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TNB unit acquires 50% of Vortex Solar for £86m

Tenaga Nasional Bhd
(Jan 9, RM13.92)

Maintain outperform with an unchanged target price (TP) of RM16.16: Tenaga Nasional Bhd (TNB) has announced that its wholly-owned subsidiary TNB International Sdn Bhd (TNBI) had entered into a subscription and funding agreement with Beaufort Investments Sarl to acquire a 50% stake in Vortex Solar Investments Sarl for a total cash consideration of £86 million (RM468.51 million).

The assets that will be acquired by Vortex Solar UK Ltd have an installed capacity of 365mw of solar photovoltaic (PV) projects. Combined with its existing portfolio of 70mw in Turkey and India, the deal will increase TNB's net capacity in renewable energy (RE) by 182mw (50%-shareholding) to 252mw.

Pending various regulatory ap-

provals from Malaysia, Luxembourg and Britain and detailed disclosure of the transactions by third quarter of calendar year 2017, we maintain our earnings forecasts at this juncture though we think eventual contributions are not likely to be very significant. We like TNB for its undemanding valuations, trading at a forward private equity of 11 times. We maintain our "outperform" call with an unchanged TP of RM16.16.

In terms of proposed subscription agreement, Beaufort is a private limited company in Luxembourg, a wholly-owned subsidiary of EFG Hermes Holding, a leading financial institution in the Middle East and North Africa regions. TNBI and Beaufort will subscribe for 50% equity interest each in Vortex Solar for £86 million. Whereas, Vortex Solar is a special purpose vehicle company that was formed to finance the

Tenaga Nasional Bhd

| FYE AUG (RM MIL) | 2015A | 2016A | 2017F | 2018F | 2019F | CAGR (%) |
|--------------------|----------|----------|----------|----------|----------|----------|
| Revenue | 43,286.8 | 44,531.5 | 47,027.7 | 48,065.0 | 49,129.6 | 3.2 |
| Operating profit | 8,627.6 | 9,072.0 | 9,157.8 | 9,217.0 | 9,601.7 | 2.7 |
| Pre-tax profit | 7,133.7 | 8,066.8 | 8,100.2 | 8,220.9 | 8,684.6 | 5.0 |
| Net profit* | 6,118.4 | 7,367.6 | 7,137.3 | 7,225.5 | 6,886.1 | 3.0 |
| EPS (Sen) | 108.4 | 130.5 | 126.5 | 128.0 | 122.0 | 3.0 |
| PER (x) | 12.9 | 10.7 | 11.0 | 10.9 | 11.4 | |
| DPS (Sen) | 29.0 | 32.0 | 50.6 | 51.2 | 48.8 | |
| Dividend yield (%) | 2.1 | 2.3 | 3.6 | 3.7 | 3.5 | |

*Forecast excludes forex gains/loss

** Lower effective tax rate until FY18 due to tax allowance and will be normalised back in FY19

Sources: Company, PublicInvest Research estimates

acquisition by Vortex Solar UK, an indirect wholly-owned subsidiary.

In addition, Vortex Solar UK will acquire 100% stake in TerraForm UK 2 Intermediate Holdings Ltd and TerraForm UK 3 Intermediate Holdings Ltd from SunEdison Yieldco UK

HoldCo2 LLC, and redeem a loan note extended to the companies.

Upon completion, TNB has the right to nominate four directors to the board of Vortex Solar, of whom two have to be Luxembourg residents. There are no other liabilities

to be assumed by TNB guaranteeing Beaufort for the performance by TNBI.

Based on TNB's 50% stake costing £86 million, Vortex Solar is valued at £172 million. Assets that will be acquired by Vortex Solar UK comprises 24 solar PV farms with an installed capacity of 365mw. The average age of the assets is two years, backed by a 15-year power purchase agreement, with an estimated useful life of 30 years. It is currently the third largest solar power business in Britain.

This acquisition will fit into TNB's expansion plans to grow its portfolio internationally. There is a potential for TNB to explore future RE expansion in the UK market. Besides, it provides a platform for TNB to acquire knowledge and experience in RE-based technologies. — PublicInvest Research, Jan 9