

Abu Dhabi Power Corporation

Merger Creates National Champion to Transform Power and Water Sectors

Case Study

The Client	Abu Dhabi Power Corporation (ADPC) is wholly-owned by the Abu Dhabi Government. It oversees several subsidiaries involved in power and water generation, distribution, and transmission, including Abu Dhabi National Energy Company (TAQA), which is a listed international power and energy company.
The Challenge	TAQA, which was 74% owned by ADPC, faced a number of challenges including vulnerability to oil price shocks, a suboptimal capital structure (with a net debt/EBITDA ratio of 6.6 times) and a low standalone credit rating. ADPC sought to overcome TAQA's challenges by increasing its stake in TAQA, creating one of the largest utility companies in the GCC; it needed to find the most effective way to achieve these goals.
The Solution	ADPC, which appointed Citi as financial advisor, owned a number of significant cash flow generating utility businesses in addition to TAQA, including power distribution, transmission and generation assets and distribution and reverse osmosis assets in the water sector. These assets, described as perimeter assets, were largely unlevered. ADPC contributed the perimeter assets to TAQA in exchange for 106.4 billion shares in TAQA, taking its stake in TAQA to 98.6%.
The Result	<p>By contributing its perimeter assets in exchange for an increased stake in TAQA, ADPC was able to underpin TAQA's balance sheet and cash flow generation, and improve TAQA's capital structure – net debt/EBITDA fell to 3.7 times following the transaction. The reverse merger was well received; TAQA's share price rallied by around 40% after the announcement while its standalone ratings were upgraded by several notches from B1/B to Baa1/BBB+. TAQA's stronger balance sheet means it will be better able to reward shareholders through sustainable dividends and significant growth in the future.</p> <p>Through this transaction, Abu Dhabi's power and water assets have been successfully consolidated, creating a national energy and water champion that is well-positioned to spearhead the transformation of the utilities sector. Notably, the new assets have rebalanced TAQA's generation mix towards clean energy, with oil and gas now contributing just 15% of revenues, ensuring that the company will play an active role in the UAE's energy diversification strategy.</p>