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A lesson on RE from Orsted

Once the poster child for companies transitioning from hydrocarbon to renewable energy (RE), Denmark's Orsted A/S has fallen from grace due to rising costs, supply chain disruptions and a higher interest rate environment.

The company, which is the world's largest wind farm operator, has shed its workforce and withdrawn from crucial markets in Europe and the US. Its share price has also dropped — almost 70% — from its peak in 2021.

The fall in Orsted's fortune is a stark reminder that the RE industry is not an easy one. While investors are drawn to RE's thematic play and its role on the climate change agenda, the financials involved are often overlooked.

On the local front, RE has been very much a thematic play, generating several listings on Bursa Malaysia. These companies are mainly involved in solar farm construction and hydroelectric projects.

Many of the listed companies in the RE business have opted to raise funds by placing out shares. The proceeds from the placements complement bank borrowings. For the unlisted companies, the funds are largely internally generated.

But how many of the RE companies are really able to implement their operations? More importantly, how many of the projects eventually take off as per the construction schedule?

The rates for RE projects have been coming down, which makes the financing more difficult.

So far, the government has awarded four phases of the Large Scale Solar (LSS) scheme to companies. And the rates have dropped with each new phase. The lowest rate for the LSS4 bidding was 17.6 sen/kWh as opposed to 39 sen/kWh in LSS1.

The Orsted experience shows that RE projects are difficult to execute, even with government assistance, which brings us to the question of how many of those awarded LSS4 licences will see their project through?