

02 March 2018 | Corporate Update

Tenaga Nasional Expands into UK wind farms


- **Expands into wind farms in UK**
- **Not exactly cheap on per MW basis but backed by guaranteed export tariff**
- **We estimate marginal impact to earnings**
- **Maintain NEUTRAL at unchanged TP at RM16.30**

Expands renewable energy Tenaga acquired an 80% stake in two UK renewable energy (RE) companies for cash consideration of GBP77.4m (RM418.7m). The two companies i.e. GVO Wind Ltd and Bluemerang Vapital Ltd own the largest FiT (Feed-in-Tariff) wind portfolio in the UK comprising 53 operational onshore medium wind turbines with a combined capacity of 26.1MW. Management of the portfolio will be outsourced to Longspur Capital Ltd, which is manned by experienced personnel from the former managers of the acquired assets.

Immediate earnings accretive. No details on financials have been released yet, but Tenaga indicated that the portfolio offers “attractive” returns and are earnings accretive from year one. The acquisition of the wind farms complement Tenaga’s RE assets (via 50% stake in Vortex Solar) which comprise of 365MW of solar RE portfolio in the UK. Wind RE generally generates more revenue in winter while solar RE generates the most revenue in summer.

The equity purchase consideration of GBP77.4m (RM418.7m) represents 80% equity value based on an agreed EV of GBP171.2m. The portfolio comprises of young assets with an average age of 2.5 years. The two acquisitions will add another 26MW, raising Tenaga’s total international RE portfolio to 280MW.

At a premium, but backed by FiT. Recently constructed (2013-2015) onshore wind farms in the UK entail cost of between GBP3.5m – 4.1m per MW. Tenaga’s purchase of the wind RE assets translates to GBP6.6m and looks on the high side. However, the majority of the portfolio is contracted through the UK Government backed FiT support mechanism and guaranteed export tariff over a period of 20 years. The average revenue for the portfolio is approximately GBP223/MWh.

Recommendation. Maintain NEUTRAL at unchanged DCF-derived TP of RM16.30. While dividend yields are still relatively attractive, Tenaga’s inflated earnings in RP1 is unlikely to be sustained in RP2. Furthermore, the stock has had a good run in the past 12 months and we suggest investors lock-in profits at this point. 

Unchanged NEUTRAL
Unchanged Target Price: RM16.30

RETURN STATS	
Price (1 March 2018)	RM15.70
Target Price	RM16.30
Expected Share Price Return	+3.8%
Expected Dividend Yield	+4.6%
Expected Total Return	+8.4%

STOCK INFO	
KLCI	1,856.20
Bursa / Bloomberg	5347/TNB MK
Board / Sector	Main
Syariah Compliant	Yes
Issued shares (mil)	5665.99
Par Value (RM)	1.00
Market cap. (RM'm)	88,955.98
Price over NA	1.50
52-wk price Range	RM13.4 - RM16.1
Beta (against KLCI)	0.55
3-mth Avg Daily Vol	12.5m
3-mth Avg Daily Value	RM195m
Major Shareholders (%)	
Khazanah Nasional	28.1%
EPF	12.4%
Skim ASB	8.5%

INVESTMENT STATISTICS

FYE Dec **	FY14	FY15	FY16	16MFY17*	FY18F	FY19F
Revenue (RM'm)	42,792.4	43,286.8	44,531.5	63,244.0	50,573.5	53,266.0
EBIT (RM'm)	7,629.9	7,695.3	9,072.0	12,512.6	9,160.5	9,710.9
Pre-tax Profit (RM'm)	7,114.7	7,133.7	8,456.8	10,945.1	8,290.5	8,454.8
Core net profit (RM'm)	4,682.5	5,978.9	7,757.6	10,128.8	7,373.8	6,379.5
FD EPS (sen)	83.0	105.9	137.5	179.5	130.7	113.0
EPS growth (%)	(13.7)	27.7	29.7	30.6	(27.2)	(13.5)
PER (x)	18.9	14.8	11.4	8.7	12.0	13.9
Net Dividend (sen)	29.0	29.0	32.0	82.4	71.9	62.2
Net Dividend Yield (%)	1.8	1.8	2.0	5.2	4.6	4.0
Payout ratio	25.3%	26.7%	24.5%	48.1%	55.0%	55.0%

* 16-month period due to change in financial year end from Aug to Dec

** FYE Aug prior to FY17

Source: Company, MIDF

EXHIBIT 1: RECENTLY CONTRACTED UK WIND FARMS

Windfarms	Capacity (MW)	Date	Cost	Capacity Factor	Location	Owner	Cost/MW (GBPm)
Gwynt y Môr	576.0	2015 June	>£2b	31.7%	Wales	RWE Npower, Stadtwerke München, GIB, Siemens	3.5
Humber Gateway	219.0	2015 June	£736m	41.1%	England	E.ON	3.4
Kentish Flats	90.0	2005 October	£121.5m	42.9%	England	Centrica, Siemens, DONG	1.4
Lincs	270.0	2013 September	£1000m	42.0%	England	DONG Energy, E.ON UK Renewables, Masdar	3.7
London Array	630.0	2013 April	£1800m	41.1%	England	Centrica 50%	2.9
Lynn and Inner Dowsing	60.0	2009 March	£80m	34.9%	Wales	Vattenfall	1.3
Ormonde	150.0	2012 August	£552m	39.5%	England	Npower (UK)(RWE)	3.7
Rhyl Flats	90.0	2009 December	£198m	32.9%	Wales	E.ON	2.2
Robin Rigg	180.0	2010 April	£396m	35.1%	Scotland	E.ON	2.2
Scroby Sands	60.0	2004 March	£75.5m	30.7%	England	Statoil 50%	1.3
Sheringham Shoal	62.0	2012 September	£200m	40.7%	England	Vattenfall	3.2
Thanet	300.0	2010 September	£900m	32.8%	England	DONG, SSE, OPW	3.0
Walney	367.0	2010 February	£630m	43.8%	England	DONG, Marubeni, GIB	1.7
Westermost Rough	210.0	2015 May	£370m	42.9%	England	DONG, Scottish Power	1.8
West of Duddon Sands	389.0	2014 October	£1600m	44.2%	England	DONG, Scottish Power	4.1

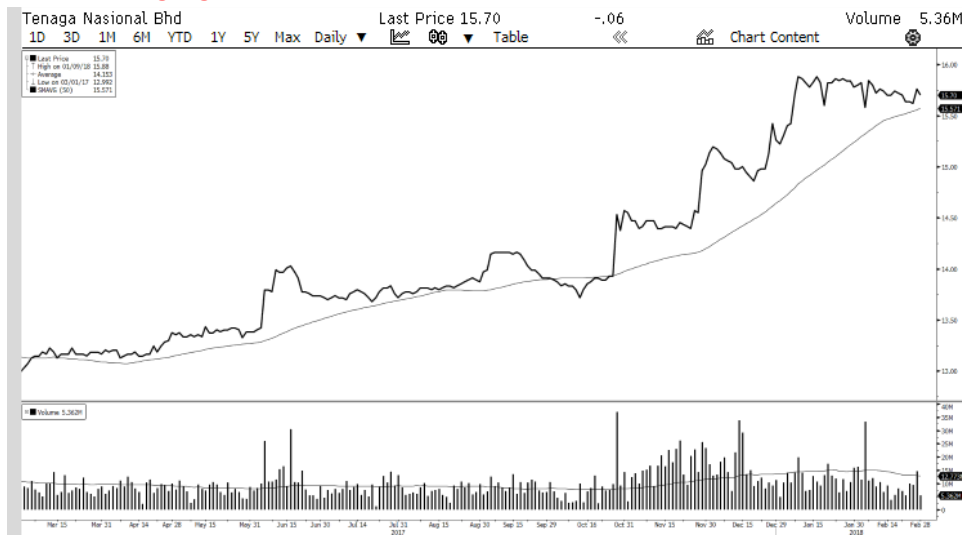
Source: Various, MIDF

EXHIBIT 2: ESTIMATES FOR TENAGA'S UK WIND FARM

Average revenue (GBP/MWh)	223
Capacity (MW)	26
Estimate Annual Generation (MWh)	80,975
Estimate Annual Revenue (GBPm)	18.1
Estimate Annual Pretax (GBPm)	9.0
GBP:RM	5.41
Estimate Annual Pretax (RMm)	49

Source: Company, MIDF

DAILY PRICE CHART



Source: Bloomberg, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.