs replacing, as well as new facilities such as schools. “Traditionally, this has been seen as more of a real estate play, and it is a competitive market, so you need to find an angle,” says Ajina. “But we are expecting to continue to see strong dealflow across all Nordic countries, driven by systemic problems rather than the pandemic.”

### Local support

Indeed, the constraining factor in the Nordic infrastructure market is neither a lack of dealflow nor a lack of capital, according to Rintala, but rather the skills to be able to structure these transactions and put that capital to work. “I am in a very happy place at the moment in terms of the opportunities coming our way,” he says.

Nonetheless, local Nordic institutions have been notably underweighted towards infrastructure, historically. It appears, however, that this is slowly beginning to change, with positive announcements from the likes of AP4, Alectra and Storebrand in recent months. “The catch-up is starting to happen,” Ajina says.

The lure, of course, is the search for yield in a low interest rate environment, but also a recognition that there is a prosperous future here for investment in Nordic infrastructure, according to Lundin: “Particularly, with all the industrial activity that is starting to gain momentum, I am extremely optimistic about what the future holds.” ■

*“I believe there has been too much focus on PPAs recently and I am not sure they represent the future”*

MIKAEL LUNDIN  
Polhem Infra