

# Wind of change? Shell ventures into Africa by acquiring a Nigerian renewable energy producer

## Introduction

On the 28<sup>th</sup> of September 2022, Shell acquired the Nigerian-owned renewable energy company Daystar Power. This purchase represents a bold move for Shell since it is its first acquisition of a power company in Africa. This deal may be what Daystar Power needs to handle the recent surges in demand for electricity in Nigeria and neighbouring countries. The price at which Shell acquired Daystar Power's 32 MW generating capacity remains undisclosed and the deal is awaiting regulatory approval.

Shell and Daystar have been in talks since 2019 when Daystar tried secure funding. This has led to the acquisition talks in 2021 with the transaction concluding this September. Thomas Bromström, Shell's executive vice president for renewable generation, commented on the deal stating that "the deal marks [...] a fundamental step for Shell in growing our presence in emerging markets".

## About Shell

Shell Plc is a global group of energy and petrochemical companies that operates in over 70 countries with 82,000 employees as of December 31, 2021. Shell recorded revenues of \$261.5bn and a net income of \$20.6bn in 2021, compared to a loss of \$21.7bn in 2020. Most of the company's net income, \$9.7bn, is attributable to its "upstream" business which deals with the exploration, extraction, marketing and transportation of crude oil and natural gas.

Arguably, the coronavirus pandemic only underscored the risks associated with overreliance on oil prices as the main drivers of profit. Shell has since then rebranded its strategy towards an "Energy Transition", focusing on clean energy production. This approach not only works to offset the negative environmental impact that the company has had historically, but also diversifies the risks that Shell is exposed to. As energy consumption shifts from polluting fossil fuels and as governments begin to tighten regulation through carbon permits and other regulatory instruments, Shell believes that the fastest way in which it can minimise its adverse effects is by acquiring renewable energy companies globally.

Between 2010 and 2018 Shell was estimated to have invested just 1% of its long-term investments in sources of low-carbon energy, but 2022 has seen an increase to 12%. Despite this, Shell's planned emissions from 2018-2030 are estimated to account for 1.6% of the global carbon budget. Shell is remaining heavily reliant on oil products and gas which has prompted climate activists to criticize Shell's commitment to its strategic transformation.

## About Daystar Power

Daystar Power was founded in 2017 by Jasper Graf von Hardenberg and Christian Wessels. The company is present in four countries with over 300 power installations amounting to a total capacity of 32 MW. It primarily targets Nigerian and Ghanaian businesses which are looking to diversify their energy mix to reduce reliance on old, often dangerous, diesel generators.

One of Daystar Power's main clients is the Nigerian Bottling Company (NBC), which is the bottler of Coca-Cola and one of Nigeria's oldest and biggest manufacturers. Daystar has installed solar systems of over 10.5 MW capacity

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for them, making up 33% of Daystar's total capacity, and thus makes this one of the largest installed solar capacities among industrial manufacturers in Nigeria.

The company is split into two revenue-generating models, the first being Solar as a Service (SaaS). SaaS involves Daystar designing, installing, running and servicing a solar energy system that is tailored to a client's power needs. The clients, in exchange, pay a monthly tariff per kWh consumed just like retail consumers would for their utilities.

The other model, Power as a Service (PaaS), involves Daystar taking over and managing the client's entire (existing) power set-up, installing new solar, diesel or gas generators and selling this service for a flat monthly fee. The latter is more adaptable towards larger industrial clients and represents a procedure similar, but smaller in scale to that of a Power Purchase Agreement (PPA).

PPAs are fundamental for long-term return on investments in renewable energy as they ensure consistent revenue from the sales of a certain energy project which will over time amortise the investment. However, this exposes both parties to price volatility risk should the price of electricity fluctuate suddenly as it has done in 2022. Essentially it is an agreement that functions on the payoff between price volatility and guaranteed revenues and many companies placed 60% of their energy generation under PPAs.

Nonetheless, 2021 saw record volumes (6.9GW) of renewable energy contracted through PPAs in Europe, with most of the demand coming from ICT and heavy industries that are highly energy intensive. 2022, however, has seen energy prices soar because of gas shortages resulting from the ongoing conflict in Ukraine, which in return have caused PPA prices to rise 47% compared to last year. In Q2 alone, it is estimated that PPA prices soared 16% to €66.07/MWh of electricity according to the P25 Index (an aggregate of the lowest 25% of solar and wind PPA offers). Therefore, through their SaaS and PaaS strategy, Daystar is avoiding some of the risks that energy producers could be exposed to otherwise.

### **Strategic rationale**

Shell's "Energy Transition" strategy likely played a substantial role in completing the deal. The company has already acquired two other renewable companies during the last year, purchasing Sprng Energy's 2 GW of wind and solar assets located in India for \$1.55bn. Another recent transaction was the acquisition of US-based Savion, which has a pipeline of more than 18 GW of solar and energy storage projects, in December 2021.

However, this deal-making trend by Shell does not seem to be slowing down. The company announced in September 2022 that its current CEO, Ben van Beurden, will step down and make way for Wael Sawan, a Lebanese Canadian, long-time Shell employee, at the end of this year. According to Reuters, it is speculated that Sawan will likely accelerate the build-up of Shell's renewable portfolio, especially since it lags many of its petroleum counterparts in renewable energy generation capacity.

Prior to the acquisition of Sprng Energy, Shell held 1.1 GW of renewables in operation and 4.6 GW under construction, compared to BP's 6.4 GW in operation and TotalEnergies' 9.5 GW. One potential acquisition target could be the German utility company RWE, with a market cap of €28bn, but with Shell's seeming hesitancy towards acquiring large energy companies, especially ones that have a nuclear power division, it seems unlikely.

Yet, not only Shell's refreshed strategy is the reason behind the acquisition of Daystar. Africa is a highly lucrative market for energy investment at this moment. The continent's energy industry is fast growing and is forecast to have strong prospects. This is because energy demand in industry, freight and agriculture is forecast to grow by almost 40% by 2030. In addition, Africa is home to 60% of the best solar resources globally thanks to its equatorial exposure to daylight, but only makes up 1% of the installed Solar PV (photovoltaic) capacity.

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The transaction may also make sense for Daystar since its management has stated that they want to expand its product offer in Eastern and Southern Africa and target a 400 MW capacity by 2025. Considering that this would mark an 1150% increase from current capacity in a period of only 3 years, Daystar will require extensive funding if it is serious about achieving the stated goal. Therefore, Shell's reportedly earmarked \$2-3bn budget for renewable energy investments should provide the company with the much-needed capital to expand in the African market and work on larger projects and is likely the fundamental reason for the acquisition.

### **Deal structure**

Following the announcement of the deal, the only details given by the acquiring company were that the transaction was worth significantly less than the previous acquisition of Indian group Sprng Energy back in April, for \$1.55bn. Sprng Energy is a comparable company, that has however a much higher installed generating capacity of about 2 GWs, 62.5 times higher than the 32 MWs boasted by its Nigerian counterpart.

Another indicator of the value is the aforementioned \$2-3bn in capital expenditure allocated by Shell for renewable energy solutions in 2022. Lastly, it is important to note that since its creation in 2017, Daystar Power has raised \$92mn in funding, including a \$20mn loan from International Finance Corp last year. These factors confirm Shell's statement regarding the much lower value of this deal compared to previous ones in the same sector, probably in the low hundreds of millions of dollars.

The deal is still pending regulatory approval, and if it goes through, Shell will fully own Daystar, but will leave current CEO, Jasper Graf von Hardenberg, in charge of the company.

### **Outlook for Shell**

The acquisition of Daystar Power is part of a broader plan for Shell to expand its global renewables portfolio and move away from fossil fuels and to more sustainable energy sources. Shell is aiming to fully divest its oil assets by 2050 and continue to further fund its energy transition, targeting companies focused on renewable energy. That will likely pose a significant challenge for Wael Sawan, the newly appointed CEO, given Shell's renewables and energy solutions division accounted for a mere 6% of company earnings in Q2 2022.

Arguably, the Daystar Power deal could mean that Shell will be focusing its acquisitions on Africa. Renewable energy will likely be transformative for the continent, as recent studies show that 43% of the population lack access to electricity. This also comes as countries are facing soaring diesel costs, as high as a 200% YoY increase in Nigeria. Shell could speculate the demand for an alternative source of energy at a time when the world is moving towards greener sources and direct the majority of its allocated funds towards renewable energy funds in Africa.

The acquisition also signals that the company's relationship with the Nigerian government has improved, after van Beurden admitted back in 2019 that scandals, security issues, sabotage and crude oil theft represented significant challenges for the company in the Niger Delta. Large scandals involving oil spills such as the one in Ogoniland, a community in Nigeria, in 2019 that culminated with the hanging of Nigerian environmental activist Ken-Saro Wiwa by the military regime for protesting oil pollution seriously hampered Shell's relationship with the Nigerian government and people. The acquisition of Daystar Power looks like it put an end to that. Shell also has visibility elsewhere in Africa, with interest in Algeria, Mauritania, Namibia, São Tomé and Príncipe, South Africa and Tunisia.

One of Shell's 4 main business activities, 'Integrated Gas', includes the subcategory 'New Energies', which was rebranded by the company in 2021 as 'Renewables and Energy Solutions', clearly indicating a shift in focus on this

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business segment. Daystar's acquisition represents a visible proof. The business segment was also the company's second most profitable in 2021, after 'Oil Products', which reported revenues of \$60.3bn in 2021, at a CAGR of 64.3%. Meanwhile, the 'Oil Products' business segment has seen a YoY increase in sales for the first time last year since 2018, mostly due to the slowdown of the coronavirus pandemic. This clearly indicates a redistribution of revenues within Shell's business segments, in line with its 'net-zero' commitment by 2050. With the company aiming for a full divestment of its highly pollutant assets by 2050, a lot more activity is expected to be coming from the company's headquarters.

## **Outlook for Daystar**

After the deal was announced, Daystar CEO Jasper Graf von Hardenberg said that his company was aiming for another round of capital raising after the demand for its services grew recently, but decided to go ahead with the sale to Shell, due to its strong balance sheet and "strong history in Africa". Local communities in Nigeria that were affected by oil spills caused by Shell might argue against the latter reason.

With Handenberg staying on board even after the takeover, together with co-founder Christian Wells, the pair are planning an ambitious expansion across Africa in the next years. Handenberg outlined a strategy focused on geographical expansion and increasing its production capacity. Daystar Power currently provides solar and hybrid power solutions to commercial and industrial clients in Ghana, Nigeria, Senegal and Togo, aiming to expand across east and southern Africa. This plan comes along with the aim of taking its current production capacity of 32 MW to 400 MW by 2025.

## **Conclusion**

With the movement of companies and governments towards cleaner energy intensifying, Shell will continue to allocate billions to acquisitions of companies in the renewable sector. The deal for Daystar Power represents a turning point for the company, despite being small compared to past deals done by the British-Dutch oil and energy giant, as it signals an easing of tensions between African governments and Shell and could well be a precedent for many deals to come.

The truth is the continent is in need of energy solutions and Shell needs to expand its portfolio of renewable energy from 6% to 100% by 2050. If until now the main barrier was political and humanitarian, now it seems that there are little challenges faced by the company. Keep an eye on Africa.

TAGS: Shell, Daystar, Nigeria, renewables, low carbon energy, deal

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