

Headline	TNBs gets buy call on UK solar venture		
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TNB's gets buy call on UK solar venture

PETALING JAYA — Tenaga Nasional Bhd (TNB) has entered into a subscription and funding agreement with Beaufort (wholly owned by EFG Hermes) to subscribe for new equity shares in Vortex Solar Investments (Vortex) in the UK.

The move prompted a “buy” call from Hong Leong Investment Bank Research (HLIB Research) yesterday.

The agreement represents a 50% equity interest in Vortex on a fully diluted basis, for a total cash consideration of 86 million pounds (RM480 million).

The share subscription is in line with TNB's five-year International Expansion Roadmap, to further increase its international power generation capacity post its recent completion in the acquisition of 30% stake in GAMA Enerji (Turkey) for US\$255 million (RM1.0 billion) and 30% stake in GMR Energy (India) for US\$300 million (RM1.2 billion).

In turn, Vortex will acquire Terraform UK2 and Terraform UK3 (from SunEdison Yieldco), which both have certain interest of solar photovoltaic project companies that own and operate 24 solar photovoltaic farms in UK with a combined net installed capacity of about 365MW (182MW attributable to TNB).

“The portfolio of assets acquired is young with average age of two years with an estimated useful life of 30 years. The assets are backed by 15-year power purchase agreements with creditworthy off-takers

and supported by Renewable Obligation Certificates accreditation for 20 years.

“We are positive on the share subscription exercise, which will further enlarge and diversify TNB's international energy portfolio and improve its international energy exposure. The transaction is expected to be completed by the 3Q17 and will be immediately earnings accretive,” said HLIB Research.

The acquisition marks TNB's foray into the UK renewable energy market and potentially future expansion. It also serves as a platform for TNB to acquire knowledge and experience in renewable energy technology and best practices.

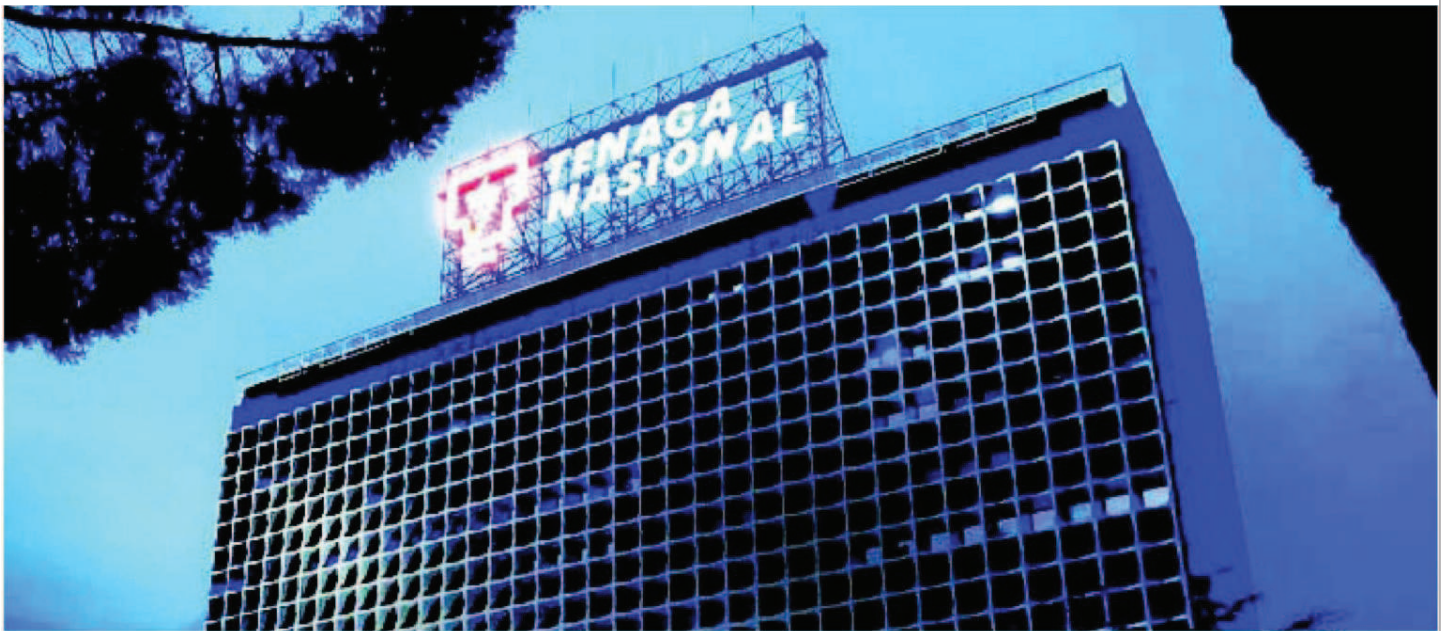
TNB's earnings and cash flow are expected to be stable due to the implementation of the Incentive-Based Regulation (IBR)/ fuel cost pass-through mechanism (FCPT) mechanisms.

The expected IBR revision to lower return on regulated assets by 2018 will be offset by new contributions from associates and power plants.

“We maintain ‘buy’ with unchanged target price of RM17.50. We remain positive on TNB's long term growth and strong cash flow.

“The recent announced change in dividend policy has reinforced our ‘buy’ recommendation on higher dividend payout as part of TNB's capital restructuring exercise. Shareholders stand receive higher dividend yields of up to 5% (vs. historical 2-3%),” HLIB Research said.

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The Vortex subscription marks TNB's foray into the UK renewable energy market. — Picture by Tenaga Nasional Bhd