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Positive outlook on TNB plan to buy stake in GEL

KUALA LUMPUR: Tenaga Nasional Bhd's (TNB) proposed acquisition of a 30 per cent stake in India-based GMR Energy Ltd (GEL) is positive despite the group paying a slight premium, said TA Securities.

The US\$300 million (RM1.2 billion) acquisition was slightly on the high side as TA Securities estimated that TNB was paying two times its price to financial year 2015 sales for the stake.

This was more or less the same valuation paid for TNB's recent 30 per cent stake purchase of Turkish power and water investment company GAMA Enerji AS.

"Nevertheless, we believe the premium is justified as GEL enables TNB to capture long-term growth in the rapidly growing Indian electricity market, where power supply is constrained," it said.

TNB has been on a shopping spree as this acquisition comes after its acquisition of the GAMA Enerji stake for US\$243 million in December last year.

TA Securities said its key concern lied in

non-renewal risk for GEL's power purchase agreements which merely had remaining tenure of five years, which applied to 83 per cent of its operational capacity.

"Nevertheless, we believe the scarcity of reliable electricity supply will work to GEL's advantage," it said.

TA Securities is comfortable with GEL's parent GMR Infrastructure Ltd's (GIL) track record and working relationships with other Malaysian companies, such as Malaysia Airports Holdings Bhd.

GIL owns an 11 per cent stake in GMR's subsidiary that operates the Rajiv Gandhi International Airport in Hyderabad.

GEL is part of the GMR Group, one of the largest diversified infrastructure conglomerates in India with an asset base of more than US\$9 billion.

Major shareholders in GEL include GMR (51.7 per cent), Temasek Holdings (12.4 per cent) and IDFC Bank (5.5 per cent).

TA Securities has maintained its "buy" call on TNB with a target price of RM16.36.