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As China Greens Up, Bet the Farm -- Not the Wind

HONG KONG - China's ambitious plan to cut pollution by using more renewable energy has cast an economic cloud over its sprawling, coal-addicted power producers, but could be a profit bonanza for firms supplying their equipment.

China's leaders want to double the share of energy from renewables such as water, wind, solar and biomass by 2020, but they expect the corporate sector to pick up most of an estimated 2 trillion yuan (US$265 billion) bill.

This could weigh on profits at the state-run energy groups, such as electricity generator China Power, oil giant PetroChina and fast-growing China Resources Power.

"They are very clear they may not make profits from renewables now. What they are seeking is to be the leaders in clean energy in the future," said Zhou Fengqi, a former state planner now leading China's Renewable Energy Scale-up Programme.

China Power, steered by the daughter of former Premier Li Peng, has pledged to invest US$4 billion by 2010, and PetroChina is to spend 10 billion yuan (US$1.3 billion) for alternative fuels such as coalbed methane -- gas trapped in coal mines -- and ethanol and biodiesel.

While minority shareholders may squeal at the potential squeeze on profits, the spending splurge will be a boost for the firms making the equipment to produce energy from renewable sources.

SOW THE WIND, REAP THE PROFIT

"The guys we really, really favour are the manufacturers of any equipment such as wind turbines," said Joseph Jacobelli, an analyst at Merrill Lynch in Hong Kong.

High Speed Transmission Equipment Group China's top maker of wind power transmission equipment, listed shares in Hong Kong earlier this year. The share price doubled on its first day and it remains the best performing debutant this year.

Other firms riding on the power sector's coat-tails include newly-listed solar cell makers Yingli Green Energy Co and LDK Solar Hi-Tech Co and Goldwind, China's top maker of wind-power generators, which plans to list in Shanghai.

But, faced with high valuations -- LDK Solar trades at 54 times estimated 2007 earnings and Yingli Green at 71 times -- others see heavy machinery builders as an even better bet.

"The guys who built the power stations that cause a lot of this pollution are now going to be engaged to retrofit clean-up technology," said Simon Powell, head of power research at CLSA.

Powell noted that the people who made real money during the Klondike Gold Rush were not the starry-eyed miners, but the people selling picks and shovels.

China's target for 15 percent of energy to come from renewable sources by 2020 aims to wean the country off its addiction to coal, which fuels about 80 percent of its power. Although dirtier than other fuels, coal is cheap and abundant and brings in fat profits, making it tough to displace.

"Clean energy has potential. We believe it will bring commercial value, if we do it well," Song Yanqin, energy researcher at the National Development and Reform Commission, China's top economic planning body, told Reuters.

"HUMUNGOUS"

While much of the investment will be in hydroelectric power, which is often not counted among renewables because of its environmental impact, other types of renewable power will get a bigger boost as they are starting from a smaller base.

But getting renewables to grow as a share of the overall energy mix will be tough as total capacity is growing so fast -- by 20 percent in 2006.

"The added capacity is equivalent to one UK, plus a couple of other countries, so it's a humungous amount of growth," said Merrill's Jacobelli.

"China as a country is trying very, very hard to address climate change issues. It's trying to address the development of renewables, but the economy is just growing too fast."

The government is using next year's Beijing Olympics and the 2010 Shanghai World Expo as catalysts in its push to clean up its energy. Its current 5-year plan, which contains renewables targets, also runs until 2010, providing a deadline to aim for.

Though most firms are only starting out -- some have gone as far as to set up renewables departments or subsidiaries, Beijing's policies and nationwide targets are putting the onus firmly on state-run oil and power firms to cough up the cash.

Making the sums work is not easy. China Resources Power plans to spend 3-5 billion yuan to add 300-500 MW of wind by 2010, although wind power needs three times as much capital as coal-fired power. And wind yields are down because concessions go to the highest bidder, squeezing returns.

Analysts see little to brighten the horizon for power firms unless the state steps in to help -- either by reforming the electricity grid to encourage transparent pricing or subsidising renewable power. (Additional reporting by Tom Miles)

Story by Judy Hua

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