

Dragon Power woos private equity

Biofuel company seeks US\$300m before US\$2b initial public offering

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Dragon Power, a Beijing-based company that generates power from biofuel, is seeking as much as US\$300 million from private equity investors in the run-up to an initial public offering from which it hopes to raise up to US\$2 billion, sources say. The latest private capital injection would take to US\$450 million the amount the company has raised from overseas in the past year.

United States investment bank Citi invested US\$150 million in Dragon Power last year.

Dragon Power burns agricultural waste products to generate electricity. It declined to comment on the equity injection. Part of the company's attraction to investors is a distribution agreement it has with State Grid, the owner of the mainland's largest electricity transmission network.

The nation's power grids were required to buy all available power generated from alternative sources starting in September last year. The government plans to have 16 per cent of electricity supply generated by renewable sources by 2020, at an investment cost of US\$198 billion.

Coal contributes to 78 per cent of all electricity made on the mainland.

Private equity and hedge funds have targeted alternative energy firms in the hope of generating outsized returns as institutional funds and retail investors rally to solar, wind and biofuel stocks in the age of US\$100 per barrel oil. The value of US hedge fund Tiger Global Management's 12.6 per cent pre-listing stake in Gushan Environmental Energy, the largest biodiesel maker on the mainland, has doubled, according to a source.

Gushan Environmental raised US\$144 million last month from an initial public offering in the US and its shares have since risen 9.3 per cent. Gushan Environmental uses waste oil from oilseed crushers and recycled cooking oils as its main energy source.

Bioenergy companies risk becoming a victim of their own success as demand for fuel sources pushes up prices. "In the agricultural market right now, whether corn, sugar, soybean or animal fat, everything is tight," said Ian Horowitz, biofuels analyst at New York-based Soleil Securities. "They really have put in a new demand curve and the more successful the sector gets the tougher it will be."

Competition comes from the cosmetics industry, industrial applications such as hydraulic fluids, and pharmaceutical companies looking to smooth out cough syrups or make capsules easier to swallow. US prices for agricultural waste have more than doubled over the last couple of years while on the mainland prices have risen between 40 and 50 per cent. The country's biodiesel market will produce 300,000 million tonnes of fuel this year, but that represents only 0.25 per cent of the nation's total demand for oil and oil-based products. However, the National Development and Reform Commission says the country's annual biodiesel output could hit 2.5 million tonnes by 2010.

Source: South China Morning Post – January 14, 2007