A European ecosystem

Continental solar ABS is primed for growth as governments and consumers seek energy independence. **Kenny Wastell** reports.

Europe could soon see its first public solar securitisation, after renewable energy firm Enpal announced a €356m warehousing facility to finance more than 12,500 photovoltaic (PV) systems in Germany *(SCI 30 March)*. The continent's solar ABS market has lagged significantly behind the US, but macroeconomic and geopolitical conditions appear to have jump-started activity in the fledgling asset class.

According to recent KBRA figures, the US solar ABS market grew from US$1.4bn total issuance in 2016 to US$8.6bn in 2022. Europe, by comparison, is yet to see its first publicly placed solar ABS deal.

"There has been a lot of talk that this year will be the year where we see the first public solar ABS deal in Europe," says Andrew South, EMEA head of structured finance research at S&P. "There is still some debate as to what the financing product is, in terms of lease versus loan. But from a rating perspective, because we rate deals in the US market, we could rate deals when they do start appearing in Europe."

Enpal's warehousing deal was announced at the end of March and consists of a €300m senior debt commitment from Citi, alongside a €56m mezzanine commitment from M&G. At the time of the announcement, the trio hailed the development as the launch of a "new asset class" on the continent.

"In Europe, there has been a lack of business models like you see in the US, where dedicated solar financing companies work alongside solar installers," says Béla Schramm, a senior investment manager focused on financing and

Andrew South, S&P

refinancing at Enpal. "That's partially because the solar market in Europe as a whole has historically been incredibly fragmented. It is only now that we are beginning to see consolidation happening, with players that are big enough to originate receivables at scale."

South says much of this can be directly attributed to Europe's multinational and multi-jurisdiction nature. He highlights that this creates challenges in terms of ensuring there is enough underlying lending to support securitisation in a new asset class.

"Hypothetically, for a lender funding installations across the eurozone, it would be tricky to securitise those loans from multiple countries in a single transaction," says South. "But if you are restricted to one country, you have a different challenge of reaching critical mass to make a securitisation worthwhile."

Within Germany itself, the installation of PV systems has been primarily funded by local savings banks to date, explains Dietmar Helms, a structured finance-focused partner at Hogan Lovells. A homeowner would typically add this financing to their existing mortgage. This, he says, means solar credits end up on the books of financial institutions without sufficient volumes to justify securitisation.

"The market was also too fragmented on the installation side," says Helms. "Solar panels used to be installed by local companies that would just operate in their municipality. They cannot install a sufficient number of devices to also generate a large enough portfolio."

He adds: "That has only become viable with players such as Enpal. There are a couple of other followers using the same business model, so we will see more deals in the market over the next year or so."

"THIS IS A DEEP AND FUNDAMENTAL DRIVE THAT PEOPLE HAVE – TO DECREASE THEIR EXPOSURE TO WHAT IS HAPPENING OUT THERE IN THE WORLD"

To combat geographic fragmentation and accelerate Europe's transition towards renewables, the European Commission introduced its REPowerEU programme in May 2022. The programme provides a framework through which the bloc can collectively tackle climate change while "ending [its] dependence on Russian fossil fuels".

As part of this, the EU is aiming to more than double the current level of solar PV by 2025 with the addition of 320 gigawatts of capacity. A total of 600 gigawatts are to be added by 2030.

REPowerEU presents a unique opportunity for the European securitisation market, according to a recent S&P report. It notes that solar PV system rollouts are being driven in part by regulations, subsidies and tax incentives introduced by individual European governments.

They are also being partially financed by leasing models, whereby infrastructure investors fund the rollout of PV systems that are then rented by individual homeowners. Yet a scaled-up loan model – and by extension, potential ABS market – will grant access to a far wider range of investors with deep pockets, S&P says.

This theory appears to be supported by Enpal's growth strategy. Prior to starting its securitisation programme, the firm adopted a leasing model for the rollout of PV systems to its customers. Schramm says Enpal has raised more than €1bn to date in long-dated project financing primarily from infrastructure investors to support this.

"As we began scaling our business rapidly a couple of years ago, we started thinking about securitisation alongside leasing to tap into deeper markets and set up a scalable solution," he explains. "We obviously saw the US market, where growth has been driven by business models that use securitisation to raise and provide capital for solar customers."

From a customer's perspective, Helms believes the loan model is ideal for the installation of solar PV. The large upfront cost, offset by reliable long-term monthly savings on energy bills, makes lending the most straightforward and logical approach, he says. Furthermore, the fact that panels are physically installed on properties makes leasing or rental models less appropriate compared with other sectors such as auto agreements.

"A rental is really more suited to something you want to return after a period of time," says Helms. "You don't really want to remove solar

Dietmar Helms, Hogan Lovells

panels after a few years. The financing and its structuring is also more complicated for rental models. It is more like a project financing type of structure. A lending model is easier, it is probably more robust and you have a much larger group of banks that can invest in these products."

The geopolitical motivations behind Europe's drive for solar have been global headline news since Russia's invasion of Ukraine began in February 2022. While the move towards renewable energy was already well underway in many countries prior to the invasion, the resulting surge in gas prices has acted as a catalyst.

Schramm says the three key motivations behind consumer adoption of solar PV are its long-term cost efficiencies, ethical and ecological considerations, and a desire for energy independence. The third of these, he says, may be the most important.

"This is a deep and fundamental drive that people have – to decrease their exposure to what is happening out there in the world," says Schramm. "It spans across all political affiliations and has been reinforced by the war in Ukraine. Renewable energy and independence are no longer just for those who want to do something positive for the environment."

In December, wholesale European gas prices fell to pre-invasion levels for the first time. This was due to a combination of milder-than-anticipated early winter weather and new agreements struck with alternative, non-Russian suppliers. Nevertheless, across Europe as a whole, the impact of the initial price surge is still being felt.

"It makes sense that high energy prices would push consumers more towards renewables," says South. "What is striking is that, though inflation and the energy contribution to inflation are both heading downwards, they are not negative. Energy prices that jumped significantly a year ago are still up, for consumers at least. It is just that prices have flattened off at that higher level."

possible sources of green securitisation."

For Helms, electric vehicle charging and heat pumps will be two key areas of growth for green securitisation, in Germany at least. "There is likely to be a law in Germany that will forbid people from installing gas heating in their houses in the near future," he says. "The energy companies are investing heavily and setting up factories in response to a shortage of supply in heat pumps and increased demand. Securitisation will play a large role in that, most likely all across Europe."

Indeed, while Enpal's deal can only be welcomed as a significant step in the right direction,

> "EVEN BEFORE THE WAR IN UKRAINE STARTED LAST YEAR, THERE WAS ALREADY A LOT OF DISCUSSION ABOUT GREEN AND SOCIAL SECURITISATION IN THE EUROPEAN MARKET"

The EU, and western Europe as a whole, will hope that a sustained acceleration of the transition towards net zero will be one positive development to emerge from the tragedy of Ukraine. With a growth in borrowing for long-term investment at both a consumer and commercial level, the green securitisation space should theoretically – and finally – see rapid growth.

"Even before the war in Ukraine started last year, there was already a lot of discussion about green and social securitisation in the European market," says South. "There was plenty of debate about what has to be done for a deal to be legitimately labelled as 'green', for example. Loans secured on electric vehicles, mortgages backed by energy-efficient properties in RMBS and of course financing of solar PV installations are all

it will require developments in multiple European countries before the continent is able to catch up with the green ABS market in the US. "Our hope is that this develops into a true [solar ABS] ecosystem," Schramm concludes. "The investor interest is definitely there. Investors have really ambitious goals when it comes to green assets, but the number of assets out there is actually pretty limited."

*SCI's Premium Content offers regular in-depth analysis of trends and developments across the securitisation market, in addition to our usual news output. To upgrade your subscription to access all Premium Content for a year or for further information, email **ta@structuredcreditinvestor.com**.*