

KEYNOTE INTERVIEW

A 'once-in-several-generations' transition



*The decarbonisation of global transport systems presents a huge investment opportunity, and some subsectors are still in the early stages, says **Priya Veerapen**, managing director at Infracapital*

Given the gigantic sustainability challenge facing the transport sector, it is no surprise that investors want to select their opportunities carefully. That typically means following companies throughout their lifecycles, and ultimately assessing whether they are at the right stage for infrastructure investment – and have the capability to rise to the occasion.

As the infrastructure equity arm of M&G, Infracapital invests across transport, energy and digital infrastructure, with strategies dedicated to both greenfield and brownfield assets.

According to Priya Veerapen, managing director in the greenfield team

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at Infracapital, this two-pronged approach helps the firm to make that careful selection and capture two different kinds of businesses: those that are operational and demonstrating established cashflows, and also those in need of capital-intensive growth support.

Q How big is the sustainability challenge - and the resulting opportunity set - in the transport sector?

From a macro perspective, transport contributes 25 percent of greenhouse gas emissions across Europe, and 20 percent globally. So we naturally view this as a very significant investment opportunity.

It is worth noting that the structure of the market is going to change as well. Who contributes which part of the value chain is largely yet to be determined. That turmoil and transition creates huge opportunity for investment.

We saw this trend very early, and our thesis of sustainable investment in transportation has been validated by where the market has gone in the

past few years – particularly in the road space, which contributes the vast majority of transport emissions.

For instance, in 2020, when we first invested in EV bus fleet provider Zenobe, there were questions as to whether the bus market was really going to take the electric route, or whether it would perhaps choose hydrogen instead. As it turns out, we are now on a clear path to the electrification of most of that subsector, as well as the electrification of cars and heavy goods vehicles as well.

Q What is the role of regulators in driving that change?

It is very important. Regulatory moves

such as the ‘Fit for 55’ reforms in Europe and the UK’s 2035 decarbonisation targets are signposting the overall direction of travel, such that it is vital for the investment community to keep the regulators’ activities in mind when developing their specific business cases. Very often our end goals are driven by regulatory signals, so regulators have a big role to play.

Having said that, the views of the different regulatory bodies are obviously not always harmonised and not always consistent. This can be difficult to navigate from an investment perspective, particularly when you are trying to select which subsector to focus on.

I think both the carrot and the stick are helpful with regards to what

regulators do. The sticks – the various penalties and fines – tend to come with more certainty, and they certainly lend some urgency to the discussion. But without some of the carrots – the subsidies and the revenue support mechanisms – a number of the decarbonisation technologies would not stack up.

There has obviously been some pushback against ESG regulations recently. Recent election results, and indeed electioneering, create volatility. But underneath this situation, there is overall clarity on where we are going. There is a path.

Q Which subsectors within transport are furthest along that path?

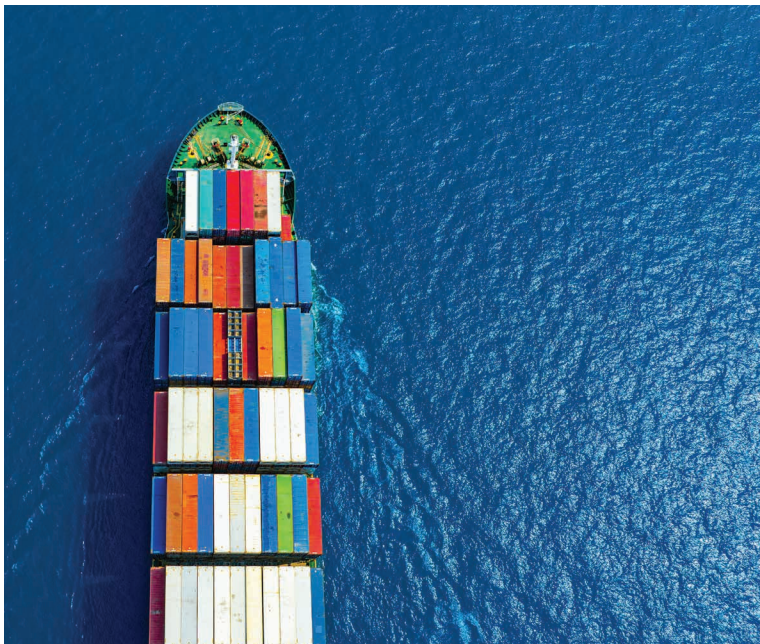
Overall, rail in Europe is ahead of other sectors. Something like 60 percent of the European network, which carries 80 percent of the passengers, is now electrified. And we have participated in that decarbonisation journey through GB Railfreight as it prepares to replace some of its diesel locomotives with bi-modals, and through our investments in all-electric rolling stock fleets in Germany.

By contrast, the shipping segment and aviation are still scratching the surface. Their route to decarbonisation is still not entirely clear. It is true there are a lot of discussions happening about sustainable aviation fuel (SAF), and the EU has put in place the SAF mandate which will drive some change in behaviour. But we have not invested anything yet in this area, even though we have received quite a few investment opportunities. The path is just not well established there.

By contrast, one sector that is advancing quickly is electric vehicles.

Q Are current EV charging opportunities attractive for investors?

I think there are going to be some winners and losers in the sector, and some smaller players may well struggle with capital raising.



Q What are the opportunities for investors in shipping?

It is a very big potential market, requiring investment of around \$1 trillion over the next 10 years. A few infrastructure investors have already invested in the shipping sector, but the scope has been quite narrow.

Finding investable opportunities is always a challenge. It can be tricky to find something that both fits the scale of your ambition and mitigates the residual risks involved. We have not yet made investments ourselves, but we are seeing more opportunities coming forward.

“The UK’s 2035 decarbonisation targets are signposting the overall direction of travel”

the opportunity to provide a retail offering alongside EV charging. It is all about that holistic offering.

The charging opportunity for heavy goods vehicles is vast as well. It may come to fruition more slowly than in cars, but ultimately when it does it is going to be a hugely significant market. Currently, less than 1 percent of all HGV fleet in Europe is electric. Again, I think it has become clearer in the past few years that the route that will be taken is battery electric. There is also potentially more opportunity for fleet-type arrangements.

Q Do investors have to be careful in assessing the new technologies behind these transport investment opportunities?

Absolutely. For instance, software as a service is clearly essential for some of the things that we are doing; EV charging being one area where software can actually be hugely beneficial to the customer experience. We want people to have easy access to charge their cars, and doing that requires sophisticated software.

However, we are cognisant of the fact that we are an infrastructure investor not a venture capitalist. A lot of what comes through the door is more speculative than we are comfortable with, because of the early stage of some of these technologies and sectors. They do not always fit with the infrastructure mandate.

Obviously, some technologies are established in the transport sector. The most obvious such technology is battery electric. We are comfortable with that technology. The issue is more a question of what the cost base is going to be.

We could probably get comfortable with some of the more established sustainable aviation fuel generation technologies, but alcohol-to-jet and power-to-liquid technologies are harder to be confident in at the moment given their maturity level and cost.

The sector is clearly going to move towards EVs, but doing so profitably is the challenge. For CPOs, I think you need really good locational advantage and an excellent customer experience in order to secure that sort of profitability. One of the other challenges is getting the power necessary and the delivery timescales right.

But if you know what you are doing, then the opportunities are good. We entered the sector quite early with our investment in Recharge in the Nordics from our brownfield strategy, where the market is ahead of elsewhere. This has given us the ability to look ahead and see how customer behaviours play out, and what sort of services customers are looking for.

One example of something that ticks all the boxes is wherever you have

“It is vital for the investment community to keep the regulators’ activities in mind”

Q How do you feel about the future?

The scale of the transformation required in transport provides a once-in-several-generations investment opportunity. Such an enormous change on a global scale is obviously a vast investment opportunity that will last for several decades.

We are still trying to understand exactly how it is going to play out in terms of the user’s behaviour. But as far as the infrastructure investment opportunity goes, the decarbonisation of industry and transportation are essential and therefore we are hugely excited about them. ■