Headline	MIDF Research `positive` on TNB`s UK expansion		
MediaTitle	The Malaysian Reserve		
Date	22 Oct 2021	Language	English
Circulation	12,000	Readership	36,000
Section	Companies	Page No	11
ArticleSize	296 cm²	Journalist	by S BIRRUNTHA
PR Value	RM 6,261		

MIDF Research 'positive' on TNB's UK expansion

This is because one of the assets, Blyth 1, is relatively a mature asset and is backed by the ROC subsidy regime

by S BIRRUNTHA

MIDF Amanah Investment Bank Bhd Research (MIDF Research) is positive on Tenaga Nasional Bhd's (TNB) recent move to expand its renewable energy (RE) portfolio.

On Oct 20, TNB had announced that its subsidiary Vantage RE Ltd has acquired a 49% stake in an offshore wind farm company Blyth Offshore Demonstrator Ltd (BODL) from EDF Renewables, a subsidiary of the French utility company Électricité de France.

However, no financial details of the transaction have been revealed yet at this juncture.

The acquisition marks the utility company's maiden entry into the international offshore wind market as BODL currently owns offshore wind assets off the coast of Blyth, Northumberland in England.

The assets include five turbines with a total installed capacity of 41.5 megawatts (MW) (Blyth 1) and further development rights for a floating offshore wind project of up to 58.4MW (Blyth 2) off the Northumberland coast.

MIDF Research noted that although no details of the transaction value were revealed, the greenfield installed cost of offshore wind generators has fallen by 28% in the past four years and stood at US$3.8 million (RM15.81 million) per MW in 2019.

"Having said that, Blyth 1 is relatively a mature asset, having been in operations for circa four years, and is backed by the renewable obligation certificates (ROC) subsidy regime, hence we think a premium is likely," it said in a note yesterday.

The research house added that RO is one of the main support mechanisms for large scale RE projects in the UK.

It also highlighted that ROCs are certificates issued to operators of accredited RE generating facilities for the eligible RE they generate.

Therefore, operators can trade ROCs with other parties, but they are ultimately used by utility suppliers to demonstrate that they have met their annual obligation, which is set annually by the regulators.

As such, MIDF Research has maintained its 'Buy' call on TNB with an unchanged target price of RM11.80 per share, factoring in a 10% environmental, social and governance (ESG) discount to reflect the valuation pressure on TNB, given its generation unit's high exposure to coal power plants.

It noted that the plants currently account for 24% of overall group revenue and the coal power purchase agreements are expected to fall off the grid only from 2029 onwards.

"Nevertheless, TNB had revealed its 2050 sustainability pathway, which includes a commitment to reduce emission intensity by 35% and coal capacity by 50% by 2035, as well as an aspiration to achieve net-zero emissions and to be coal-free by 2050.

"These should eventually provide a clear direction in TNB's sustainability agenda and gradually reduce the ESG overhang on the stock," it added.

On that note, MIDF Research said the key catalysts for TNB includes: (1) easing capital expenditure for generation in the near-to-mid-term suggests dividends of at least at the higher end of the group's 30%-60% payout policy; (2) acquisitions of RE assets internationally and domestically, which will dilute composition of 'dirty fuel' in TNB's capacity mix; (3) recovery in FY21 earnings from absence of one-off factors such as plant outages, Bantuan Prihatin Nasional discounts and inflated ADD provisions, that were experienced in FY20.