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PETALING JAYA: Tenaga Nasional Bhd (TNB) plans to increase its renewable energy (RE) asset portfolio in the United Kingdom to up to 2.5 gigawat (GW) from 1GW currently over the next five years, driven largely by investment in solar and wind farming.

Following a visit to TNB's operation in the United Kingdom recently, the broking firms of RHB Research and Kenanga Research said Vantage RE, which is TNB's growth vehicle to drive sustainable growth in the United Kingdom and Europe, will remain one of the utility giant's major RE growth drivers internationally.

Vantage RE's current asset portfolio consists of solar farms, onshore and offshore wind farms in the United Kingdom and Ireland.

According to Kenanga Research, Vantage RE manages a portfolio of 94 sites with 806 megawatt (MW) RE generation capacity, with two solar farms currently under construction.

This makes up 3% to 4% of the RE generation market in the United Kingdom.

According to the research firm, offshore wind farming is TNB's key RE growth driver in the United Kingdom due to the windy nature of its weather.

In addition to developing two solar farms, Vantage RE is planning four wind project sites and nine battery energy storage system project sites.

"The average cost per MW of a solar farm is £500,000, £1.5mil for an onshore wind farm and £2.5mil for an offshore wind farm.

"Its target of new project internal rate of return is in the high-single-digit, with cost of debt for over 4% interest rate cost with tenure of 15 to 20 years," said Kenanga Research.

It noted that unlike Peninsular Malaysia where off-take is mostly by a single buyer, there are several route-to-market options for RE generators in the United Kingdom, which range from traditional power purchase agreement to contracts for difference and private wire.

There are also several support schemes in place given by the authority, such as renewables obligation certificate and feed-in-tariff. Kenanga Research said Vantage RE's portfolio currently has a mix of off-take agreements.

Meanwhile, RHB Research said the mix of fixed or floating tariff rates could allow Vantage RE to have a certain level of revenue visibility while capitalising on higher energy prices at different times.

"Additionally, the majority of Vantage RE's current assets have long term support schemes in place.

"We are guided that these subsidies are important and could contribute over 50% of Vantage RE's revenue in the medium term.

"As such, these RE assets typically fetch high single-digit returns, with a slight premium for wind assuming a useful life of circa 30 years," added the research firm.

RHB Research noted that Vantage RE's topline has demonstrated strong growth from £34mil in the financial year 2023 (FY21) to £139mil in FY23.

As for earnings before interest, taxes, depreciation and amortisation (Ebitda) margin, this has been in the range of 69% to 75% in the FY21 to FY23 period.

The relatively stronger Ebitda margin of 75% recorded in FY22 was largely driven by the Russia-Ukraine-led spike in energy prices, said RHB Research.