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TNB's wind farm purchase a good start

RE expansion critical for utility giant's future

ENERGY

PETALING JAYA: Tenaga Nasional Bhd's (TNB) purchase of an offshore wind farm in Europe appears to be a good start for it to expand its renewable energy (RE) portfolio in Britain and Europe.

The purchase is via a relatively lower-risk option given the maturity and return of the capital-backed nature of assets.

RE is critical for the powerhouse's future as it needs to reduce the dependence on its generation unit's high exposure to coal power plants.

Kenanga Research and MIDF Research were positive over the purchase of a 49% stake in Blyth Offshore Demonstrator Ltd (BODL) from EDF Renewables (EDFR), the RE arm of French state-owned utility company, Electricite de France (EDF).

The purchase was via TNB's wholly owned British based unit, Vantage RE.

This acquisition forms part of TNB's sustainability agenda aimed at gradually reducing theenvironment, social and governance (ESG) overhang on the stock, said MIDF Research.

Although it is a small venture with an effective installed capacity of 49MW only when the floating offshore wind project is completed, the partnership with EDFR sets the pace for Vantage RE to grow in Britain and Europe, said Kenanga.

> ***"With this offshore wind farm buy, TNB will be operating close to 450MW of RE investments in Britain."***
>
> Kenanga Research

TNB currently has two RE assets in Britain, undertaken by Vortex Solar and Tenaga Wind Ventures. Both assets are now structured under Vantage RE, set up in July this year.

"With this offshore wind farm buy, TNB will be operating close to 450MW of RE investments in Britain," the research house said.

TNB's aim is to have 8,300MW of RE assets by 2025 from 3,406MW currently.

RE will make up 10% of group revenue from 5%.

Kenanga said even though there was no disclosure of purchase price for the BODL buy, TNB has budgeted RM6.5bil for the entire RE capacity expansion where about 97% of these are from two geographical areas – 2,733MW in Britain/Europe and 1,800MW South-East Asia with 361MW expansion locally.

Kenanga said its stress test shows that TNB has no financial issue for such expansion with its gearing still at comfortable levels of 45% to 46% throughout financial years (FY) 2022-FY25.

This meant there was still room to gear up to the optimal level of 55%, from 46.3% in FY20, it added.

MIDF has a "buy" call on the stock with an unchanged target price (TP) of RM11.80 per share, while Kenanga has an "outperform," with the same TP.

Kenanga said it liked TNB's resilient earnings profile that kept its dividend payout consistent with potential special dividend in place.

Its prospective FY 22 price earnings ratio of 10.6 times seemed fairly attractive

The downside risk to Kenanga's recommendation is weaker-than-expected earnings from non-regulated businesses.