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Japan oil giant ENEOS to buy renewables startup for $1.7bn

Nikkei staff writers

TOKYO -- Japanese oil giant Eneos Holdings is preparing to acquire Tokyo-based Japan Renewable Energy for over 200 billion yen ($1.7 billion), Nikkei has learned, a move that shows the pressure companies are under to act on climate change and decarbonize.

Eneos will purchase all shares from the startup's owners, Goldman Sachs of the U.S. and GIC, a Singapore sovereign wealth fund. The oil company is hammering out details with Goldman and plans to make an announcement as early as next week.

This will mark the first major acquisition of a big renewable energy company by an established Japanese oil wholesaler.

A spokesperson for Eneos told Nikkei, "We have not made any decision regarding an acquisition. We are considering a variety of options to expand our renewable energy business. It is true that we are conducting various studies, including the acquisition of Japan Renewable Energy."

JRE, established in 2012, focuses on operating solar, wind and biomass power plants. It has around 60 such plants in Japan and Taiwan.

The company's total output is about 880,000 kW, including power plants still under development, similar to an average nuclear power plant.

The startup is a subsidiary under a holding company jointly owned by Goldman and GIC. Eneos will make JRE a subsidiary.

According to Tokyo Shoko Research, JRE logged 3.6 billion yen in revenue and 678 million yen in net profit for 2020.

Eneos will pour a massive amount of cash into the acquisition in a bid to accelerate its shift away from its oil-reliant business model. It expects to leverage JRE's expertise in offshore wind power, and take in the rights and interests that come with the business.

The Japanese government has set a target of 45 gigawatts of installed offshore wind power by 2040. It considers offshore wind farms crucial to the country's bid to make renewables the main power source.

Wind speeds tend to be stronger and steadier offshore. Considering Japan is an archipelago, the development of offshore wind farms is indispensable to increasing renewable energy supplies.

However, the government must designate areas where offshore wind stations can be promoted, and negotiations with local fishermen tend to take time. As a result, the country has almost no commercial wind farms.

JRE has already started developing offshore wind power plants in prefectures such as Nagasaki and Akita. It is planning to expand to Hokkaido, Japan's northernmost main island. With investments from Goldman, JRE has been able to make a head start in a business that is gearing up for the widespread use of offshore wind power after 2030.

Eneos believes that acquiring JRE will help the oil giant make a quicker entry into the market and keep it from having to develop offshore wind power on its own.

A number of local and foreign companies have approached JRE with buyout offers. In some cases, negotiations ensued. It is likely that Goldman made the final decision after taking into account how much Eneos was willing to pay and the potential synergy between Eneos and JRE.

The oil company set a goal in its midterm business plan to invest 400 billion yen in renewables through March 2023. The purchase of JRE will account for almost half the target.

In June, Eneos announced it would issue 300 billion yen in corporate bonds to expand its investments in renewables, especially as domestic demand for oil declines.

The company will use the JRE acquisition as leverage to accelerate its move into renewables and prepare for an era of great competition as the world shifts toward decarbonization.

Mergers among and acquisitions of renewable energy-related companies are on the rise.

In 2020, Chubu Electric Power and trading house Mitsubishi Corp. bought Dutch energy company Eneco for 500 billion yen. Japanese leasing company Orix has decided to acquire Spain's Elawan Energy for 100 billion yen.