Tortoise QuickTake
Sustainable Infrastructure Podcast

Tortoise

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Welcome to the Tortoise QuickTake podcast. Thank you for joining us. Today, Tortoise provides a timely update on trending topics in the market.

Hello, I'm, Matt Breidert, Senior Portfolio Manager at Tortoise in London. I've recently attended the 2019 PowerGen Asia/Asia Utility Week annual industry conference with over 10,000 delegates from 60+ countries, held this year in Kuala Lumpur, Malaysia.

The key theme of this year's conference related to "Energy Transition" and how Asian regulators, utilities and technology vendors are adjusting to the rapid changes underway within power markets, particularly related to sustainability issues, while maintaining adequate resources for robust power demand growth.

I'll identify three key takeaways that have relevance to investors.

The first is that while coal isn't 'over' yet in Asia, it's rapidly being de-emphasized as an option for the future. Numerous speakers identified several issues making new coal capacity development difficult or even untenable - marking an enormous shift from the conference just two years ago where coal was expected to be the leading fuel source for future power development in Southeast Asia.

The problem issues for new coal include:

- Lack of depth of financing options, largely due to many Western and multi-national banks, insurers and even direct investors like pension funds and development agencies pulling out of the thermal coal and coal power- related markets. This relates primarily to sustainability initiatives by financial institutions, many of whom are signatories to 'UNPRI' which relates to the UN's Principles for Responsible Investing.

- Pushback from regional populations - in some cases against their own government - who don't want localized air emission pollution. High profile campaigns against coal plant siting in Krabi, central Thailand and Ho Chi Minh City in Southern Vietnam in the past 12-18 months have had a radiating impact to other regulatory jurisdictions around Southeast Asia.

- Waning cost competitiveness. Between exceptionally low Asian LNG prices (and visibility to attractive long-term gas prices) and surging renewable development at or below current grid cost parity, the long-term cost/benefit of coal has slipped sharply.

- And the new one: large scale electricity customers in Southeast Asia are starting to insist on access to lower carbon footprints in their supply chains, in particular power, in order to commit capital expenditures in manufacturing. In a recent meeting between Western listed multi-national corporations with the government of Vietnam, these manufacturers explained the necessity of lower carbon options for their business practices and sustainability measures, which in some cases relate to their own binding shareholder resolutions on sustainability goals. Nothing captures the attention of government officials quite like the risk of losing manufacturing and jobs to regional competitors because you built a bunch of coal plants. Vietnam is likely now pivoting sharply towards LNG imports and gas-fired power and renewables to power their future electricity needs, which are acute as power demand growth has clocked in at close to 8% in recent years.

The second main takeaway is that electricity demand growth in Southeast Asia remains hot. Driven by a confluence of continued manufacturing growth, large scale building development, growing air conditioning penetration and population growth, the over 4 billion inhabitants of the broader Asian-Pacific region are experiencing 3-8% annualized growth in power demand. And while renewables surely have a rapidly growing role to play, centralized grids will continue to rely on baseload needs for a large portion of this organic power demand growth. This is especially true as Southeast Asia has higher off-peak demand than in the OECD due in part to prevailing climate conditions.

Third, electricity is taking market share inside of 'energy' mix overall within Southeast Asia, much as it is globally. This is seen within many industrial activities which are cheaper and less polluting using electricity from precision manufacturing, making steel to even mining. Electricity systems are highly controllable and offer discrete measurement and application in ways that thermal energy cannot. The advantages include immediate availability, enhanced monitoring and remote control application, as well as enhanced torque-to-weight ratios for power robotic alternatives vs pneumatics. Unsurprisingly, new factories are getting the most modern bells and whistles on technology—and its almost all electricity-related now.

Lastly on this 'electricity wins' angle in Southeast Asia, while not a first mover market for electric vehicles, there are nascent signs of new activity and support by governments who want to participate in the rapid technology trend change and/or protect their domestic auto manufacturing industries, where global auto OEMs are clearly pivoting towards EV platform technology in the years ahead. This will drive further electricity demand from both a lower electric grid capacity base in place today as well as faster growth in auto sales than almost anywhere in the world.

Well that's it for today. Thank you for joining us. And stay tuned for our next cast.

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