

## **Exclusive interview: Prostar Capital - Spotlight on Korean midstream energy opportunity**

Mid-market energy and infrastructure investor, Prostar Capital talks to FinanceAsia about the allure of the Korean market and why the midstream energy space remains attractive as nations target net-zero carbon emissions.



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Established in 2012, Connecticut-headquartered fund manager, Prostar Capital has a growing Asian presence, with offices in Hong Kong and Sydney, as well as boots on the ground in Singapore, Canberra and Seoul.

Writing tickets of around \$50-150 million in equity per investment, its Asia-focussed funds consider opportunities that aid energy transfer, storage and distribution to the demand-heavy Asia Pacific region, focussing effort around key trading and logistics hubs in APAC, Europe, the US, Gulf Coast, and the Middle East.

Led by senior managing directors Dave Noakes and Steve Bickerton (pictured), this summer, Prostar announced two new appointments.

## Expansion in Korea

In June, the company nominated Seoul-based In Ku Kang as a new operating partner, with the aim to add to Prostar's existing footprint in Korea, while in July, James Choi, former Australian ambassador to Korea joined the team in Canberra as senior advisor, to help source clean energy investment opportunities in the region. Choi is working exclusively with Prostar Capital in the private equity infrastructure investment space.

The team hopes to draw upon the new partnerships to gain unique access to market insights and trading patterns in Korea, that will allow them to have a view of the trends that will shape investment opportunity to come.

The news marks additional capacity in the region. In 2011, Prostar joined forces with SK Group, the largest energy company in Korea and third largest in Asia, and in 2017, the partners invested jointly in a gas gathering business in the US – Eureka Midstream – a facility that processes and delivers liquid natural gas (LNG) back to Korea.

Noakes spoke to *FA* about the firm's strong interest in Korea, "Korea has been an investment focus for Prostar for more than a decade, given it's an OECD country with growing GDP and energy usage, as well as a stable political and regulatory regime. Our current investment portfolio includes Kyungnam Energy, the largest independent city gas business in Korea, which we acquired in 2017, and we're currently looking at an investment pipeline of more than \$500 million in proprietary deals in Korea."

Noakes explained that to thrive in the region, it is necessary to cultivate local relationships and have a strong understanding of the local regulatory framework. "The ability to tap into industry and government at the highest levels throughout the region helps facilitate Prostar's investments."

The firm's second fund, Prostar Energy Infrastructure Fund II launched at the start of 2019, and continues the strategy of its predecessor, the Prostar Asia-Pacific Energy Infrastructure Fund, which achieved a final close in 2016 of \$750 million in fund and co-investment capital. The first fund is largely fully-invested, with some remaining capital to deploy.

The new vehicle targets a \$750 million raise and aims to make controlling and influential minority equity investments in middle-market energy infrastructure assets and operating companies. While it focuses on midstream, storage and energy distribution infrastructure, the fund also considers renewable energy assets.

Currently, the second fund has commitments from the Washington State Investment Board (WSIB) and the New Mexico Educational Retirement Board (NMERB).

"Given South Korea's focus on accelerating its energy transition to a low-carbon future,

we're particularly focused on the opportunities within the natural gas and clean energy space", Noakes detailed.

### **Hopes for hydrogen**

One form of clean energy that is gaining traction and that the new fund will consider, is hydrogen. Noakes hopes to draw on Choi's experience in the sector and the influential role he played in leading the Australian Government's efforts to establish a hydrogen supply chain with Korea, transforming the two countries' bilateral energy partnership.

"We see hydrogen fuel cells (HFC) as one of the most promising sectors of clean energy investment within Korea. The country is a leader in advanced hydrogen fuel cell technology and it's an area that's a top priority for the government... Changwon, where Kyungnam Energy is headquartered, is a 'model' city for hydrogen within Korea and is leading the way, having built the first hydrogen production facility for public usage (next door to Kyungnam Energy). "

Noakes explained that green HFC – produced through electricity generated from renewable sources, thus not incurring carbon emissions - is compelling to the Prostar team as there is opportunity to source green hydrogen at scale and at competitive prices. "From an investor perspective, HFC has many attractive characteristics including high barriers to entry given gas is the feedstock which requires an established gas supply and grid connection."

### **Asia leading energy-demand**

While past months have seen the energy market succumb to price volatility and uncertainty, Noakes is determinedly optimistic. "We believe that this is a great time to be investing in midstream energy infrastructure, particularly in Asia and particularly tied to energy transition opportunities."

He explained that transition to zero carbon emissions will not be a simple one and patience is key. "It's simply not a reality that we will be in a position any time soon to meet even the growth in global energy demand, let alone all existing global energy demand, purely from renewables. Natural gas will be the key transition fuel, certainly in Asia, that will allow countries to transition to achieve net zero carbon emissions in the quickest timeframe, displacing more polluting fuels like coal."

While the differences in energy investment requirements across the Asian region vary, they are closely tied to stages of economic development and growing energy demand, with each nation having its own approach, in line with its local regulatory framework.

Noakes detailed that Korea is a prime example of progress in terms of energy transition. "The country is targeting to double LNG usage through 2034, displacing coal and

nuclear as energy sources. At the same time, renewable and other clean energy sources like hydrogen fuel cell and solar will continue to grow in importance.”

As Asia continues to lead in energy consumption growth – it is expected to represent two-thirds of global energy demand growth through to 2050 - the region is also forecasted to account for 50% of global GDP in the next two decades, explained Noakes. “We see the best investment opportunity at the moment to be in Asia, in clean energy and natural gas where the rising energy demand shows that such infrastructure will remain critical and necessary for many decades to come.”

### **Strategic partnerships aiding emissions targets**

The team has a number of additional, existing strategic partnerships located at other key logistic supply hubs. In 2013, Prostar teamed up with China’s Sinopec in a joint venture to invest in a bulk liquid storage terminal, which sees more than half of the off- take contract go directly to China. In the UAE, Prostar is invested in two bulk liquid storage facilities in the Port of Fujairah, one of which was invested alongside its Chinese partner.

Noakes noted, “these facilities are among the best in the Port, and service our customers as efficiently and sustainably as possible. For example, we estimate that we have reduced more than 220,000 MT of sulphur emissions annually through our development of IMO 2020 compliant infrastructure...We are inherently involved in a global industry, and in facilitating the transit of energy supply to areas of energy demand, as cleanly and efficiently as possible.”

With partners and investors having made an almost seamless transition to the “new normal” of virtual working and due diligence, the Prostar team is buoyant about projected opportunity in coming months.

“The pandemic has shown us that while an understanding of local dynamics and a track record in the region is a pre-requisite, a great deal of progress can still take place in a virtual environment. While we anticipate a return eventually to in-person settings, particularly from a due-diligence perspective, investors may not need to be on flights as often as prior to the pandemic.”

The Prostar team detailed that so far in the first half of 2021, the pace of investor capital commitments has been strong. Noakes noted, “the private capital world is seeing an enormous volume of deal flow and transaction activity, with more expected on the horizon.”

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