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Acquisition of Glow Energy, Thailand

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Global Power Synergy last Friday (22 March) submitted a tender offer for the remaining shares of Glow Energy, one of Thailand's largest independent power producers, having earlier this month completed the share purchase agreement with Engie to acquire its stake in the company.

The transaction is significant for three reasons. “It is the first time in Thailand’s M&A history,” said an adviser, “where an anti-trust regulator blocked a transaction on the ground of non-competitive effect.”

Strategically, the deal is emblematic of Engie’s concerted drive to dispose of coal assets around the world, marking the end of the French company’s exposure to coal in Asia Pacific.

IJGlobal also understands the project to be the largest M&A transaction in Thailand’s power industry to date, with market participants anticipating competition to intensify.

Asset for sale and parties

Asset

Glow has an electricity generation capacity of 2,895MW (on shareholding basis), comprising:

- 67.9% – natural gas
- 28.4% – coal-fired
- 3.7% – renewables

It has 10 power plants in Thailand's largest industrial estate – the Map Ta Phut Industrial Estate in Rayong – and one plant in Chonburi, along with one facility in Attapeu, Laos. Before the transaction, three players dominated the private power purchase agreements at the Map Ta Phut Industrial Estate: Glow (60%), GPSC (20%) and Provincial Electricity Authority (20%).

Glow is also studying a solar power project at the Lemro hydropower plant in Myanmar.

Seller

Paris-based Engie has been strategically repositioning since 2016, making focused investments in clients solutions and networks. It has also accelerated its exposure to renewables. It added a total of 1.1GW of solar and wind capacity to its portfolio in 2018, with a 9GW add-on target for 2019-21.

Conversely, Engie's divestment of the stake in Glow aligned with the company's strategy of moving away from coal and selling off non-core assets. The company no longer owns coal assets in Asia Pacific, having sold down its stake in the 1GW Loy Yang B power plant in Victoria, Australia, in January 2018 to Alinta Energy, a subsidiary to Hong Kong conglomerate Chow Tai Fook Enterprises.

Buyer

Thailand-listed GPSC had 1,940MW (on a shareholding basis) of electricity generation capacity split between natural gas (79.2%) and renewables (20.8%) before the transaction.

GPSC's corporate growth strategy relies on M&A deals. Glow's acquisition is attractive because it boosts GPSC's capacity by 126% to 4,385MW, expands the client base through small power producers and is a real growth option on the Eastern Economic Corridor (EEC) megaproject.

Transaction

The Bt137.23 billion ($4.332 billion) all-in transaction involved three components:

- GPSC's Bt93 billion deal with Engie
- GPSC's Bt40.926 billion tender offer for the remaining shares
- Glow's Bt3.3 billion sale of its main plant to B Grimm to meet a regulatory remedial requirement

"Engie has a very strong and experienced M&A team that knew what they wanted from the deal," noted the adviser. "They were clear on their positions and handled this professionally."

Share purchase agreement

Engie announced on 20 June (2018) its share purchase agreement (SPA) with GPSC for the sale of its 69.11% interest in Glow. The offer price was Bt96.50 for each of the 1,010,976,033 shares, translating to a Bt97.559 billion transaction. This price was at a 4.3% premium to the 19 June close of Bt92.50 per share.

A reason for the relatively low premium was that there appears to have been information leakage in the market. The name had hit a dip at Bt80.75 per share on 18 May, ricocheted in the second half of May and the first half of June, then saw a steady climb afterwards, with a noticeable 6.3% jump from 13 to 14 June.

Parties subsequently lowered the price to Bt94.892 per share because Glow's board had approved on 22 June a Bt1.608 per share interim dividend to shareholders. The final SPA this month (March 2019) further reduced the price to Bt91.9906 per share, meaning the final Engie-GPSC deal was Bt93 billion since a key asset was removed from the agreement due to regulatory concerns.

Tender offer for securities

GPSC's tender offer for the remaining 451,889,002 shares of Glow (30.89%) had an initial price equal to that in the SPA and the 8 March amended SPA. However, the Glow board approved 18 March a remaining Bt1.177 per share dividend to shareholders – and after deducting a 0.25% brokerage fee and 7% brokerage fee VAT – the net tender offer price was Bt90.57 per share, meaning the offer totalled Bt40.926 billion.

Regulatory remedial action

Some three months after the parties agreed on the original SPA, Korn Chatikavanij, a former finance minister, asked Prime Minister Prayuth Chan-ocha in September to request that the Energy Regulatory Commission (ERC) review the transaction. The regulatory watchdog surprised the parties when it subsequently blocked the deal in October 2018.

Post-transaction GPSC would control 80% of Map Ta Phut Industrial Estate's PPPAs, with PEA handling a fifth. ERC insisted the deal would give GPSC effective monopoly control of Map Ta Phut's PPPAs, breaching the 2007 Energy Industry Act.

“There are two electricity producers in the industrial estate. A merger would leave only one operator, which would reduce competition with significant implications,” said ERC secretary general Narupat Amornkosit at the time.

“GPSC, Engie, and the advisers worked together to identify the assets located in the overlapping area to propose to the regulator,” said the adviser when asked whose team first broached the sale of SPP1 – Glow’s main power plant in the industrial estate. SPP1’s location was a significant factor. The transaction was back on track when ERC ruled in late December the parties could cure the situation by selling the cogeneration plant.

A competitive bidding process quickly launched in January (2019), culminating in the 22 February announcement that B Grimm Power had agreed to purchase SPP1 for Bt3.3 billion. That sale closed on 13 March.

Acquisition financing

GPSC's acquisition finance target combines short-term capital increase (52%) with long-term debenture issuance (48%).

The Thai company is relying on short-term bridging loans from private banks and its two major shareholders PTT Global Chemical (PTTGC) (22.73% interest in GPSC) and PTT (22.58%). PTT holds 48.79% in PTTGC.

A part of the acquisition financing is a syndicated loan understood to be slightly under Bt100 billion from four Thai banks:

- Bank of Ayudhya (Krungsri)
- Siam Commercial Bank (SCB)
- Kiatnakin Bank (Phatra Securities’ parent company)
- Krungthai Bank (KTB)

GPSC is paying for the tendered shares from a one-year credit facility line of no more than Bt41.5 billion from SCB and KTB. KTB is also providing a Bt3 billion loan, out of a Bt3.5 billion credit line agreed in May 2018.

GPSC’s major shareholders are kicking in no more than Bt35 billion, with PTTGC’s contribution capped at Bt8 billion. Debt restructuring will entail refinancing from short to long-dated debenture issue anticipated to be no more than Bt68.5 billion.

IJGlobal believes LH Bank is also providing a small corporate loan to GPSC.

Advisers

Advisers on the transaction included:

- Bank of America – Engie’s financial
- Citi – Engie’s financial
- HSBC – Engie’s financial
- Allen & Overy – Engie’s legal

- Phatra Securities – GPSC’s financial adviser and lead arranger on acquisition financing
- Siam Commercial Bank – GPSC’s financial adviser and lead arranger on acquisition financing
- AvantGarde Capital – Glow buyer's independent financial
- Weerawong C&P – Glow buyer's legal
- Norton Rose Fulbright – lenders’ legal

- Chandler MHM – B Grimm’s legal on SPP1
- Hunton & Williams – Glow’s legal on SPP1

What’s next?

GPSC and Engie will be focusing on debt management.

Credit rating agencies have had mixed reactions on the deal. After the transaction terms were announced (but before SPP1's remedial action), Standard & Poor's and Fitch – while keeping GPSC's BBB- and A+ ratings – placed the name on negative outlooks. The bridge loan's refinancing risk is manageable, buoyed by its ultimate parent PTT's record of assisting subsidiaries when in need, according to S&P.

The considerable increase in GPSC's debt and the uncertainty over the company's long-term tolerance of financial leverage are two reasons for the negative outlook during the next 12-18 months. GPSC is likely less concerned with the negative outlook and is more focused in the short-term on its financing plan, which may involve an equity raising.

Engie anticipates executing its debt reduction plan. Its financial net debt (FD) is forecasted to drop from €21.1 billion in 2018 to about €20 billion by 2021, targeting the FD-to-EBITDA ratio at under 2.5x. Likewise, economic net debt (ED) will be €35-37 billion, with an ED-to-EBITDA target of less than 4.0x, a generous ceiling given the 2018 figure was 3.7x.

M&A bankers will be eyeing Engie's list of assets to sell during the next three years, as the Paris-based company intends globally to dispose of €6 billion worth of assets to manage its capital structure.