

# Transemel Acquisition

Delivering on REN's Business Plan

23<sup>rd</sup> July

# Transemel's acquisition provides disciplined growth, aligned with REN's strategic plan



- REN's 1<sup>st</sup> major international investment was the acquisition of a 42.5% stake in Chile's Electrogas, on Feb.2017, for \$180 M. The investment has been in line with expectations, contributing positively to REN's results (c. €7 M)
- REN's domestic business is still the priority but offers limited growth perspectives (current Capex lower than D&A)
- New strategic plan anchored on 3 fundamental pillars, including further incremental international investments

Operational excellence and core business consolidation



Disciplined Growth

*Invest up to €400 M until 2021 in additional inorganic growth opportunities*

Regulated assets / Long-term contracts

Attractive risk-return profile

Leveraging REN's know-how

Maintain investment grade status

Transemel's investment



# Transemel operates 92 km of transmission lines and 5 substations and has an approved expansion plan of \$60 M for the next 4 years



REN signed a Share Purchase Agreement with CGE and Naturgy to acquire 100% of Transemel's shares for US\$ 167 M

## Asset with an attractive growth potential

- **Founded in 1999, Transemel operates 14 lines (92 Km) and 5 substations (985 MVAs). Approximately 93% of its revenues are regulated**, under perpetual concessions with no demand / price risk. The remaining revenues derive from bilateral PPA contracts
- **Transemel has an approved Capex plan of \$60 M for the next 4 years**, underling an attractive growth potential
- Company's EBITDA expected to grow close to **35%** from 2019E (\$10.3 M) to 2023E (\$13.8 M)
- The seller is CGE, one of the largest electricity companies in Chile, controlled by Spain's Naturgy
- REN and CGE established a Transition Services Agreement, up to 24 months, **to ensure a low risk transition**

## Assets mainly located in Northern Chile



- Assets are mainly located in Northern Chile, where energy demand is expected to grow above the country's average
- Antofagasta and Iquique have particularly attractive conditions for renewables (high solar irradiation, low humidity and available land)
- Renewables represent c.80% of new installed capacity in Chile. Power plants are usually far away from main consumption centers, driving the need for new transmission projects

# Adequate size opportunity for REN with predictable cash flows and growth potential in Chile's competitive transmission sector



## Investment in Chile, LatAm's most stable and developed economy

- Investment grade country, considered as the best country to do business in Latin America
- **Best-in-class economy in LatAm** and disciplined fiscal and monetary policies create an attractive environment for foreign investors, leading to highly competitive brownfield and greenfield investment processes

## Unique asset under operation

- Sizeable acquisition opportunity in Chile's transmission industry, with some "Scarcity value", as greenfield tenders are highly competitive and M&A transactions are limited
- Brownfield asset with a **straightforward operation**, avoiding "greenfield" entry risks

## Stable regulatory framework

- Stable and proven regulatory and legal frameworks
- Regulation based on a **Return on Assets model** (with post-tax returns varying between 7% and 10%)

## Predictable Cash flows

- Regulated and stable annual revenues with **no demand risk** and inflation-hedged cash flows
- Limited counterparty risk, as Transmission tolls are collected from all grid end-users by creditworthy electricity suppliers

## Significant growth opportunities

- Approved expansion plan of \$60 M until 2022 ongoing
- **Strategic location:** new renewable generation sources and mining companies increasing activities drive the need for new transmission infrastructures

## Implementation of local structure

- Investment opportunity will allow REN to **set-up a local team**, which will assist in managing REN's Chilean assets

## Closing Remarks

### Acquisition of Transemel: rare opportunity with strong strategic fit

- ▶ Acquisition represents **the 2<sup>nd</sup> step in REN's international expansion plan**, consolidating its business plan strategy;
- ▶ **Transemel operates 14 lines (92 Km) and 5 substations (985 MVAs)**, mainly in the north of Chile, **a strategic location for the Chilean power market**, where demand is expected to grow above the country's average;
- ▶ **Steady and predictable cash flow generation profile**, with almost 93% of revenues under a stable regulatory framework;
- ▶ **Growth platform in a country that still requires significant investments in transmission**: 8 transmission greenfield public tenders to be launched in 2019;
- ▶ **Complete control over business and operational decisions** with a Transitional Services Agreement that ensures a smooth transition of the operations;
- ▶ **Underlying valuation in line with comparable transaction market multiples** for Chilean transmission assets, with an estimated contribution to REN's EBITDA of \$13.8 M by 2023, following capex execution;
- ▶ Positive impact in REN's consolidated results from 2020 onwards, **offering REN's shareholders adequate returns and a neutral impact on the Company's investment grade status**;