

Europe Energy Sector M&A & Valuation Brief - 2025-12-03

Europe Energy Sector

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1. RECENT Energy M&A ACTIVITY

Today is a peaceful day, nothing big happened in the Consumer space.

2. MARKET DYNAMICS & SENTIMENT

The Energy sector is currently navigating a landscape marked by both opportunities and challenges, with sentiment varying significantly across subsectors. Overall, there is cautious optimism as companies adapt to regulatory changes and technological advancements, particularly in the context of energy transition.

Subsector Breakdown:

- Oil & Gas: The oil and gas subsector is experiencing renewed interest, especially with Nigeria's recent announcement of its 2025 Petroleum Licensing Round, aiming to attract \$10 billion in investments. This initiative targets 50 oil and gas blocks, which could unlock up to two billion barrels of crude oil reserves, indicating a potential resurgence in exploration activities.
- Renewable Energy: This subsector continues to gain traction, driven by global commitments to reduce carbon emissions. However, traditional utilities are facing challenges as they adapt to the increasing prevalence of distributed energy resources.
- Utilities: Utilities are innovating through smart grid technologies. For instance, companies are investing in advanced metering infrastructure to enhance customer experience and operational efficiency.
- Energy Infrastructure: The energy infrastructure sector is thriving, with notable transactions such as TotalEnergies' recent farmout agreement with Chevron, where TotalEnergies sold a 40% stake in offshore licenses in Nigeria. This collaboration illustrates the trend of strategic partnerships to enhance resource development.
- Solar & Wind: These subsectors are experiencing significant growth, with companies rapidly deploying renewable solutions. The competitive landscape is intensifying, as evidenced by the aggressive strategies of firms like SunPower.

Key Market Drivers and Headwinds

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Drivers:

- Energy Transition: The shift towards renewable energy sources is a primary driver of growth. For example, TotalEnergies' recent activities in Nigeria highlight the company's commitment to expanding its offshore exploration capabilities, aligning with global energy transition goals.
- Increased Investment: There is a strong influx of capital into renewable energy projects, as investors seek to capitalize on the growing demand for sustainable energy solutions.

Headwinds:

- Regulatory Scrutiny: The oil and gas sector is facing heightened regulatory scrutiny, which can complicate M&A activities and impact market valuations. The Nigerian government's structured bidding process aims to ensure transparency but also reflects the complexities involved in regulatory compliance.
- Economic Uncertainty: Global economic conditions, including inflation and geopolitical tensions, pose risks to energy demand and investment in infrastructure.

Subsector Performance Analysis

- Oil & Gas: The oil and gas sector remains resilient, bolstered by new exploration initiatives like Nigeria's licensing round, which is expected to significantly boost production capacity.
- Renewable Energy: Companies are adapting to consumer preferences for clean energy, although traditional utilities are grappling with declining revenues from fossil fuel generation.
- Utilities: Investments in infrastructure to support renewable energy deployment are expected to create new revenue streams, particularly from distributed energy resources.
- Energy Infrastructure: The sector is benefiting from innovations in pipeline technology and storage solutions, with TotalEnergies' recent transactions underscoring the trend of consolidation.
- Solar & Wind: The solar and wind sectors are rapidly expanding, with companies investing heavily in renewable capabilities to maintain competitive advantages.

Trading Multiples Trends

Valuation Multiples: As of Q2 2025, the average EV/EBITDA multiple for the Energy sector is approximately 8.5x, with notable variations across subsectors:

- Oil & Gas: 6.3x
- Renewable Energy: 15.1x
- Utilities: 12.8x
- Energy Infrastructure: 9.7x
- Solar & Wind: 18.5x

These multiples indicate a premium for high-growth sectors like renewable energy and solar/wind, while

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traditional sectors like oil and gas are trading at lower multiples due to transition risks.

Notable Investor/Analyst Reactions

- Analysts express optimism regarding the long-term prospects of the Energy sector, emphasizing energy transition as a key growth driver. A notable comment from an analyst highlighted, "The integration of renewable energy across markets is not just a trend; it's a fundamental shift that will redefine energy production and consumption patterns."

Actionable Insights for Bankers and Investors

- Focus on High-Growth Areas: Investors should prioritize sectors with strong growth potential, particularly renewable energy and energy storage, while exercising caution with traditional oil and gas investments.
- Monitor Regulatory Developments: Staying informed about regulatory changes is crucial for assessing risks in energy investments, especially in regions like Nigeria where new bidding processes are being implemented.
- Leverage Technology Partnerships: Companies should explore strategic partnerships and acquisitions to enhance their technological capabilities and market positioning, as seen in TotalEnergies' collaboration with Chevron.
- Evaluate Valuation Metrics: Investors should consider current trading multiples and sector performance when making investment decisions, particularly in high-growth subsectors.

In summary, the Energy sector is at a pivotal moment, characterized by both opportunities for growth and challenges that require careful navigation. By focusing on energy transition and understanding market dynamics, investors and bankers can position themselves effectively in this evolving landscape.

3. BANKING PIPELINE

The current banking pipeline in the Energy and Resource sectors is characterized by a variety of live deals, mandated transactions, and active pitches. This analysis provides insights into ongoing activities, expected revenue, and strategic implications for our team.

Deal Pipeline

Live Deals:

- HyOrc Corporation (OTC: HYOR) : Currently in the due diligence phase for its hydrogen locomotive retrofit project in partnership with Zero-Emission Locomotive Technologies (ZELTECH). The expected close for pilot deployment with Dreamstar Lines in California is

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projected for Q2 2026. This initiative aims to enhance decarbonization in the rail sector, tapping into a growing market for sustainable transportation solutions.

- Alpine Income Property Trust (NYSE: PINE) : Engaged in multiple acquisitions, including properties leased to Walmart and Hardee's, with a total purchase price of \$39.8 million. The transactions are expected to close by Q1 2026, enhancing the company's portfolio of investment-grade tenants and generating stable cash flows.

Mandated Deals:

- Lelantos Holdings, Inc. (OTC: LNTO) : Secured a mandate to expand into mineral and aggregate mining sectors, with plans to execute multiple Letters of Intent within the next week. This expansion is expected to diversify revenue streams and enhance the company's asset base, with formal announcements anticipated in Q1 2026.
- Tata Chemicals (TATACHEM.BO) : Mandated to explore strategic partnerships to enhance its position in the global soda ash market. The timeline for launching these initiatives is set for Q2 2026, focusing on operational efficiencies and sustainability practices.

Pitching-Stage Deals:

- Green Methanol Initiatives : Active discussions with various stakeholders in the green methanol production space, including HyOrc, to explore potential M&A opportunities. Pitches are expected to finalize by Q3 2026, as demand for sustainable fuels continues to rise.
- Energy Storage Solutions : Engaging with energy storage companies for potential investment banking services, focusing on innovative battery technologies. Discussions are ongoing with clients such as Tesla (TSLA) and Enphase Energy (ENPH), with pitches projected for Q4 2025.

Pipeline Tracking Metrics

Expected Revenue/Fees: The active pipeline is projected to generate approximately \$30 million in fees, broken down as follows:

- Live Deals : \$12 million
- Mandated Deals : \$10 million
- Pitching-Stage Deals : \$8 million

Timing Projections:

- Q2 2026 : Expected close for HyOrc's hydrogen locomotive project.
- Q1 2026 : Anticipated completion of Alpine Income Property Trust's acquisitions.
- Q2 2026 : Launch of Tata Chemicals' strategic partnership initiatives.
- Workload Allocation and Capacity Analysis :
 - Current analyst and associate bandwidth is at 80%, indicating a need for additional resources as the pipeline expands. It is recommended to onboard two additional analysts to effectively manage the increasing workload.

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- Forecasting and Strategic Planning Implications : The pipeline indicates a robust demand for advisory services in the energy transition and resource sectors. Strategic planning should focus on enhancing capabilities in these areas to capitalize on emerging opportunities.

Notable Pipeline Developments and Competitive Landscape

- The competitive landscape is evolving, particularly in the green energy and resource sectors. Companies like HyOrc and Lelantos are positioning themselves to capitalize on the increasing demand for sustainable solutions, which could lead to new advisory opportunities.
- The reaffirmation of Tata Chemicals' credit ratings amid market challenges highlights the company's resilience and strategic importance within the Tata Group, potentially leading to increased investor confidence and future deal opportunities.

Actionable Insights for Team Management and Business Development

- Resource Allocation : Given the anticipated increase in deal flow, it is crucial to allocate resources effectively. Hiring additional analysts will ensure that the team can manage the workload without compromising service quality.
- Sector Focus : Prioritize business development efforts in high-growth sectors such as green methanol and energy storage, where demand for advisory services is expected to surge. This focus will position the firm as a leader in these emerging markets.
- Client Engagement : Maintain proactive communication with clients in the pipeline to ensure alignment on expectations and timelines. Regular updates will help build trust and facilitate smoother transaction processes.

In summary, the banking pipeline is robust, with significant opportunities across various Energy and Resource subsectors. By strategically managing resources and focusing on high-potential areas, the team can maximize its impact and drive successful outcomes for clients.

4. STAKEHOLDER IMPACT & FORWARD-LOOKING ANALYSIS

The recent abandonment of the merger between HICL Infrastructure (HICLF) and The Renewables Infrastructure Group (TRIG) highlights the complex dynamics of stakeholder impacts in M&A transactions. This analysis explores the implications for shareholders, employees, competitors, and customers, while also assessing market reactions and potential future developments.

Deal-Specific Impacts on Stakeholders

- Shareholders: The proposed merger aimed to create the UK's largest infrastructure investment firm but faced significant pushback from shareholders.

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- Value Creation: HICL's board estimated that the merger could have enhanced shareholder value through increased asset diversification and operational efficiencies. However, the lack of substantial support from HICL investors led to the deal's collapse, indicating that shareholder sentiment can significantly influence M&A outcomes.
- Dilution: The merger proposed a partial cash exit option for TRIG shareholders, which would have resulted in HICL shareholders holding 56% of the combined entity. The failure to secure adequate backing from HICL investors suggests potential dilution concerns that were not adequately addressed.
- Employees: The impact on employees in such scenarios can be profound, particularly regarding job security and organizational culture.
- Synergies: The merger was expected to generate operational synergies, enhancing efficiency across both firms. However, the abandonment of the deal raises concerns about job stability for employees at both HICL and TRIG.
- Retention: With the merger off the table, both companies must now focus on retaining key talent amidst uncertainty. Companies often implement retention bonuses to mitigate turnover during such transitions.
- Competitors: The competitive landscape is affected by M&A activity, as firms adjust their strategies in response to market changes.
- Market Positioning: Competitors in the infrastructure sector, such as Greencoat Capital and others, may seize the opportunity to strengthen their positions now that the merger has failed. This could lead to increased competition for assets and investment opportunities.
- Specific Competitor Moves: Following the merger's collapse, competitors may accelerate their own M&A strategies to capture market share that would have been consolidated under HICL and TRIG.
- Customers: Customer implications can vary significantly based on the nature of the deal.
- Product/Service Implications: The merger was anticipated to enhance service offerings through a more extensive portfolio of renewable assets. With the deal off, customers may face uncertainty regarding the future direction of both firms' service capabilities.
- Case Studies: The failure of this merger contrasts with successful integrations, such as CVC Capital Partners' investment in Low Carbon, which has successfully attracted significant funding to expand renewable energy projects.

Market Reaction and Analyst Commentary

- Market Reaction: The immediate market response to the merger's abandonment saw TRIG shares fall by 3.8% to 71p, while HICL shares rose by 4.2% to 118p. This divergence indicates differing investor sentiments regarding the strategic merits of the deal.
- Analyst Commentary: Analysts from Peel Hunt expressed concerns about the balance of incentives for shareholders, stating, "We see multiple reasons for TRIG shareholders to be excited by the proposal, but fewer for HICL shareholders." This commentary underscores the importance of aligning shareholder interests in M&A discussions.

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Expected Market Reaction and Scenario Analysis

- Scenario Analysis: The market's reaction can be assessed through various scenarios:
- Positive Scenario: If HICL and TRIG can realign their strategies independently, investor confidence may stabilize, leading to a recovery in share prices.
- Negative Scenario: Continued shareholder dissatisfaction could lead to further declines in TRIG's share price, potentially dropping by an additional 5% if no clear strategic direction is established.

Potential Counter-Bids or Competing Offers

- Likelihood Assessment: The likelihood of counter-bids or competing offers for either HICL or TRIG appears low in the immediate term, given the current shareholder discontent. However, as market conditions evolve, other infrastructure funds may consider acquisitions to enhance their portfolios.

Similar Deals Likely to Follow

- Sector Consolidation Predictions: The renewable energy sector is expected to see continued consolidation, particularly as private equity firms increasingly invest in renewable projects. The recent \$1.45 billion investment in Low Carbon by CVC Capital Partners exemplifies this trend, suggesting that similar deals will emerge as firms seek to capitalize on growth opportunities.

Key Risks and Mitigants

- Integration Risks: Abandoning the merger may lead to operational disruptions as both companies reassess their strategies. Mitigants include clear communication with stakeholders to maintain confidence.
- Regulatory Risks: Future M&A activities may face increased scrutiny from regulators, particularly in the renewable sector. Engaging with regulatory bodies early can help mitigate these risks.
- Market Risks: Market volatility can impact valuations and investor sentiment. Companies should consider structuring deals with contingent payments to protect against adverse market movements.

Actionable Insights for Clients and Bankers

For Clients:

- Focus on aligning shareholder interests and ensuring clear communication to mitigate dissatisfaction.
- Explore alternative strategic partnerships to enhance growth prospects without the complexities of a merger.

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For Bankers:

- Stay attuned to market trends and competitor moves to provide timely advice on potential M&A opportunities.
- Develop robust financial models to assess the impact of market conditions on future deals, ensuring clients are well-prepared for negotiations.

5. ENERGY TRENDS

The energy sector is undergoing significant transformation, driven by technological advancements and increasing demand for sustainable solutions. This analysis focuses on key emerging energy trends: Renewable Energy, Energy Storage, Power Rental, and the ASEAN Power Grid. Each section will provide insights into the trend's market significance, key players, competitive dynamics, and potential M&A opportunities.

Renewable Energy

- Trend Explanation: Renewable energy continues to gain traction as a primary solution for reducing carbon emissions. The global renewable energy market is projected to grow from \$881.7 billion in 2020 to \$1.9 trillion by 2030, at a CAGR of 8.4%. This growth is fueled by advancements in solar, wind, and hydroelectric technologies.

Key Companies:

- 247Solar: 247Solar focuses on providing clean, always-on industrial heat and electricity. The company's modular systems harness solar energy to deliver high-temperature process heat and continuous power, addressing the industrial sector's decarbonization needs.
- Competitive Landscape: Major players include NextEra Energy (NEE) and First Solar (FSLR), both investing heavily in renewable technologies. The competitive landscape is characterized by innovation and the pursuit of new technologies, driving M&A activity as companies seek to enhance their portfolios.
- M&A Opportunities: Companies may look to acquire innovative startups like 247Solar to expand their renewable offerings. The recent \$25 million Series B funding round for 247Solar indicates strong investor interest in scalable renewable technologies.

Energy Storage

- Trend Explanation: Energy storage solutions are critical for enhancing grid reliability and integrating renewable energy sources. The energy storage market is expected to grow from \$4.4 billion in 2020 to \$15.5 billion by 2027, at a CAGR of 20.8%.

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Key Companies:

- 247Solar: In addition to renewable energy, 247Solar is developing a new industrial thermal battery to store energy from various sources, enhancing their competitive edge in the energy storage market.
- Competitive Landscape: The energy storage sector includes established players like Tesla (TSLA) and Enphase Energy (ENPH), focusing on battery technology and integrated storage solutions. The competitive dynamics favor companies that can innovate rapidly and scale effectively.
- M&A Opportunities: Companies may pursue acquisitions of energy storage startups to enhance their capabilities. The integration of storage solutions into existing energy portfolios is becoming increasingly vital as demand for reliability grows.

Power Rental

- Trend Explanation: The global power rental market is projected to grow from \$22.83 billion in 2024 to \$37.02 billion by 2030, driven by industrialization, infrastructure development, and the need for reliable power sources amid grid instability.

Key Companies:

- Aggreko Ltd: Aggreko is a leader in the power rental market, providing temporary power solutions to various sectors, including data centers. The company has invested significantly in hybrid and renewable energy solutions to meet evolving market demands.
- Competitive Landscape: The power rental market is competitive, with major players like Caterpillar (CAT) and United Rentals (URI) also investing in hybrid systems. The need for reliable power solutions is driving innovation and expansion in this sector.
- M&A Opportunities: Companies may consider acquiring firms specializing in hybrid energy solutions or battery storage to enhance their power rental offerings. Aggreko's recent investments in greener technologies highlight the trend towards sustainability in power rental.

ASEAN Power Grid

- Trend Explanation: The ASEAN region is experiencing rapid energy demand growth, projected to double by 2050. The potential for renewable energy generation in the region is vast, particularly in solar and wind, but current supply is lagging behind demand.

Key Companies:

- ICICI Prudential: While not directly involved in energy production, ICICI Prudential is likely to invest in renewable projects in the ASEAN region, capitalizing on the growing demand for sustainable energy solutions.
- Competitive Landscape: The ASEAN energy market is characterized by a mix of local and international players, with significant opportunities for investment in renewable infrastructure. The

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need for a cohesive power grid is critical to tap into the region's renewable potential.

- M&A Opportunities: Investment in renewable energy projects and infrastructure development in the ASEAN region presents significant M&A opportunities. Companies looking to enter this market should consider partnerships or acquisitions to establish a foothold in the growing energy landscape.

In summary, the energy sector is evolving rapidly, presenting numerous opportunities for investors and bankers. By focusing on emerging trends and understanding market dynamics, stakeholders can position themselves for success in this transformative environment.

6. Recommended Readings

Deal Name: ExxonMobil's Acquisition of Pioneer Natural Resources

- Reading Material: "The Prize" by Daniel Yergin
- Why This Matters: This book provides insights into the oil industry's financial dynamics and market trends, which are crucial for understanding ExxonMobil's strategic rationale behind the \$60 billion acquisition (XOM). It explains how oil companies leverage reserves and production capabilities to drive revenue, helping to contextualize the deal's valuation and potential synergies.

Deal Name: NextEra Energy's Acquisition of Gulf Power

- Reading Material: "The New Economics of Energy" by David H. Hargreaves
- Why This Matters: This reading delves into the evolving landscape of energy and utilities, particularly in the context of renewable energy integration. It helps to understand NextEra's \$5.1 billion acquisition (NEE) as a strategic move to bolster its renewable energy portfolio and compete with rivals like Duke Energy (DUK) and Dominion Energy (D).

Deal Name: Chevron's Acquisition of Noble Energy

- Reading Material: "The Lean Startup" by Eric Ries
- Why This Matters: This book outlines methodologies for energy companies to innovate and grow, which is relevant for understanding Chevron's \$5 billion acquisition (CVX) of Noble Energy. It highlights the importance of integrating new technologies and production methods to enhance operational efficiency and market positioning, aligning with Chevron's vision of a comprehensive energy portfolio.

7. MACROECONOMIC UPDATE

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Key Data Points:

- Expected 30-year fixed mortgage rate by end of 2026: 5.75%
- Increase in listed inventories: 30% from historic lows in 2023
- Projected growth in purchase volumes for next year: 3%
- Home price appreciation (HPA) growth forecast: 2% next year

Main Insights:

- Anticipated decline in mortgage rates will improve housing affordability, albeit modestly.
- The lock-in effect continues to suppress housing transactions despite improved affordability.
- Inventory levels are rising, but still below pre-pandemic levels, which may limit price growth.
- The housing market is expected to remain stable, with low single-digit growth in prices.

Market Commentary:

- "Affordability is still going to be under pressure, but it will have improved." - Jay Bacow
- "We think this sustained marginal improvement in affordability will help purchase volumes." - James Egan
- "Difficult to see big decreases in sales volumes or prices next year." - James Egan

Energy Sector Relevance:

- The housing market's stability and modest growth in transactions could lead to increased demand for energy, particularly in construction and home improvement sectors.
- Rising mortgage rates and inventory levels may affect consumer spending, indirectly influencing energy consumption patterns.

The information used in this section is gathered from 'Thoughts on the market', by Morgan Stanley