

# Investing during a crisis

**Solar PV project investment:** A profitable investment in PV parks during a financial crisis mandates very specific characteristics from the investor. Yuval Eshet provides some examples from the Israeli company Sunflower Sustainable Investments Ltd.

Photo: Sunflower Sustainable Investments Ltd.



Sunflower operates renewable energy projects with a total capacity of 60 MW.

Sunflower, with headquarters in Ramat Gan, Israel, is a public investment company, founded in 2008. The company's success is based on the concept of a "Sustainable Investment Trust" (SIT) Fund, which is an innovative translation of REIT from the world of real estate. To date, the company owns and operates solar and wind energy projects with a total capacity of 60 MW, in Italy, Spain, Poland and Israel. Sunflower invested over €170 million in these projects which generate income of €25 million per year.

## Sunflower's recipe for success

**Capital:** Having the initial capital to purchase the entire solar park prior to receiving a loan is an advantage. Once the park is connected to the grid, it is much easier to refinance and this is done mostly from local banks. The rationale behind this action is to involve the local economy and provide an incentive for the local community to participate in, and benefit and profit from the project. With respect to risk reduction, financing the transactions locally substantially lowers the exposure to currency fluctuations. One of the central advantages of Sunflower is that, as a public company, it has access to the capital market. The ability to raise the full amount of the required capital as equity and to obtain financing for the project later on provides the company with both financial flexibility and the ability to close deals quickly.

**Decision making processes:** Fast decision making is especially necessary in this sector, in which conditions change rapidly and markets frequently evolve.

**Defining target IRR:** When investing in a solar project the investor should set a flexible and country-dependent target internal rate of return (IRR). When setting clear objectives, regulatory changes and their effects should immediately be evaluated so the company can react promptly. Sunflower focuses on unleveraged IRR which is defined, among other parameters, by the cost of financing in the local market. For each new market, a new IRR is defined based on the local market risks and interest rates. When entering into a project in any market, the company makes sure to keep a spread between the interest on the loan and the unleveraged IRR – to provide a "cushion" for unexpected, local changes in regulations and in order for the project to produce a strong and stable cash flow for the company after servicing its debt.

**Investment timing:** Most financial companies that invest in solar projects purchase an operating plant – a turnkey project, as opposed to developing a park from scratch. While the risk in purchasing an electricity producing park is lower, the IRR is also substantially reduced. When an investment company has the proper knowledge and experience, it can enter into a project at very early stages and provide the park developer with the

means to finance and complete the project. In Europe's current economy, this is a valuable asset. Such early involvement maximizes the financial returns to the investment company and enables it to reach higher yields. Sunflower has the available capital to act rapidly and the resources and knowledge to actively pursue attractive projects in their infancy.

**Local partners and managers:** Sunflower's headquarters manages its foreign activities through local companies and offices. Having this local representation enables the company to be sensitive to regulatory changes in each country as well as to attain a Europe-wide view.

**Advanced financial, technical and legal capabilities:** Sunflower involves professionals who not only know the current solar market in a particular country, but also are highly familiar with the local business and legal culture.

Optimizing the investment in a renewable energy project requires very specific legal capabilities. To optimize the deal with respect to legal considerations, Sunflower always engages a local legal advisor who has the knowledge and can correlate between the needs of the project and the local "business culture." Each deal is different as each business culture has a defined set of unwritten rules, and the local representative must know them and act according to them.

Further rapid expansion of the market is inevitable and Sunflower intends to dedicate a growing amount of resources to be involved in this profitable arena. The company's strategic goal is to increase its portfolio of renewable energy projects..

Future growth of the market will accelerate rapidly once "grid parity" is reached, with no need for subsidies or governmental support. There are already a few countries in Southern Europe and Africa, as well as Israel, which have reached the point of grid parity which reduces investment exposures and simplifies the authorization process. ♦ Yuval Eshet