2023

ENERGY DEALS

Merger and acquisition activity
in Türkiye’s energy market

pwc

Contents

Methodology and terminology

Energy Deals 2023 includes analyses of cross-border and domestic deal activity in the oil, gas and electricity markets in Türkiye. The analyses are based on publicly available information and encompass announced deals as of 31 December 2023, 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 pwc.com.tr/energy-deals

Welcome

to the 16th edition of the Energy Deals, our annual analysis of mergers and acquisitions in the Turkish energy market

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Deals Leader

The wars in Ukraine and Gaza, cost of living crisis, financing still hard and expensive, hard landing of the tech companies, the worries about a potential expansion of the Israel – Hamas war to the region, all amid the climate crisis outcry to shape the commitments at the COP28 made 2023 another exceptional year.

Against this background, in 2023, the global deal activity continued its slide that started in 2022. Global energy, utilities and resources sectors reflected this lower velocity in terms of both the number of deals and the time it is taking to agree to a value and execute a deal, are all highlighting the uncertainty in deal pricing caused by inflation, high interest rates, geopolitical unrest and volatility in commodity prices.

At home, the Turkish energy market displayed a similar lack of recovery and the deal figures failed to return to 2021 levels under the shadow of the ongoing economic crisis with further depreciation of Turkish lira and the incremental progress in the fight with inflation. In 2023, 29 energy deals generated an estimated total value of USD 1.8 billion, marking a 10% fall from USD 2 billion generated by 31 deals in 2022.

Although only five oil&gas deals were announced in the oil&gas segment, their total value estimated at USD 1.1 billion made this segment the relative winner of 2023, as opposed to previous years.

And, not breaking the previous years' pattern, the majority of the 24 utility deals concerned renewable energy assets and the rest in thermal power generation.

A significant change vis-à-vis 2022 was the spike in the share of foreign deals from 31% to 60% largely thanks to sale of BP's fuel distribution network in Türkiye to Vitol-owned Petrol Ofisi. In the utilities segment, on the other hand, the lack of foreign interest was even more obvious compared to previous years. We believe that this picture should prompt some serious discussions about how to rekindle the attractiveness of the Turkish electricity market in particular.

Looking ahead... The efforts by the Turkish energy administration to align its actions with the global best practices shaped by the Paris Climate Agreement are promising. However, the shadow of macroeconomic reforms still hanging and the potential recovery in the global deal space will be the key dynamics to watch out. With a series of updates in the YEKDEM scheme failing to prompt large number of deals so far and shift to IPOs as alternative financing method, new attraction points are urgently needed to keep the deal space alive. Although foreign interest still exists, this should be ideally happening in a seller's market and better reflect the intrinsic value of the companies with their high-quality assets and workforce. Now more than ever, it is up to the policy makers to make Türkiye gain the safe haven status with a long-term view.

Deal Totals

Downward trend unreversed...

As you may remember from our previous reports, the upward momentum that the Turkish energy deal space had gained in 2020 and sustained in 2021 against all odds of the pandemic had a sharp reversal in 2022 as a repercussion of the deepening recession in the global and domestic markets. 2023 was a year of further loss in that momentum.

29 energy deals generated an estimated total value of USD 1.8 billion, marking a 10% fall from USD 2 billion in 2022 with a slight decrease in the average deal value to USD 62 million. The main reason behind this slide in figures was the low supply of utility assets for sale in the market. In addition to the macroeconomic uncertainties, the preference for IPOs, which have become a mainstream alternative for financing, and increasing interest among the Turkish players in overseas investments also played an important role in this picture.

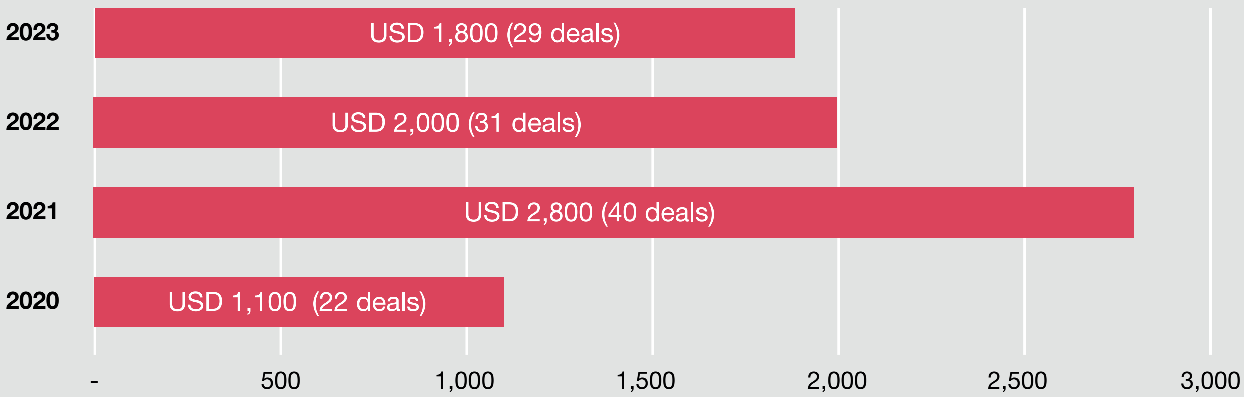
Although they were less than a quarter in total number of deals, the transactions in the oil&gas segment, three in fuel retail and two in upstream, generated approximately 60% of the total deal value. On the utilities front, with less diversity in asset nature, the majority of the deals were for small renewable energy portfolios with the remaining in thermal power generation. And, all energy deals happened between the private players.

The total deal value in 2023 had a limited fell due to macroeconomic uncertainties and the low supply of utility assets for sale that instead were made subject to IPOs

Figure 1: Total Energy Deals in 2022 and 2023

	FY22			FY23			YoY change	
	Number	Value (USD m)	Average Value	Number	Value (USD m)	Average Value	% number	% value
Utilities	30	2.000	67	24	700	29	-20%	-65%
Oil and gas	1	n.d.	n.d.	5	1.100	220	400%	n.d.
Total	**31**	**2.000**	**65**	**29**	**1.800**	**62**	**-6%**	**10%**

Figure 2: Total deals between 2020 and 2023 by value (USD million) and number of deals



All deals had private players on both sides of the negotiation table.

With a significant recovery from last year, interest in the Turkish fuel retail market pushed the share of deals involving foreign investors in the total deal value to approximately 60%.

Utilities

Less deals for less value…

After a quasi-catastrophic year of 2022, when the global energy crisis worsened by the war in Ukraine and the European gas prices increased 14-fold compared to 2019, the 38% y-o-y increase in the first half of 2023 did not get the reaction that might have normally do. That said, the expiration of the short-term measures like caps on the utility bills to shield consumers from the impacts of the cost-of-living crisis put a tremendous pressure on the households. In the meantime, the Israel-Hamas war had a limited effect on oil prices in the last quarter of 2023.

Albeit slower, global coal consumption continued to rise in 2023 and it reached 8.5 billion tonnes for the first time, mainly driven by rising demand for electricity and weak hydropower output in China and India.

At home, under the impact of the general elections, which made the fight with inflation extra critical, 2023 was a relatively quiet year with relatively smaller increases in power prices which remained at around 20% compared to the 3-digit shocks in 2022.

The total power consumption dropped 2% y-o-y during first ten months of 2023. On the other hand, the total generation capacity inched up by 3% to reach 106 GW, with the majority of the 3 GW of addition coming from the new unlicensed power plants.

Contrary to expectations, it was a year with no YEKA tender, which could otherwise produce potential acquisition targets with their robust concession structure.

Following the amendments in the formulation and scope of the feed-in tariffs paid to renewable energy generation (YEKDEM) in 2021, another amendment came in 2023. The highlights of this recent amendment include the increases in the tariffs and in the weights of the hard currencies used in the escalation formula to better seal the players from the impact of depreciation in Turkish Lira, the extension of the final commissioning date for eligibility from the end of 2025 to 2030, the inclusion of offshore wind, storage facilities, pumped-storage hydroelectric and wave & marine current power to the support scheme, introduction of a ceiling and a floor for the tariffs to better absorb the FX rate risk faced by the generation companies, the escalation moving from quarterly to monthly basis, and so on.

While most of these amendments were welcome moves towards the official net zero ambitions, the government's support for coal-fired PPs did not stop either. Since April 2023, the import of coal for power generation is exempt from the customs duty of USD 15/ton to help the plant owners remain competitive against the increasing prices in the global markets. There is no such support to the natural gas-fired plant operators most of which have been long mired under piling losses, although this type of generation is cleaner than coal.

And, the much anticipated privatisation of TEİAŞ is understood to be slated to 2025 earliest according to a Presidential decision to extend the preparation until 31 December 2024.

Moving on to the utility deals, their number fell from 30 in 2022 to 24 in 2023 with the estimated total deal value in this segment melting 65% to USD 700 million from USD 2 billion a year ago. Renewable energy assets continued to dominate the stage with 15 transactions and the rest concerned seven GPP and two natural gas-fired PPs, with no deal interest in other segments than generation in the utility market as opposed to the diversified picture of the last couple of years.

The deal with the largest disclosed value in 2023 involved a foreign buyer. Total Energies acquired a 50% stake in Rönesans Enerji, a Turkish renewable company from Rönesans Holding, a Turkish conglomerate, for USD 150m. The target is currently operating a portfolio of 166 MW hydro assets. This is a new chapter for Total Energies in the Turkish market. The company had exited the country in 2016 with the sale of its oil&gas distribution company to Demirören and had had no major investment since then.

The next deal in value was the acquisition of 50% stake in Greeneco Enerji Elektrik Üretim for USD 131 million by İş Bankası. Greeneco, a local energy company, holds license for 105 MW of solar power generation capacity. And, this is a new link to a series of acquisitions by İş Bankası, one of the largest banks in Türkiye, and its subsidiaries in the Turkish renewable energy market.

In the third deal with the largest disclosed value, Margun Enerji, a Turkish energy company and a familiar name in the acquisition space, bought a 30.39% stake in the Turkish energy firm Enda Enerji Holding for USD 53 m from Verusa Holding, Investco Holding and Pamukova Elektrik Uretim.

The target owns and operates a 189 MW renewable energy portfolio including HPP, WPP and GPP assets.

In another deal, Enda merged with its wholly owned subsidiary Tirenda with an intra-group transaction that did not result in a change of control. Tirenda owns a license for a 60 MW CCGT plant.

Following its IPO, Tatlıpınar Enerji acquired 23% stake in Ağaoğlu Yenilenebilir Enerji Yatırım Holding for USD 21.9mn. The target has a portfolio of WPP and HPP of 90 MW in total and a renewable energy project portfolio of 31 MW.

Another HPP deal underlined the erosion of value in the privatised HPP assets. The 49-year operational rights of the 9 MW Hasanlar HPP, which was won by Batıçim in 2012 with a USD 30.9 mn-bid at its privatisation, was sold in 2023 for USD 11.5 mn to Sim Enerji, a local energy company.

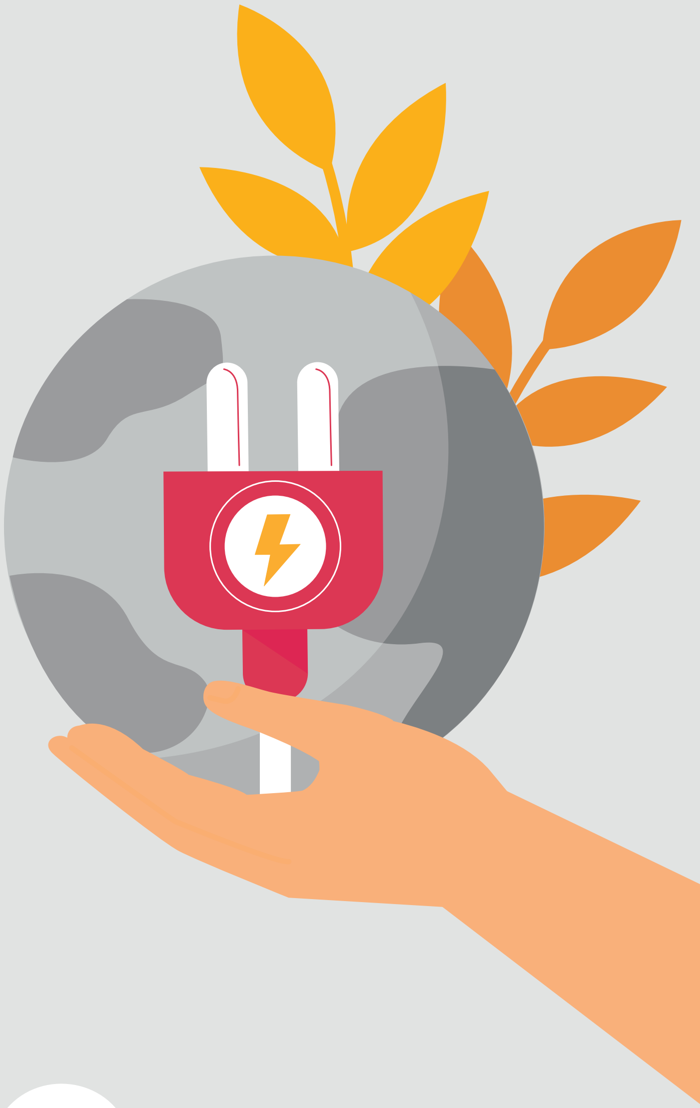
Alarko Holding completed the full acquisition of Gurluk Jeotermal Enerji in two moves, first 40% and then the rest, through its affiliate Alarko Agriculture Industry for a total of USD 9.8 mn. The target is a local company holding a 8 MW GPP license.

One noteworthy trend was the internal restructuring operations by the established Turkish renewable energy companies. In two separate moves, Zorlu Enerji merged with its wholly-owned companies Alkan, Rarik Turkison Enerji, both holding and exploration and operating licenses for GPPs. In a third move, this time Zorlu Enerji transferred all its shares in Nemrut Jeotermal and Zorlu Elektrik to Zorlu Renewables.

In a similar move, Enka Power Plant Operation and Maintenance Services Inc. and Enka Sakarya Electricity Generation Inc. under the umbrella of Enka Energy Trading Inc. Enka owns and operates a 4 GW portfolio of natural gas-fired power plants.

And, İzdemir Enerji merged with its fully-owned subsidiary İzdemir Solar, which owns an SPP portfolio of 167 MW.

In the single utility deal with the exit of a foreign investor, Limak Investment Energy bought 25% shares in Limak Natural Gas Electricity Generation Inc from InfraKan Holding. The company owns and operate the 1,156 MW Hamitabat CCPP.



Entek Elektrik, which has become a regular name on our acquirer column over the last couple of years, fully acquired Esinti Enerji with a 54 MW WPP operating portfolio.

Aytemiz, which sold its fuel retail business to Tatneft, fully exited the energy industry by selling its power generation subsidiary Aytemiz Elektrik with a total HPP and WPP capacity of 20 MW to Sanko Enerji.

And in a deal between two SPP companies, Birleşim Yeşil Enerji fully acquired Zen Enerji to double the size of its portfolio to 96 MW.

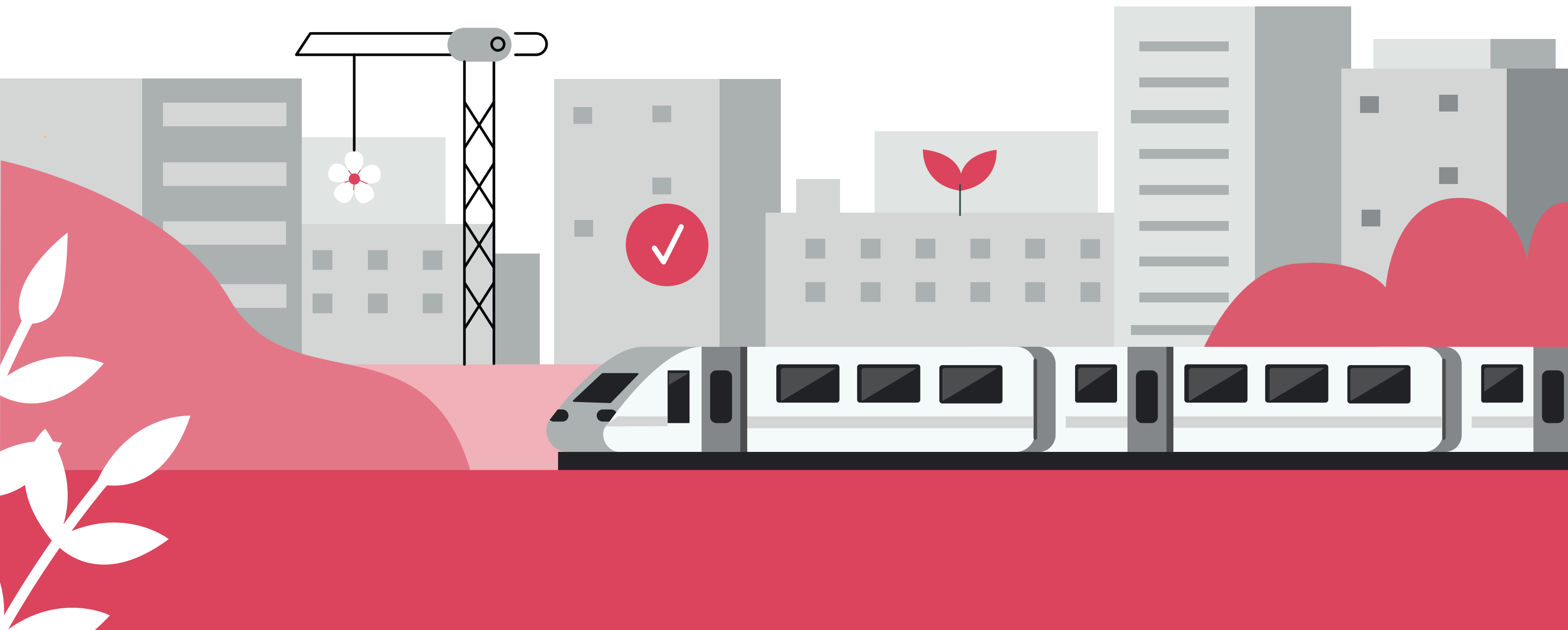
In the remaining five deals (four renewables and one GPP), the generation capacity that changed hands was below 25 MW in each and they all took place among local players.

Figure 3: Utility Deals in 2023

Date Announced	Target	Stakes in %	Acquirer	Acquirer Nationality	Deal Value (USD mn)
18-Jan-23	Hasanlar HES	100%	Mis Enerji	Türkiye	11.5
20-Jan-23	Enda Enerji	30%	Margün Enerji	Türkiye	53.7
6-Feb-23	Dinar Elektirk	100%	Isparta Elektrik	Türkiye	n.d.
6-Mar-23	Gurluk Jeotermal Enerji	40%	Alarko Tarim Sanayi	Türkiye	4.0
31-Mar-23	Eka Elektrik	100%	DGN Solar Enerji	Türkiye	n.d.
28-Apr-23	Alkan Jeotermal Enerji	100%	Zorlu Enerji	Türkiye	n.d.
14-May-23	Limak Doğalgaz - InfraKan shares	25%	Limak Yatırım Enerji	Türkiye	n.d.
16-May-23	TPP license of Aydem Elektrik	100%	Kocaer Celik	Türkiye	n.d.
24-May-23	Kartal Yenilenebilir Enerji	31%	Koray Holding	Türkiye	12.1
30-May-23	6 SPPs of Ciftay Insaat	100%	Peninsula Solar	Türkiye	n.d.
11-Jul-23	Gürlük Jeotermal Enerji	60%	Alarko Tarim Sanayi	Türkiye	5.8
16-Jul-23	Ral Enerji	50%	GrainTurk	Türkiye	6.5
21-Jul-23	Enka Sakarya Elektrik	100%	Enka Enerji	Türkiye	n.d.
24-Jul-23	Rönesans Enerji	50%	TotalEnergies	France	150.0
1-Aug-23	Tirenda Enerji	100%	Enda Enerji	Türkiye	n.d.
29-Aug-23	Rarik Turkison Enerji	100%	Zorlu Enerji	Türkiye	n.d.
12-Sep-23	Ada GES	100%	Alfa Solar	Türkiye	3.4
20-Sep-23	Greeneco Enerji	50%	İş Bankası	Türkiye	130.9
23-Sep-23	İzdemir Solar	100%	İzdemir Enerji	Türkiye	n.d.
29-Sep-23	Nemrut Jeotermal	100%	Zorlu Yenilenebilir	Türkiye	n.d.
2-Nov-23	Aytemiz Elektrik Üretim	100%	Sanko Enerji	Türkiye	n.d.
12-Nov-23	Esinti Enerji	100%	Entek Elektrik	Türkiye	n.d.
13-Nov-23	Zen Enerji	100%	Birlesim Yesil Enerji	Türkiye	n.d.
25-Dec-23	Agaoglu Yenilenebilir Enerji	23%	Tatlipinar Enerji	Türkiye	21.9
Total*				**≅**	**700.0**

n.d.: not disclosed

*: Includes estimated deal value for undisclosed deals



Oil and gas

Revival in interest in the downstream…

After some extended interval, oil&gas deals came back to dominate the Turkish energy deals space in 2023 with interest from both local and foreign players. The value of the five deals enacted in this segment amounted to USD 1.1 billion, 61% of the total figure.

Three of these transactions were in fuel retail, which greatly suffered over the last decade due to relentless increase in station operating costs (utilities, workforce and logistics) and working capital financing costs. Already struggling with margins squeezed with the regulatory price cap, sector players found themselves in a serious crisis that pushed many of them to close their business. And stronger companies among them have finally started to attract buyers.

In this changing climate, the fuel retail segment hosted three deals in 2023 and the acquisition of BP's 770 fuel station business in Türkiye by Vitol-owned Petrol Ofisi for an undisclosed amount topped the list. Already the market leader with 22% share in total sales, Petrol Ofisi is now estimated to have increased it to around 30% with this acquisition. While marking the end of 111-year presence of BP in Türkiye to a large extent, this deal is understood to give Vitol, one of the world's largest hydrocarbon traders, a substantial increase in volume in the Turkish market.

Another deal in the fuel retail segment where a foreign player was on the buy-side was the acquisition of Aytemiz Petrol by the Russian oil company Tatneft for USD 320 million. Aytemiz, an important player in the highly fragmented Turkish market with 590 stations realising 4% of total fuel sales in the country, also had a sizeable storage and loading capacity. All these assets made it a suitable acquisition target for Tatneft to geographically diversify its vertical integration efforts beyond Russian Federation.

And in the third deal in fuel retail, Zeren Grorp, a Turkish company with operations in different segment of the energy industry, acquired Alpet from Altınbaş Holding for an undisclosed amount. The company has less then 1% market share with 250 stations but owns the fourth largest fuel storage capacity in Türkiye.

And the remaining two oil&gas deals were in the upstream. In one, Transatlantic Petroleum sold its 50% share in the operation license in oil fields in Diyarbakır and Mardin in Southeast Türkiye to its partners in the licenses, Alaaddin Ltd ve Güney Yıldızı for an undisclosed amount.

And finally, Eande Petroleum transferred 10% of the exploration license in an oilfield in Gaziantep to Eande Energy, its parent company.

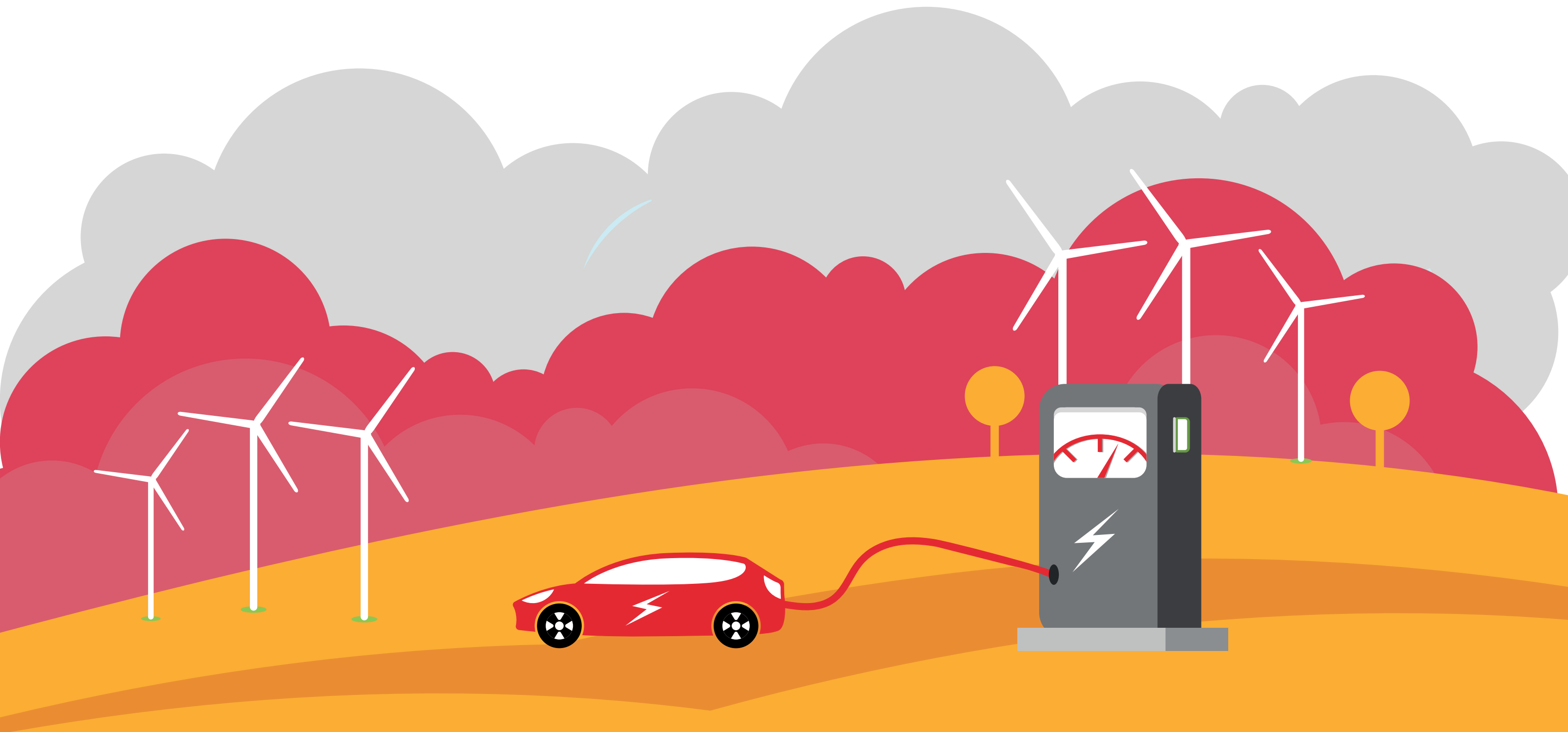
It was another year of silence on the natural gas front. While there was no update about the replacement of renewal of the Western Line import agreement that expired in 2021, Türkiye kept receiving gas from Russia under its other contracts with no major problem. And the LNG supply contract with Algeria is now extended until the end of 2027 with a volume of 4.4 bcm per annum. During the first nine months of the year, natural gas consumption dropped by 7%. Although this reduced the total import, the annual hike in LNG cargoes, which reached 20% between June and September 2023, is still worth mentioning.

As an established fact, BOTAŞ still dominates 99.9% of the import market. Following the very sharp hikes in BOTAŞ' wholesale tariff to all types of customers in 2022, the upward moves in 2023 remained in single digits mainly to contain inflation. The March 2023 amendment to the import regulation that is now enabling the private companies to negotiate separate import deals with countries already in engagement with BOTAŞ has not produced a significant outcome so far.

Figure 4: Oil & gas Deals in 2023

Date Announced	Target	Stakes in %	Acquirer	Acquirer Nationality	Deal Value (USD mn)
8-Apr-23	Aytemiz Akaryakıt	100%	Tatneft	Russia	320.0
6-Aug-23	Eande Petroleum - License	10%	Eande Energy	Türkiye	n.d.
25-Oct-23	Transatlantic Petroleum - License	50%	Alaaddin Middle East & Guney Yildizi	USA	n.d.
2-Nov-23	Alpet	100%	Zeren Group	Türkiye	n.d.
16-Nov-23	BP Turkey	100%	Petrol Ofisi	Türkiye	n.d.
Total*					**1.100**

n.d.: not disclosed   *: Includes estimated deal value for undisclosed deals



Looking ahead

We expect six topics to potentially shape the deal environment in the Turkish energy market in 2024: macroeconomic developments, promises of the 12th Development Plan, moves towards Türkiye's climate commitments, IPOs by utility companies, renewable energy generation with storage, momentum in fuel retail.

Macroeconomic developments

The shift to mainstream macroeconomic practices following the general elections in Türkiye was welcome with optimism in foreign markets. However, it has so far fallen short of attracting foreign interest in the Turkish energy market, hinting that this might take longer than thought. The upcoming municipal elections in March 2024 will be a serious test about the commitment to these new policies that need a firm end to splash of limited resources through public spending and a firmer control on inflation. It is only with this visibility that a more diversified set of clean energy investment options and larger and more diversified financial institution interest would develop to support them.

Targets in the 12th Development Plan (2024-2028)

Türkiye's 12th National Development Plan (NDP) setting the 2024-2028 targets for all sectors has a long list for energy with respect to the country's net-zero ambition by 2053. The ones that may end in new business and deal opportunities include:

- New regulation to promote demand-side management,
- Support to alternative business models like energy performance contracts to increase efficiency in buildings,
- New regulation to incorporate a heat market for new heating and cooling infrastructure,
- More support to the use geothermal resources for district heating,
- Interest in small nuclear reactors,
- Focus on development of offshore windparks,
- Investments in the power transmission network to better accommodate new renewable, energy capacity and the interest in EVs,
- More investment in domestic hydrocarbon resources,

- Doubling TANAP's gas transmission capacity to 32 bcm per annum,
- Support to the local manufacturing of power plant spare parts.

Moves towards Türkiye's climate commitments

According to the announcements by the Turkish energy administration, 2024 would be the year with significant moves towards Türkiye's climate commitments:

- The draft Regulation on the Operations of Carbon Markets in the country is now open to public review,
- The scope of the Credit Guarantee Fund is now extended to support investments by the small and medium enterprises in energy efficiency and green transformation projects,
- Energy efficiency targets in public buildings has been increased to 30% until 2030 from the previous figure of 15%,
- The Emission Trade System in Türkiye will get operational under EPİAŞ in 2024.

All these critical steps are expected to stimulate new business models and ease financing with alternatives, which could all lead to new deal cases.

IPOs by utility companies

As it has already become the mainstream financing methods among the utility companies, we expect to see the continuation of the IPO trend in this segment. In turn, this is likely to make 2024 another year of weak supply of assets for sale in the market.

Renewable energy generation with storage

According to the information shared by EMRA, there was a substantial interest in 2023 in the pre-licensing rounds for wind and solar power generation capacity with storage facilities. This would pave the way for the emergence of new portfolios that would in turn become new acquisition targets.

Momentum in fuel retail

According to our market intelligence, another two or three deals in the fuel retail segment are already on course in 2024, to keep the emerging wave in 2023 alive. We expect those deals to continue to target the players with single-digit market shares, which is still very significant in this fragmented market with 35 players, the top ten of which holds 73% of total sales. Considering the fact that the number of fuel retail companies was 52 only two years ago, we would also see some consolidation and inevitable closures too.

At the end of 2022, we had said: In this intensive climate both abroad and at home, where one crisis supersedes another week in and week out, Türkiye should keep generating new attraction points to decouple from the global downturns and make the most of another global recovery.

And, this year we are repeating it even louder. Although foreign interest still exists, this should be ideally happening in a seller's market and better reflect the intrinsic value of the companies with their high-quality assets and workforce.

Following the emerging trend in 2023 on the buyers front, in addition to fuel retailers themselves, it would no longer be a surprise to see more traders' interest to capture more volumes in Türkiye with vertical integration options.

And, this wave of deal activity would extend to LPG distribution segment too, where the problems are not different.

The Framework Agreement signed at the the end of 2023 on the cooperation between Turkiye and UAE about a strategic partnership on energy and natural resources may rekindle the foreign interest in the Turkish utilities market in particular. The Agreement covers cooperation in renewable and clean energy projects (offshore wind, solar and onshore wind with storage, green hydrogen and ammonia production, pumped HPPs), network and transmission projects, thermal power projects (CCGT and clean coal), mining projects (rare minerals, hydrogen, carbon capture) and energy efficiency projects (waste and recoverable heat, district heating and cooling, ESCO).

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