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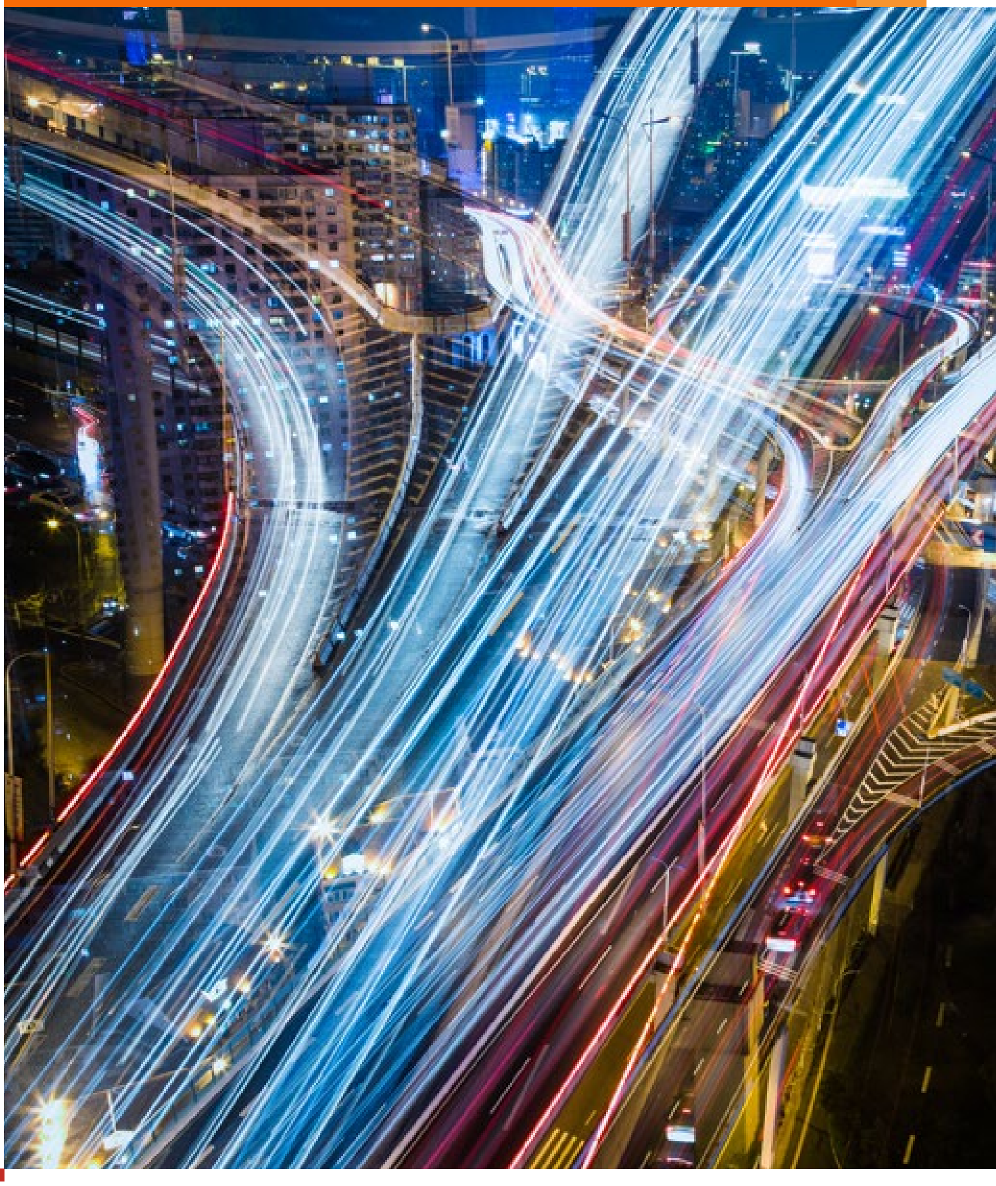
# *Energy Deals*
## *2016 Annual Review*

Merger and acquisition activity in Turkey's energy market

*January 2017*



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# Contents



### *Methodology and terminology*

Energy Deals 2016 includes analyses of cross-border and domestic deal activity in the oil, gas and electricity markets in Turkey. The analyses are based on publicly available information and encompass announced deals as of 31 December 2016, including those pending financial and legal closure. Deal values are the consideration value announced or reported while the figures relate to actual stake purchases and are not multiplied to 100%. This document is also available at www.pwc.com.tr/energydeals.

# Welcome

## to the ninth edition of the Energy Deals, our annual analysis of mergers and acquisitions in the Turkish energy market

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The downward trend in the total deal values in the Turkish energy market since 2013 reached a new low in 2016, with a total value of USD 2.0 billion in 30 deals. This marked a significant year-on-year slowdown in terms of both deal numbers and values, 32% and 59% respectively.

In the closing words of our report last year, we had tied our expectations for the deal environment in 2016 to the delivery of the commitments by the political and regulatory authorities. Although we had not seen a major deviation in the official intentions, the unfavourable changes in Turkey's credit outlook and depreciation in the Turkish Lira following the failed military coup on July 15th, shadowed the deal environment despite the sustained effort for privatisation.

The utility deals got back to their absolute dominance in 2016 with 80% share in deal numbers and 90% share in total deal value, whereas the increase in the share of the oil&gas deals last year proved to be one off.

On its own, however, the deal number and value in the utility segment shrank by 31% and 42% year-on-year, to end in 24 and USD 1.8 billion, respectively, in 2016. This was due to both the slowdown in privatisation deals and the lack of big tickets among them. And, the private deals once again failed to lift the bottom line due to market uncertainties. Nevertheless, albeit not as big as in 2015, IFC kept its interest alive and made its second equity investment in Akfen Energy.

Out of 6 deals in the oil&gas segment, the privatisation of TP Petrol, the state-owned fuel retail company, for USD 159 million almost determined the total deal value of USD 202 million in that segment. The awaited sale of OMV Petrol Ofisi, the largest fuel retailer in Turkey, is still ongoing and one may expect this to hit the deals table in 2017.

Our excitement about the increasing share of foreign interest in 2015 proved to be short lived. In 2016, the share of the total value of deals involving foreign investors could only reach 7%, a significant dive from 45% in 2015.

Looking ahead... In addition to the fact that the recovery in the deals environment in 2017 mostly depends on the performance of the political and regulatory bodies in commitment delivery, the restitution of overall confidence in the Turkish economy will also prove vital. Although it becomes more of a challenge to make predictions now, in 2017, assuming the investment environment experiences a quick recovery, the completions of the privatisation of the remaining power generation assets and of the OMV Petrol Ofisi deal would boost the deal figures.

# *Deal totals: Testing new lows…*

2016 tested new lows in both deal numbers and values. The number of deals dropped from 44 in 2015 to 30 in 2016, and the total deal value decreased by 59% from USD 4.8 billion to USD 2.0 billion. This resulted in 39% fall in average deal value to USD 67 million per deal in 2016, compared to USD 110 million in 2015.

24 deals worth USD 1.8 billion in total have been disclosed in the utilities segment in 2016. They were all in power generation, except two in power retail. The majority of these deals were for renewable energy assets through privatisation and also private. Also, a few thermal power plant transactions contributed to the bottom line.

Six privatisations provided 52% of the total utility deal value, and the balance sustained between the thermal and hydroelectric power plants in 2015 heavily shifted towards the latter with 97% in 2016. Contrary to the expectations, no improvement has been posted to date in the expected Afsin-Elbistan B deal. The private deals, on the other hand, were renewables-focused too. However, more diversified with wind and geothermal assets.

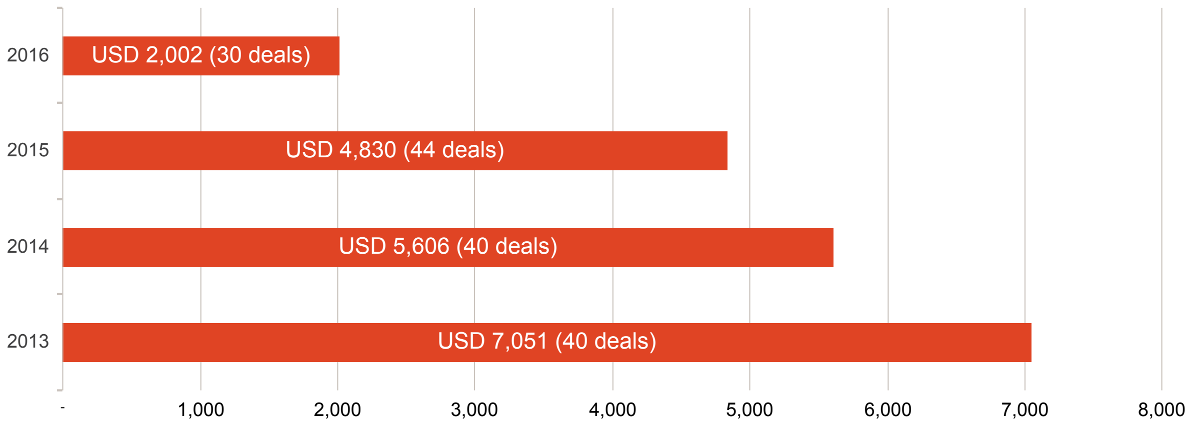
The pick-up in the oil&gas deals experienced in 2015 was short lived. In 2016, the total deal value significantly fell to one ninth of the previous year's, and mainly came from the privatisation of TP Petrol, the state-owned fuel retailer.

*Against the optimism in 2015, deal numbers and values tested new lows in 2016.*

**Figure 1: Total Energy Deals in 2015 and 2016**

| | FY15 | | | FY16 | | | YoY change | |
|---|---|---|---|---|---|---|---|---|
| | Number | Value (USD m) | Average Value | Number | Value (USD m) | Average Value | % number | % value |
| Utilities | 35 | 3,100 | 89 | 24 | 1,800 | 75 | -31% | -42% |
| Oil and gas | 9 | 1,730 | 192 | 6 | 202 | 34 | -33% | -88% |
| **Total** | **44** | **4,830** | **110** | **30** | **2,002** | **67** | **-32%** | **-59%** |

**Figure 2: Total deals between 2013 and 2016 by value (USD m) and number of deals**




2016 overcompensated the exception of 2015 in terms of the public-private deals breakdown. With the recovery in privatisation activity, the share of the private deals decreased from 63% in 2015 to 43% in 2016.

***57%***
***of value generated by public deals***

***versus***

***43%***
***for private deals***

***93%***
***local involvement***

***versus***

***7%***
***foreign***

Another dramatic shift was in the foreign – local players breakdown. Except the share acquisitions by IFC, no utility asset attracted foreign interest in 2016. On the other hand, although the foreign presence was more felt in oil&gas segment, the deal values remained limited. As a result, the share of the foreign deals decreased from 45% in 2015 to 7% in 2016.

# Utilities: further lost the steam but still in the lead...

Utilities kept leading the energy deals stream in 2016 with 24 deals amounting to USD 1.8 billion, all in power generation, except two in power retail.

The privatisation tenders in 2016 were for one thermal power plant, which was made attractive by the addition of real estate assets to the package, and for five hydroelectric power plant packages including eight assets. Similar to the previous years, none attracted foreign interest.

Following the failure in the privatisation of the package including the 50 MW Hopa Gas-fired Power Plant and Inebolu Port, three more real estate assets in Istanbul and Mardin were added to it. Eti Bakir, a copper production company, placed the highest bid of USD 27 million. The parent company, Cengiz Holding, has a large power generation and distribution portfolio and this acquisition has been another contributions via privatisations.

Privatisations continued with the sale of the operational rights of eight state hydroelectric power plants (in five packages). Albeit failing to reach the highs of 2015, the high average per MW prices sustained at around USD 2 million and the intensive interest by the local players once again proved the fact that the operating assets in this segment are more preferable than the greenfield.

The first one was for the 26 MW Tortum HPP, which was sold to Tayfurlar Enerji Elektrik Uretim A.S, a local energy company, for USD 46 million.

This was immediately followed by the tender for 51 MW Sanliurfa HPP, which ended with the highest bid of USD 87 million by Ronesans Enerji.

The third tender, which was for the bundled package of 62 MW Adiguzel and 48 MW Kemer HPPs, secured USD 115 million by Bereket Enerji, which has been quite active in the privatisation of the generation and distribution assets over the last couple of years. These two additions to the company's generation portfolio are assumed to serve its vertical integration.

The fourth tender was for the package of 27 MW Almus HPP and 90 MW Kokluce HPP. Gul Enerji won this tender for USD 252 million, as new additions to its parent company Gulsan Holding's existing HPP portfolio.

Akorenbeli HES Yatirim won the last tender, which was for the 124 MW Menzelet HPP and 54 MW Kilavuzlu HPP for USD 402 million. The company is a subsidiary of Akfen Holding, which has increased its renewables capacity to around 400 MW with these new deals.

Among the private deals, the largest was Guris Enerji's acquisition of the 232 MW portfolio of 6 WPPs from Aksa Enerji for USD 259 million. This was preceded by Guris' acquisitions of two HPPs of 14.1 MW and 25.8 MW earlier in the year to continue to grow its presence in the renewable energy segment.

The second largest private utilities deal was the 17% share acquisition by IFC from Akfen Yenilenebilir Enerji, the renewables arm of Akfen Holding, for USD 100 million. This was the only utilities deal involving a foreign party in 2016.

Among the private deals with undisclosed value, the 50% share sale in KLK Enerji to Kalyon Yatirim has been for the largest asset size. The company was initially wholly owned by Kolin Insaat and has the operation rights to three HPPs privatised in 2015: 103.2 MW Torul, 85 MW Kurtun and 74.5 MW Dogankent.

The remaining private deals in power generation were smaller in value and asset size.

Kivanc Tekstil, a Turkish textile company, acquired a 48 MW WPP, following the usual practice among the Turkish textile companies' diversification into renewable energy. Another involved a 50% share sale in a 50 MW WPP by Turkerler Holding to Akinal Enerji, a local investor.

The remaining generation asset deals included two geothermal assets. The first one, a 18 MW GPP, was the subject of the company restructuring within Turcas Holding. The second one, the sale of 50% share in a 24 MW GPP, was also the second deal between Turkerler Holding and Akinal.

It is also worth mentioning the two large utility deals that have been initiated in 2016. They are not included in our 2016 deals figures, as the transaction processes for both still continue. The first one is the potential acquisition of the operational rights to Osmangazi Electricity Distribution and Retail companies by Zorlu Enerji. The deal subject was sold to Dedeli Holding and Yildiz Family through privatisation in 2010 for USD 485 million. Zorlu Enerji disclosed its non-binding offer excluding debts as USD 360 million in 2016 and the negotiations are to continue into 2017. The other disclosed negotiations are for the 517 MW Cetin Dam and HPP currently owned by Statkraft. Limak Holding has recently signed a MoU for further exploration of the transaction options.

**Figure 3: Utility Deals in 2016**

| Date Announced | Target | Stakes in % | Acquirer | Acquirer Nationality | Deal Value (USD m) |
|---|---|---|---|---|---|
| 2-Feb-16 | Ekim Elektrik Muhendislik Musavirlik | 100% | Kivanc Tekstil, Turkish private investors | Turkey | 8 |
| 17-Feb-16 | Enda Enerji Holding | 3% | Verusa Holding | Turkey | 3 |
| 2-Mar-16 | Alas Enerji, Ayda Enerji, Kamar Enerji, Lumi Enerji, Yula Enerji | 100% | Ekin Kimya, Barsan Enerji | Turkey | 2 |
| 16-Mar-16 | BND Elektrik Uretim | 7% | Nigde Beton Sanayi | Turkey | 2 |
| 24-Mar-16 | İzdemir Enerji Elektrik Uretim | 8% | Izmir Demir Celik Sanayi | Turkey | 13 |
| 15-Apr-16 | İnebolu Port & Hopa TPP | 100% | Eti Bakir | Turkey | 27 |
| 19-Apr-16 | Kiraz Enerji Yatirim ve Uretim | 50% | Akinal Enerji Uretim | Turkey | n.d. |
| 26-Apr-16 | Tortum HPP | 100% | Tayfurlar Enerji Elektrik Uretim | Turkey | 46 |
| 27-Apr-16 | Sanliurfa HPP | 100% | Ronesans Enerji | Turkey | 87 |
| 28-Apr-16 | Adiguzel and Kemer HPP | 100% | Bereket Enerji Uretim | Turkey | 115 |
| 5-May-16 | Turcas BM Kuyucak Jeotermal Elektrik Uretim | 46% | Turcas Enerji Holding | Turkey | 6 |
| 11-May-16 | Turkerler Jeotermal Enerji Arama ve Uretim | 50% | Akinal Sentetik Tekstil | Turkey | n.d. |
| 13-May-16 | Siirt Akkoy Enerji Uretim | 100% | DC Elektrik Uretim | Turkey | 8 |
| 13-May-16 | Espiye HPP | 100% | Guris Holding | Turkey | n.d. |
| 16-Jun-16 | Cermikler HPP | 100% | Guris Holding | Turkey | n.d. |
| 23-Jun-16 | Akfen Yenilenebilir Enerji | 17% | IFC | Multinational | 100 |
| 29-Sep-16 | Almus and Kokluce HPP | 100% | Gul Enerji Uretim | Turkey | 252 |
| 3-Nov-16 | Menzelet and Kilavuzlu HPP | 100% | Akorenbeli HES Yatirim | Turkey | 402 |
| 18-Nov-16 | Ofen Enerji | 100% | Bakanlar Medya | Turkey | n.d. |
| 24-Nov-16 | Kozbuku HPP | 100% | Nas Enerji | Turkey | 89 |
| 30-Nov-16 | 6 WPPs of Aksa Enerji | 100% | Guris Holding | Turkey | 259 |
| 19-Dec-16 | Ata Elektrik Enerjisi | 26% | Verusa Holding | Turkey | n.d. |
| 28-Dec-16 | KLK Enerji Uretim | 50% | Kalyon Yatirim | Turkey | n.d. |
| 29-Dec-16 | Bordo Mavi Enerji Elektrik Uretim | 48% | Trabzonspor Futbol Isletmeciligi | Turkey | 13 |
| **Total** | | | | | ≃ 1,800* |

n.d.: not disclosed

*: Includes estimated deal value for undisclosed deals

# Oil and gas: back to pre-2015 drought...

The excitement on the oil&gas deals space in 2015 proved short lived. In 2016, only 6 deals were disclosed and could only generate USD 202 million versus USD 1.7 billion in 2015.

Majority of the value came from the awaited privatisation of TP Petrol Dagitim, the state-owned fuel retailer, generating 79% of the total deal value in the oil&gas market. The highest bid of USD 159 million was by Zulfikarlar Holding.  The company already owns Turkuaz Petrol, another fuel retailer in Turkey and, with this acquisition, has more than doubled its stations in Turkey to around 800.

The other deal among the local players was the sale of a 30% share in Kibar Enerji to Beykoz Enerji. The target holds a license to import natural gas from Russia via the Western Line.

One significant difference between the deals in the oil&gas and the utilities markets in 2016 was the involvement of the foreign investors in the majority of the deals in the former.

Two of these involved Valeura Energy. In the first deal, the company acquired its joint venture partner, Thrace Basin Natural Gas (Turkiye) Corporation for USD 22 million. And in the second one, it sold shares in its deep sea rights in the Thrace Region to Statoil for USD 15 million.

The other deal by a foreign investor was the sale of 51% shares in the Turkish fuel retailer Citypet to the Lebanese oil trading company BB Energy. Currently, Citypet has 30 fuel stations and the new partnership is targeting to increase to 45 by 2017, all under the new brand Hypco. This is the second deal in Turkey for BB Enegy, who acquired an oil storage company on the Mediterranean coast in 2011.

A significant deal again involving foreign investors in 2016 was the acquisition of the Aliaga Oil Terminal assets from OMV Petrol Ofisi by a group of investors led by SOCAR. This is mainly to enhance the logistics capacity around SOCAR's upcoming refinery in the area. Note that, as this is an asset deal and the fact that our methodology is to exclude separate asset sales, we have not included this transaction in our deal list and totals.

This is not the only asset put on sale by OMV Petrol Ofisi, as the company has been planning to fully exit the Turkish market by selling its fuel retail network, the largest in Turkey with c.1,800 stations. The deal has already attracted a number of large international investors. It is expected to be sealed in 2017 and to exceed the billion dollar mark.

**Figure 4: Oil and Gas Deals in 2016**

| *Date Announced* | *Target* | *Stakes in %* | *Acquirer* | *Acquirer Nationality* | *Deal Value (USD m)* |
|---|---|---|---|---|---|
| 24-Jun-16 | Kibar Enerji Dagitim | 30% | Beykoz Enerji | Turkey | n.d. |
| 4-Aug-16 | Citypet Petrolculuk | 51% | BB Energy | Lebanon | n.d. |
| 13-Oct-16 | Corporate Resources (Valeura Energy) | 50% | Statoil | Norway | 15 |
| 13-Oct-16 | Thrace Basin Natural Gas (Transatlantic Petroleum) | 100% | Valeura Energy | Canada | 22 |
| 20-Oct-16 | TP Petrol Dagitim | 100% | Zulfikarlar Holding | Turkey | 159 |
| 22-Dec-16 | Turcas Petrol | 5% | Turcas Enerji | Turkey | 6 |
| **Total** | | | | | **202** |

n.d.: not disclosed

# Looking ahead

Not so different than the last time, our expectations for the deal environment in 2017 still mostly depend on how many of the commitments will be delivered by the political and regulatory bodies, but also on the recovery in the economic environment.

Having discharged most of the remaining assets on its list so far, the Privatisation Administration is still expected to launch the tenders for six HPPs and two gas-fired power plants. The HPPs on the list are 56 MW Derbent HPP, 32 MW Camligoze HPP, 37 MW Yenice, 60 MW Seyhan-1 HPP, 7.5 MW Seyhan-2 HPP and 6 MW Yuregir HPP. A similar local bidder profile is expected to show interest in these assets if launched for tender in 2017.

The CCGTs anticipated to be tendered in 2017 are 1,482 MW Bursa CCGT and 180 MW Aliaga CCGT. If kept upto market expectations, the recent introduction of the capacity market model to financially support the gas-fired power plants may herald interest especially to Bursa CCGT. Regarding what is now a regular item in our new year expectations for the last couple of years, it would be nice to see a progress or completion on the Afsin-Elbistan B privatisation.

The recently introduced per/kWh bidding model for the construction of the Cayirhan B coal-fired power plant together with the operation of the adjacent coal mine has been confirmed to be applied to the similar assets on the waiting list. The licenses for the large solar PVs are also subject to a similar model. These are not to produce a 'deal value' as referred to in this report, however they will still constitute significant activities in the market.

On the private front, the Limak – Statkraft deal may open the 2017 season in the utilities deal pipeline, if the parties reach a swift deal. And, the potential portfolio restructuring among the utility companies may follow suit.

The subsequent loans provided by EBRD and EIB for the green projects in Turkey would also add to the momentum.

A new rule introduced in 2016 concerning the payments to the renewable energy companies subscribed to YEKDEM, the F-i-T system in Turkey, may grow critical for their financial strength. In fact, these companies are now charged for the system imbalance costs resulting from their failure to comply with their generation plans submitted to the system operator. It is known that this resulted in significant reductions in the payments during the second half of 2016, and its implications on the deal environment will be one of the top watch-outs in 2017.

Going down the utilities value chain, the awaited finalisation of the acquisition of the operational rights to Osmangazi Electricity Distribution and Retail Company by Zorlu Enerji may not be a one off case in that segment. As we emphasised last year, the high amount of debts of the power distribution and retail companies is still threatening their financial sustainability due to the significant depreciation in TL since their privatisations. This may lead to share sales to refinance their foreign currency-denominated privatisation debt.

Oil and gas deal total would potentially exceed the billion dollar mark in 2017 with the finalisation of the OMV Petrol Ofisi deal and that would likely be the only deal to attract a sizeable foreign interest. Also, it may be one of the very few deals in this segment altogether, due to the unfavourable conditions especially sustained in the natural gas market, where liberalisation does not seem to be a priority anymore.

Before the very last word, we deem important to mention two recent regulatory developments, which may affect the deal environment in 2017. The first one is about the right to ask for bankruptcy suspension by Turkish companies, which was providing them with a recovery and restructuring opportunity for upto 2 years. The scope of this regulation was significantly narrowed down with a new law in June 2016 and then it has been temporarily abolished during the state of emergency declared in July 2016. Given the financial problems known to be experienced by the small fuel and power retail companies in Turkey, the absence of these rights may end in rushed asset sales if not sudden deaths.

The second important development has been the restructuring within the EMRA, the regulatory authority, which has now separate dedicated departments for the audit and inspection for each of the markets under its authority. This means highly intensified scrutiny over the activities in each market will bring about significant amounts of penalties and operational suspensions, which may again put a critical burden on the companies' financials in case of noncompliance.

Last year, we said "we do not want to open our 2016 report by saying 2016 did not break the rule since 2013 and the total deal values reached new lows." But this was exactly what happened. Nevertheless, our fingers are still crossed for some more momentum, to be preceded by a trustable recovery in the investment environment.

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2016-0335