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# TNB continues buying spree

A 50% stake in UK-based Vortex Solar is national power company's latest acquisition

By **LEONG HUNGYEE**

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UTILITY giant Tenaga Nasional Bhd (TNB) continues its acquisition streak by announcing the almost half-a-billion-ringgit acquisition of United Kingdom-based Vortex Solar Investments S.a.r.l.

The latest one signals the group's third global acquisition in just over 12 months.

Before this, TNB had embarked on two notable overseas investments - a 30% stake in GAMA Enerji, Turkey, for US\$243mil in December 2015, and a 30% stake in GMR Energy for US\$300mil in May 2016.

The energy giant explained that these acquisitions were part of its five-year expansion road map to secure new overseas generation capacity, including renewable energy (RE). Last week, TNB announced that it was buying a 50% stake in Vortex Solar for £86mil (RM474mil) cash.

The purchase would enable it to have a stake in the company, which holds certain interests in solar photovoltaic (PV) project companies that own and operate solar PV projects in the UK with a combined net installed capacity of about 365MW.

So, what is TNB's gameplan? Is it too late for TNB to join the RE bandwagon now?

According to analysts, TNB's shopping spree was in line with its plan to have international investments amounting to 20% of its earnings by 2025.

As of now, TNB's overseas investments are relatively small to significantly sway its earnings, but may become more important going forward. Its long-term growth will depend on how fast it can expand in markets abroad such as Turkey and India, which have more power demand than Malaysia.

TNB's Malaysian business remains its bread-and-butter operations.

For the financial year ended Aug 31, 2016 (FY16), TNB posted a net profit of RM7.36bil on a revenue of RM44.53bil. In the same period, its non-regulated business contributed about RM3bil to its revenue. This amount has been increasing steadily from RM2.3bil in FY12

"We believe the latest acquisition will expand and complement its existing business," an analyst says.

Another analyst points out that RE is getting stronger, and becoming a prominent component of our energy infrastructure. One reason for the increasing popularity of green energy is that it is becoming cheaper to produce. Various reports have indicated that the installed price of solar energy has declined significantly in recent years, as policy and market forces have driven more and more solar installations.

"The amount for the acquisition of Vortex Solar is relatively a small amount compared with TNB's asset base and also a small amount

in terms of generation capacity.

"Nonetheless, the acquisition will pave the way for more RE play, which TNB is a little slow to move into. It is a step in the right direction," an analyst says, adding that he believes TNB could be buying more assets going forward.

He notes that earnings accretion from Vortex Solar, however, will be minimal and the operating assets are generating small net losses. Apart from Vortex Solar, GAMA Enerji and GMR Energy also own RE assets.

The proposed acquisition of Vortex Solar will increase TNB's RE net capacity to 252MW after including the 70MW net capacity in Turkey and India. In comparison, TNB currently has more than a 12GW capacity in Malaysia.

The portfolio of assets acquired is young,

with an 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 certificate accreditation for 20 years.

"This acquisition (Vortex Solar) will fit into TNB's expansion plan to grow its portfolio internationally. There is 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 says.

MIDF Research notes that the acquisition is a relatively cheap entry for TNB into the UK renewable market.

"While the acquisition's valuation of 16 times enterprise valuation over earnings before interest, tax, depreciation and amortisation (EV/Ebitda) is at a premium to TNB's own valuation of seven times EV/Ebitda, on a per megawatt basis, the consideration of US\$1.6mil per MW is much lower versus the industry cost of around US\$2.5mil per MW for a new solar project, which implies an attractive entry for TNB," it says.

MIDF says its back-of-the-envelope calculation (pending further financial details) suggests that the new asset will enhance its valuation of TNB by an estimated nine sen per share to about RM16.90 per share, or a marginal 0.5%. This is a considerably small transaction relative to TNB's RM79bil market capitalisation.

It is no secret that TNB is actively pursuing potential merger and acquisition opportunities in the RE industry locally and globally. In addition, it is also concurrently exploring green-field RE opportunities.

The group's RE team has qualified to bid for the Sweihan 350MW solar PV independent

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power plant project in Abu Dhabi, UAE. According to the Abu Dhabi Water and Electricity Authority's procurement arm, it received six bids for the project. TNB and Phelan Energy Consortium's bids were 2.59 sen per kWh.

The Sweihan solar project is TNB's maiden attempt at bidding for RE capacity internationally. Locally, TNB has also been taking active steps in pursuing its RE goals, including via 83%-owned Sabah Electricity Sdn Bhd. The latter had bid for the development of a 200MW large-scale solar PV plant in Sabah and Labuan. Bidders will be required to bid for capacity ranging from 1MW-10MW, with a target aggregate capacity of 50MW to be awarded

every year until total capacity reaches 200MW. The bid's outcome is expected in January 2017.

Last month, TNB announced that it had received a letter of acceptance of offer from the Energy Commission for TNB to develop a 50MW large-scale solar PV plant in Mukim Tanjung Duabelas, Selangor.

In addition, TNB is also piloting new and innovative RE technologies such as a floating solar PV system and waste-to-energy installations with various water utilities and sewerage service providers, respectively.


The group has also entered into joint ventures with large plantation firms such as Sime Darby Bhd and Felda for pilot biomass and biogas plants.

### TNB's recent acquisitions

**Dec 2015**

**30%** stake in Turkey-based GAMA Enerji for **US\$255mil**


> 840MW **natural gas-fired plant** and a 45MW **wind power**



**Nov 2016**

**30%** stake in India-based GMR Energy Ltd for **US\$300mil**

> 2,298MW of **coal, gas** and **solar assets** in India



**Jan 2017**

**50%** stake in UK-based Vortex Solar S.a.r.l. for **£86mil\***

> **Solar PV projects** with 365MW net installed capacity

\* Transaction is expected to be completed by the third quarter 2017  
Source: Bursa Malaysia

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**Expansion mode:** TNB has explained that its acquisitions are part of its five-year expansion road map to secure new overseas generation capacity, including renewable energy. — Reuters