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GS Utilities Daily: Solaria: Execution, balance sheet and prices; stay Neutral // Terna: c.10% upgrade hints at further capex acceleration

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Research you can't miss from the past two weeks

Enel: Re-leveraging implies +5% EPS CAGR (and >7% DY)

Siemens Energy: National Grid announces HVDC contracts, another positive

Endesa: Positives, but hard to offset the downside risk to its integrated margin

SSE: UK capacity market result continues trend of higher pricing

United Utilities: Data Update: Reflecting changes since the Final Determinations

Solaria: Execution, balance sheet and prices; stay Neutral

Execution delays, rising leverage, and the risk of much lower power prices will likely continue to cap Solaria's share price performance. Our new estimates reflect a slower rate of capacity additions over 2025-28 (+c.950 MW pa) to reflect balance sheet constraints. However, even on these forecasts, we see leverage at c.7x this year, falling to c.5.5x by 2028E. Leverage at these levels could raise concerns over the need for incremental (potentially dilutive) deleveraging measures (disposals, capital raise etc.). We lower our price target to €9.3 from €11.5. More here.

Terna: c.10% upgrade to the 10Y development plan hints at further capex acceleration beyond 2028

Terna has just announced its 10-year domestic grid development plan, which implies a c.10% upgrade vs the previous one. The new plan foresees total investments of €23 bn between 2025 and 2034. To complete the projects starting in the coming 10 years, the company already has visibility on an additional €17 bn of investments beyond 2034. While not a total surprise (Terna has been consistently upgrading its domestic investment targets over the last decade), we still see this announcement as a positive and welcome the long-term visibility this provides into Terna's core investments growth trajectory. We note this announcement could likely translate into a further acceleration in annual capex figures beyond 2028. As a reference, we estimate the current plan supports a c.8% CAGR in the asset base and c.4% EPS CAGR over 2023-28. By then, we estimate Terna's balance sheet to be near full utilization, with FFO/net debt ratio getting closer to 11%. More here.

Germany reaches deal on infrastructure fund by promising Greens €100 bn for climate action

According to media reports, Friedrich Merz has agreed to transfer €100bn of the sum to the country's Climate and Transformation Fund (KTF), which is dedicated to climate policy spending, thus securing support from the Greens. Source: Clean Energy Wire

RWE to build 600MW battery parks

RWE is to construct three new battery parks in Germany with a total installed capacity of around 600MW. The new battery energy storage systems will be built on the site of the Westfalen power plant in Hamm. The parks will have a storage capacity of 1.2GWh. Initial preparatory construction activities are under way, with the new battery systems scheduled to go into operation between 2026 and 2028. Source: Renews

Engie closes Belgian nuclear agreement

Engie and the Belgian government announced that they have closed the agreement covering the 10-year extension of the Tihange 3 and Doel 4 nuclear reactors and the transfer of responsibility related to nuclear waste. Source: Company Announcement

EU countries draft plan to soften gas storage targets, document shows

European Union countries are discussing making the bloc's binding gas storage goals more flexible, over concerns that the rules risk inflating gas prices, a negotiating document seen by Reuters showed. Countries including Germany, France and the Netherlands have warned the EU's binding deadlines to fill gas storage are pushing up prices, by indicating to the market that European buyers are obliged to buy large volumes of fuel by fixed deadlines, creating an opportunity to manipulate prices. Source: MSN

Germany's outgoing government says country en route to hit 2030 climate goal

Germany currently has a realistic chance of hitting greenhouse emissions targets over the coming years by keeping the country's existing climate policy instruments, the German Environment Agency (UBA) announced on Friday. Source: Euractiv

RWE cuts ribbon on 35-MW battery in the Netherlands

RWE has officially opened one of the largest battery energy storage systems (BESS) in the Netherlands, a 35-MW/41-MWh facility at its Eemshaven power station. Source: Renewables Now

Other news

Iberdrola and Air Liquide have inked a long-term wind PPA. Under the deal, Iberdrola will supply green electricity from 25MW of wind farms in northern Spain. (Renews)

RWE has received the first foundations for the 1600MW Nordseecluster offshore wind project in the German North Sea. The wind turbines for Nordseecluster A will be erected next year and fully connected to the grid at the start of 2027. Nordseecluster B is due to begin commercial operations at the start of 2029. (Renews)

EU energy regulatory agency Acer is seeking examples of power purchasing agreement (PPA) templates that it can publish on its website to help boost uptake of such contracts. (Montel News)

Gas demand in Italy leapt 20% year on year to 78.1 TWh (7.4bcm) in February but registered a monthly decline from 86.1 TWh (8.1bcm) in January, data from energy exchange GME showed on Friday. (Montel News)

A **data center** development in Hayes, Middlesex, which looks set to host tape storage infrastructure for Amazon Web Services (AWS), has been given the go-ahead. Hillingdon

Borough Council has approved the plan for a two-story data center at Unit 4, Silverdale Industrial Estate, off Silverdale Road in Hayes, but said the company would have to pay more than £500,000 ($646,270) to offset the facility's emissions and impact on the community. (DataCenterDynamics)

German data center firm Firstcolo is to build a new data center outside Frankfurt. The company, which currently operates two data centers in Frankfurt, aims to invest €250 million in developing a 24MW, 11,555 sqm facility. (DataCenterDynamics)

Events to watch

19th March - Snam FY24 results

20th March - RWE FY 24 results

Research you need to read

Powering Up Europe: Who pays for the Energy Transition? Draghi Plan and Affordability (29 November 2024)

We believe the European energy transition has entered a new stage – one where affordability becomes a key constraint to comply with. As a result, electrification is likely to continue undisturbed only where economically viable. We assess the affordability of the "Draghi Plan" and reach three conclusions that largely differ from the consensus view: (1) the normalization in power prices (c.50-60% vs current levels) would more than offset the incremental costs to upgrade power grids and develop backup generation; (2) the positive inflection in power demand would act as a deflationary force, as fixed costs (e.g. power grids) would become smaller on a unitary basis; and (3) our "Electrification Cost Curve" suggests that the investments in onshore renewables (adjusted for incremental costs in power grids and backup generation) would be cheaper than any hydrocarbon alternative. We believe that ongoing support for such new form of energy transition would continue to support secular earnings growth for the main "Electrification Compounders" under our coverage. On this basis, we highlight Enel, RWE, SSE, EDPR, EON, NG, Iberdrola, Vestas and Siemens Energy.

Powering Up Europe: The Draghi Plan: Electrification to kick-start Europe (14 October 2024)

The former ECB President and Italian Prime Minister, Mr Mario Draghi, recently presented the results of a study he has conducted on behalf of the European Commission. The 'Draghi Plan' includes a set of recommendations to promote private investment, boost Europe's competitiveness and close its productivity gap with the US and China. We believe that electrification (and therefore the power utility industry) is at the core of the plan: approximately half the incremental investments the plan suggests be made to re-launch the economy are in clean energy and electric mobility (c.€450 bn of the c.€800 bn pa). Among other recommendations, the plan urges the creation of a liquid corporate PPA market for renewable energy (to lower power bills for industrial customers), and calls for the modernization of power grids. We believe the plan is bullish for power utilities: if implemented, it should support rising power consumption, a lower cost of capital for RES activities, and a capex super-cycle in power grids and renewable energy. This would provide a significant (and secular) tailwind for all the EU electrification compounders. We highlight the following Buy-rated stocks as key exposures to the theme: Enel, EON, Iberdrola, EDPR, National Grid and SSE.

Powering Up Europe: AI datacenters and electrification to drive +c.40%-50% growth in electricity consumption (29 April 2024)

Over the past fifteen years, Europe's power demand has been hit by exogenous shocks (the GFC, Covid, the Energy Crisis) and a slower-than-expected electrification process. As a result, since 2008, electricity consumption has cumulatively declined by c.10%. However, this trend might be about to reverse: the rapid expansion in datacenters and gradual pick up of the electrification process could boost Europe's power demand by c.40%-50% over the coming ten years, we estimate. In an industry with elevated operational and financial gearing, such an inflection in revenues (which is also likely to trigger secular organic growth in power grids and renewables) should have a significant effect on corporate profits. We favour 'Electrification Compounders' that mostly grow profits from power grids (and renewables), thanks to their very attractive risk/reward profiles (grids operate in natural monopoly regimes with returns based on 'cost-plus'), and continue to highlight the RES developers as discounting zero/negative value from future capacity additions. We see EON, Enel, SSE, Iberdrola and Orsted as the key exposures.

Electrify Now: Power grids: now central to electrification (23 January 2024)

We believe electricity grids are pivotal to Europe's electrification process, and that the street underestimates the investment needs in T&D, which we estimate at c.€650 bn over 2021-30. This implies a strong double-digit acceleration in the annual capex-run rate by the end of the decade, vs current levels. We also believe Transmission and Distribution power grids sit in the sweet spot of electrification: besides an accelerating top line, these activities enjoy attractive risk-adjusted returns – usually set on a "cost plus" basis. Compared to renewables (which we continue to find an attractive investment proposition), power grids are less capital intensive and, as such, initially provide a higher bottom-line conversion from new investments – we therefore see power networks activities as an incremental leg in our re-rating thesis for Green Energy Majors. Within this group, we see EON (power grids EBITDA at c.65%), SSE and Enel (c.40% for both) as the best-positioned integrated stocks.

Disclosure Appendix

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