ContourGlobal - Acquisition of Contracted Power Plants in the US and Trinidad and Tobago

Presentation

Joseph Brandt

President and Chief Executive Officer

Okay, thanks, [Courtney]. Thanks, everyone, for joining this morning. We appreciate your willingness to participate in yet another Zoom-mediated call rather than an in-person meeting. Today I'm joined by a number of people at Contour, who have been involved and will be discussing with you the news that we announced yesterday. Very happy to have this discussion about a transaction we've been looking at for quite some time this year and very excited about announcing it.

Stefan Schellinger, our Chief Financial Officer, Executive Director, is on the call. Karl Schnadt, who is our Executive Vice President and our Chief Operating Officer globally. Quinto Di Ferdinando, who's our Senior Vice President and the Chief Operating Officer for our Thermal Division, joins us from our power plant today in Mexico. Alice Heathcote, Senior Vice President, Corporate Strategy and IR, who has been leading the transaction for us over the past several months. We have a set of slides that have been posted to the investor relations website. We will walk through these slides with you before opening up to Q&A.

I'll begin on slide 5, to provide an overview and a highlight of this very significant transaction for us. We announced yesterday that we are acquiring 1.5 gigawatts of power plants located in the United States and the Caribbean, specifically on the island of Trinidad and Tobago, for $837 million on a cash and debt free basis.

Obviously, a very meaningful transaction for us. It's a transaction which sees us acquiring a fleet primarily of natural gas-fired assets. One of which is a high-efficiency co-generation business very similar to the ones in Mexico that we acquired last year, where Quinto is today. The 1.5 gigawatts includes two significant baseload power plants located in a part of the US which is a primarily bilaterally contracted market, one in New Mexico and then the co-generation asset in Texas.

Then the third major business is located in the Caribbean, very close to the island of Bonaire. Where, as you know if you follow the Company, we've been very active in developing both hybrid technology and renewable technology, to take advantage of the opportunity to bring new forms of power to isolated systems such as islands.

So the Trinidad and Tobago asset, which is the largest independent power generator on that island, is just an extension of a strategy, that we've had for over a decade, to grow in the Caribbean region. We like the add-on and expansion opportunity there. There are also two asset clusters located in California, in southern California, and then a small peaking plant in Connecticut.

We've provided, in our materials yesterday and then again today, some financial contribution and profit forecast information related to the transaction. As I'm sure you know, we are a cash-focused investor. We're most interested in the IRRs of the investments that we make. This transaction has meaningful cash returns, IRRs that are significantly higher than the Company's weighted average cost of capital.

Additionally, we're expecting an adjusted EBITDA contribution in the first year, following the completion of the business, of approximately $92 million. That $92 million reflects about $5 million of one-time integration costs. Cash distributions associated with the IRR obviously are expected to be, in the first year, approximately $40 million.

I think the critical point about this transaction is that it is an extremely good fit for the way we like to grow through M&A. We like to grow by leading with operations. We view this as one of the key strategic tenets of the Company, which is to look for acquisitions where we can add material value through better operations. We call these operationally led transactions. This transaction with this group of assets which we know extremely well, both in terms of technology and the underlying operating markets, is really a posterchild for the operationally led approach that we bring to mergers and acquisitions.

They are all natural gas with the exception of the small peaking plant in Connecticut. These are very flexible assets in all of the markets where they operate. The two major assets, the one in New Mexico and Texas, are baseload assets. So these are running for very substantial parts of the year. On Trinidad, the business runs as a baseload and mid-merit plant.

The part of the United States where we are entering with this acquisition is a power pool that's categorised by long-term bilateral contracts. So it's a very good fit for how we operate and develop our business. The two businesses which extend, through the contract period, the ability to provide the electricity to customers, and also with substantial asset life beyond the existing contract period. So these are critical assets for these power pools, as you'll hear about later. We expect them, even when they come off contract, to continue to be contracted in those markets.

All of the assets benefit from long-term dollar-denominated contracts. You'll see the meaningful growth in US-dollar contribution coming from these businesses, both in terms of EBITDA and cash. In the Caribbean, as you know, many of the islands denominate electricity and other energy products in US dollar. So not only in the US, but also in Trinidad and Tobago these are US-dollar assets.

For our portfolio in the Caribbean we have US-dollar contracts in Trinidad and Tobago, pro forma for this transaction in Bonaire, and then in Saint Martin and in Guadeloupe we have Euro contracts. So this is an entire US-dollar contract portfolio.

The operational and value creation, which we'll talk about later, stems from the reality that these assets are all similar to assets that we have in our portfolio currently, including the co-generation asset that's located in Texas. We're very familiar with these technologies, very familiar with how to operate these technologies. We feel that we're extremely well positioned to create value through that operation.

We also believe that we're acquiring a portfolio across the board which will benefit from an ability to either repower or further develop. We see this, in particular, in the California assets, where there's obviously a real push for battery-related storage. We think these sites will be well positioned to take advantage of that.

Our experience in the Caribbean gives us confidence that, on an island like Trinidad and Tobago, we have an opportunity to help transition these islands away from purely thermal fuels and integrate into the systems both battery storage and renewables. As we've done, as I mentioned, very closely, less than 30 minutes away by air, on the island of Bonaire.

So that's the highlights and overview of the transaction. I'll turn over to Stefan Schellinger to walk through the financial highlights on slide 6. Stefan.

Stefan Schellinger

Executive Vice President, Global Chief Financial Officer

Thank you, Joe. Good morning, everyone. In terms of financial highlights, I think this acquisition has a very strong stream of cash flows from high quality offtakers to our portfolio, providing a meaningful increase of parent company free cash flow.

So as you know, we operate a structure where our power generation assets are financed with long-term, amortising, non-recourse debt and distribute the free cash flow up to the parent company level. This acquisition is expected to increase the cash distribution to the parent by approximately 40 million [years (sic)] in the first year of completion.

Therefore, this increase in parent company free cash flow will support our dividend policy of annual 10% dividend growth and will improve our dividend cover at the parent company level. Which, as you know, is a key part of our commitment to our investors, growing dividend year by year.

The acquisition will also add a meaningful amount to US-dollar denominated EBITDA, $97 million in the first-year post-completion if you exclude the $5 million of integration costs we expect in 2021. It will further diversify the EBITDA contribution in regards to not only currency, as I mentioned, but also technology and geography.

In addition, we expect to generate a very attractive risk-adjusted return, measured as cash IRR, on this acquisition, significantly exceeding our cost of capital. Finally, while the acquisition is moderately increasing our leverage, we believe this is well supported by the strong and high quality of the nature of the acquired assets and we expect leverage to fall over subsequent financial periods.

So net-net I think a very strong acquisition from a financial perspective, really supporting the characteristics of our financial model, having strong, robust financial assets distributing cash to our parent company, allowing us to redeploy capital and to grow our dividend and increase our dividend cover.

With that, I pass it back to you, Joe.

Joseph Brandt

President and Chief Executive Officer

Thanks, Stefan. Let's look at slide 7 and take a quick look at the individual assets or asset clusters themselves. As mentioned, all of these assets are contracted. The big three assets here are the Hobbs combined-cycle, which is a 604-megawatt combined-cycle located in New Mexico. It benefits from long-term contracts to 2033 with Southwestern Public Service, which is the regulated utility for the region of New Mexico and part of Texas. It's held by the Xcel group of companies and it's located in the Southwest Power Pool.

The second asset which is most important is the Borger asset. This is the co-generation asset located in Texas. It fits into our solutions business. Very similar to the co-generation business we just acquired just over the border, the two businesses there in Mexico, particularly the large one, CGA in Altamira. Borger is a 230-megawatt co-generation business. It supplies steam and heat to a local refinery. It provides the electricity, under long-term contract, through into SPS as well, so the same offtaker for the Hobbs asset.

Then the third of the largest assets and most important to the portfolio, the one in Trinidad and Tobago, is a 225-megawatt simple-cycle gas turbine which sells under long-term contract to the local utility, the Trinidad and Tobago utility. In addition to that, there's a small peaking plant in Connecticut.

Then, in California, there are significant asset clusters there. So there are really eight individual assets in two clusters, constituting a little less than 400 megawatts. They're located in southern California. The market there is the Californian Independent System Operator market.

They sell either under contract, or under a regime which is a capacity-like certificate known as the resource allocation market, the so-called RA market in which the thermal plant in the California system is provided a financial incentive to remain available.

Particularly a flexible plant like these, given the significant buildout in renewable energy in the California system and the adjacent system, the need for flexible natural gas-fired power plant is increasingly evident, as those of you who follow that market know. The RA certificate regime reflects the desire and the need to keep this type of flexible plant financially incentivised to stay available.

You can see on slide 8 what we've mentioned now, in the previous minutes, and Stefan just walked through, which is really the technology and currency impact of the acquisition. In terms of overall net capacity, we're obviously adding a very significant amount of capacity, in this case about a 30% addition on a capacity basis.

You're also seeing a growth in the natural gas fired segment of our thermal group and in the high-efficiency, co-generation segment, what we call the solutions business, where we've obviously been very, very active since 2008. We've developed a number of high-efficiency co-generations, some with carbon capture for the Coca-Cola bottling enterprise in Europe. I

n Africa, we've added co-generation assets, beginning in 2016 in Brazil, where we serve beverage customers, as well as other industrials. Then with the acquisition last year in Mexico, we added two co-generation businesses, one a substantial, brand-new business supplying a big, industrial customer there.

We like this space a lot. We feel like it contributes meaningfully to the energy transaction. Squeezing the most energy possible out of fuel is very important as we move towards an energy future which increasingly sees storage and renewables as major components. In the industrial space, the need to be able to procure heat and steam by-products from power plant is really an important part of the transaction and in using fossil fuel in a very efficient way.

On the basis of comments made earlier related to obviously the US-dollar sourced from the US, but also Trinidad and Tobago, you see a meaningful increase in the contribution of US-dollar businesses from this portfolio to our overall portfolio. So you can see we're increasing the US-dollar component of our currency mix by about 36%. It remains Euro and dollar as the most predominant currencies in the portfolio.

The one exception to that is the unhedged component, about 8% total, coming from Brazilian Real. Although I would point out that in Brazil the solutions business down there is also a dollar business and one of the attractive features of that business. In terms of geography, you're seeing a pick-up, as you would imagine, from US and Caribbean associated with this business.

With that, beginning on slide 9 I'd like to turn it over to Alice Heathcote to walk through some of the details on the contract profile of the acquired business. Alice.

Alice Heathcote

Senior Vice President, Corporate Strategy and IR

Sure. Hi, and good morning, everyone. So as you can see on the right-hand side of slide 9, these graphs here show the average credit rating of the offtakers of this acquisition, and then also the contracting portfolio of the acquired acquisition. As you can see, these are long-term contracts with high-quality counterparties that enhance the overall credit profile of ContourGlobal.

So the weighted average remaining contract life of this acquisition portfolio is nine years. We have high visibility over a couple of contracts, which is expected to increase that to 10 years shortly after close through these high-visibility contract extensions.

As Joe already discussed, the largest contract here is a 604-megawatt CCGT plant in New Mexico, also known as Hobbs. This operates in the Southwest Power Pool market, with the offtaker being the Southwestern Public Service company.

The co-generation plant, Borger, also has the same offtaker. It's PPA at the moment expires in 2024. We have high visibility over the contract being extended to 2034. On the graph on the top right-hand side of that page, you can see that the A minus, the 59% of the capacity there, is represented by both Hobbs and Borger.

We move to the - actually, just before we do that, when we think about these contracts and the way they're structured, they really are the standard bread and butter of ContourGlobal. So virtually no demand risk, very, very little cost input risk, and no pricing risk. So they operate either as capacity payments or restructured fuel pass throughs or tolling agreements.

When we move to slide 10, we see there is significant need [to have] re-contracting visibility, plus substantial post-contract value in these assets. So the two assets we were just discussing about, the ones that make 60% of the capacity, that's Hobbs and Borger, both operating in the SPP market, they are both the newest and the most efficient assets in their markets. You can see that on the top right-hand side of the slide, on slide 10. You can see the heat rate for these assets is substantially below the market, and the age of these assets is also substantially below the region in which they operate.

When we look at the California peaking assets, these come off their - [inaudible] they primarily come off their PPA in early 2022. As Joe already spoke about, post that time they will operate on the resource adequacy market, which is essentially the capacity market for California.

Due to the fundamental attractiveness and market fundamentals of that electricity market at the moment, we actually expect there to be upside to the present PPA levels at which they're currently operating. Then, for the first year, that is actually already locked in through contracted RAs. We expect to undertake a contracting program on the RA market shortly after close.

When we move to slide 11, additionally, we see there is significant opportunity for value creation for these assets. So ContourGlobal's global expertise will drive operational performance on par with the existing fleet. The locational hub will allow us to pursue the additional growth of opportunities in the region. This includes a number of opportunities, including potential capacity expansion at Hobbs, as well as battery storage opportunities due to interconnection rates at both California and New England.

Additionally, when we look at the top right-hand side of the page on slide 11, we can see that these assets are either near or adjacent to regions where we already own or acquire assets. So if we look at the US assets, in particular the assets operating in the SPP market are locationally close to our assets actually in New Mexico. We'll be setting up a Houston office, a creation of a new Houston hub. Additionally, our Trinity assets are close to our existing Caribbean assets, so we will be expanding our size in that region by 4.5 times.

When we look at the additional operational value here, they come through two mechanisms. First of all, that we believe there is a significant value to create through aligning the cost structure of this acquisition with CG's comparable fleet and bringing those into line with our typical cost structure standards.

Then, second of all, and you can see this on slide 2 (sic - slide 12) here, by delivering operational improvements that we have a very strong track record on doing in previous acquisitions.

So these plants are primarily based on availability. As we've already discussed further, we believe there is potential improvements there, significant improvements there, which we have high visibility on capturing and delivering improvements on from 2021. Really, it shows on slide 12 we have a strong track record on delivering these operational improvements.

So, Stefan, I'd like to just hand back to you now, to talk about the financing and transaction timeline on slide 13.

Stefan Schellinger

Executive Vice President, Global Chief Financial Officer

Thank you, Alice. So we acquire the business for $837 million on a debt free and cash free basis. We will assume approximately $210 million of existing project net debt with the acquisition. The remaining $627 million of consideration will be financed from cash on hand and an acquisition financing facility, which we are going to refinance with corporate or parent company debt and project financing debt.

So the overall perspective here on the capital structure, I think, remains unchanged. We have a two-tier capital structure. We have our amortising, non-recourse, project-level debt. Also, we have the ability to raise funds at very attractive terms at the corporate level. We have assessed the capital structure at asset level. As part of the work we're going to start, post-completion, the refinancing work on an asset level. Based on our assessment, we will be able to create value there in terms of capital structure.

In terms of the timing, and other conditions in regards to the transaction, we expect the transaction to close in Q1. This is a class 1 transaction for the purpose of the UK listing rules and requires shareholder approval. Our majority shareholder, [ContourGlobal IP], has provided an irrevocable undertaking to vote in favour of the transaction. From that perspective, we will expect, obviously subject to customer closing conditions, to complete the transaction in Q1 2021.

With that, I'll pass back to Joe for concluding remarks.

Joseph Brandt

President and Chief Executive Officer

Okay, thanks, Stefan and Alice. Before we turn to questions, final slide 14, summarising what we've presented today and why we like this transaction for Contour. It fits the sweet spot of operationally led acquisitions. Those acquisitions where we find core assets that fit our strategy - long term, contracted, low carbon - but which provide the opportunity to manage the business and create value through better operations.

It's a meaningful contribution. It's a meaningful contribution to the doubling of EBITDA that we announced in 2017 at the IPO. Most importantly, it's a meaningful diversification of cash flow to support the Company's dividend policy of growing dividend by 10% per year. It adds meaningfully high-quality cash flow. The overall rating of the offtakers in this portfolio is high. It lifts up the overall portfolio rating of our counterparties in the portfolio, which now numbers, pro forma for this transaction, about 119 individual assets.

We like the risk-adjusted return. As you know, we're an IRR cash-on-cash investor with standards and hurdle rates that are significant and generally higher than our markets. We like the risk-adjusted return here given the profile, and we like the spread to the Company's cost of capital.

We like the location of these assets. As Alice mentioned, as we think about where we will site our operations, Houston happens to be less than an hour away from Altamira, which is where the large co-generation power plant is located in Mexico. It's also about an hour and a half away from the two biggest assets here, Hobbs and Borger, in New Mexico and Texas respectively.

So we're acquiring a business in Trinidad and Tobago that's right in a region where we've been active for well over a decade. But we're also acquiring, within the North American-Mexican integrated natural gas complex, assets that are very similar to one another, very similar technologies, and very close to one another in terms of location.

Which is going to let us take advantage of the operational leverage that we already have in the business globally and has been built up over time. So that we can really see meaningful impact to the bottom line coming out of the capabilities that we have in the Company with both these types of technologies and given the footprint that we already have in the region.

It's a core business for us. We haven't strayed for 15 years away from our core, which is long-term contracted cash flow, looking for bilateral power purchase agreements, looking to provide fixed price electricity to customers who require electricity, heat and steam under long-term contract.

Each one of them fits that perfectly and is very well aligned with the strategy that we announced earlier this year to position the company's thermal fleet into very low-carbon transitional businesses, away from even the development project that we previously had in coal. You can see that this portfolio moves us meaningfully along that journey and contributes to the reduction of the carbon intensity of the overall portfolio.

With that, Courtney, I'll turn it back to you to alert the call about how to ask questions, thank you.

Q&A Session

Operator

Thank you. So as a reminder, that if you would like to ask a question on today's call, please press star one on your telephone keypad. Please ensure your line isn't muted locally and you will be advised when to ask your question. That was star one on your telephone keypad. Our first question comes in from the line of Hugo Liebaert calling from Alvento Capital. Hugo, please go ahead.

Hugo Liebaert - Alvento Capital

Yes, hi, good morning. Thank you for taking the time to do this call, much appreciated. Three quick questions on my side. The first one is, could you help us reconciliate a little bit the EBITDA and cash flow contribution numbers that you mentioned? I mean how do we go exactly from $92 million or $97 million EBITDA to $40 million cash flow contribution? Is it mostly a debt amortisation item in between that was eating up the difference, or something else which could help us a little bit?

The second one is, I might have missed it in the reporting, sorry if that's the case, but do you have any sort of inflation indexation on those USD revenue streams that you have right now? If yes, what type of indexation?

The third one is a bit more conceptual on the asset [inaudible]. Could you elaborate a little bit more on what you call the visible re-contracting opportunities, you know the ones that are supposed to take you from nine to 10 plus years of life in the next few months, I guess?

The second part of that question is on California. The RA certificates, you think there's a clear capacity payment type mechanism. Is it all that you're going to get from those assets then, because they have to be reserved for that purpose only? Or can you generate extra revenue streams on top? If yes, what are the opportunities here? Thank you.

Alice Heathcote

Sure.

[Over speaking]

Alice Heathcote

This is Alice. So I'm happy to take those cash flow questions. So we look at the first question, about how do we get from the EBITDA through to the cash flows. So there's two line items. So that first one is CapEx. So you'd expect CapEx of - it varies year to year, but you'd expect CapEx of about $10 million to $15 million per year, depending on the year. The two other components would be debt amortisation, and then also interest.

So in the final capital structure, we'd expect the assets to be levered less than four times at the asset level. Part of this acquisition will be funded through debt at the corporate level. We'd expect, on average, the weighted average cost of the interest at that weighted level to be something around Libor-plus-300, or around that level. So that's the first question that you had there.

I think the second question is on the visibility of the near-term re-contracting opportunities. So if we look at that, that really comes down to - the near-term re-contracting comes to two assets. So the first is Borger. So that comprises approximately around, say, 15% of the value or EBITDA of the portfolio. That contract currently expires in 2024. That offtaker, as we already discussed, is with SPS.

Borger is actually the most efficient plant in the SPS fleet, and it's already been indicated by that offtaker that that contract will be extended. If you're maybe familiar with integrated resource plans from utilities in the US, so they have to outline their plans and intentions to meet their contracting demands over a certain forecast period. You can look at a plan there and see that that plant's extension has been featured into that plan. So there's a lot of visibility and we have comfort around that contract extension.

The second one is on the California assets. So they're the peaking units. There's eight different peaking units in California, in the Bakersfield area. They come off contract with PG&E. About three have already just come off contract. The remaining five in early 2022. They'll then move to the resource adequacy system, so that's the state capacity payment system. Based on where those capacity payments are actually pricing at the moment, we actually expect there to be a small step-up in earnings from those assets.

These payments have already been locked in until the end of 2022. So they've already been partially hedged at a higher energy margin than the current PPA. Then afterwards, obviously, these components are traded on the market. We have a reasonable amount of visibility into there, including some options into hedging. We'd expect to continue to hedge those contracts out shortly after close, so further extending the contract life.

Then, Hugo, I apologise, but I didn't write down your second question.

Hugo Liebaert - Alvento Capital

That was the inflation indexation points.

Alice Heathcote

That's great. So I'd say about half of the assets have some level of inflation component in their PPAs.

Hugo Liebaert - Alvento Capital

Okay, thank you, that's very clear. A very quick follow-up question of mine on the first one. I mean just to come back to the $40 million number, it's very helpful what you said. So to go from $92 million, $97 million to $40 million, I have [the] CapEx mentioned, which is fair enough, debt amortisation, and the cost, financial expense sorry,, which is based on that four times net debt to EBITDA at Libor-plus-300, roughly, right, is that the equation?

Alice Heathcote

Yes, that's correct. Then there's various amortisation structures…

[Over speaking]

Alice Heathcote

…from the EBITDA through to the distributions to the parent level company.

Hugo Liebaert - Alvento Capital

Okay, but after the refinancing that you mentioned, right?

Alice Heathcote

Correct.

Joseph Brandt

Hugo, it's pro forma for the project financing that we expect to put into place on the operational assets that are currently extremely under-levered. So as part of the acquisition and integration, we'll put project financing on the individual assets. So you'll then have that amortisation of debt taking some of the EBITDA before it goes into cash. The way I think I would think about it is the $40 million that we're guiding to for the first year, it's not the operational cash flow, it's the distribution to the parent company from these assets in year one.

Hugo Liebaert - Alvento Capital

That's super. Following the last one, sorry, on this, any indication of the amortisation period, roughly, can you give us?

Alice Heathcote

No, I don't think we're providing guidance on that, but you could expect it to be around the standard project finance. So you'd expect for the largest asset, Hobbs, to be applying new financing for the duration of the asset, which is about - not the duration of the asset, for the remaining life of the PPA, which is end of 2033. The asset life is significantly longer than that.

Hugo Liebaert - Alvento Capital

Okay, thank you.

Operator

The next question comes in from the line of Marc Elliott, calling from Investec. Marc please go ahead.

Marc Elliott - Investec

Morning, all. Well done on the deal. I feel a bit bad asking this question, having seen you just do a transaction. But I'm just trying to think, going forward, how are you thinking about further opportunities? Are you more focused on expanding and using this as a platform, as well as other assets, to grow adjacent footprints, for example? Are you seeing a lot of other opportunities out there in other parts of the world?

Also, just a little bit on the financing costs of the Group. With this greater US exposure, you alluded to I think it was an additional Libor-plus-300. So is there scope to lower the overall cost of finance of the Group following on from this transaction? Thanks.

Joseph Brandt

Sure, Marc, I'll take this. So as we think about the growth opportunities of the business - and, as you know, we've been talking about this for the better part of three or four months, in terms of we view it as an asset and target-rich market - we're always thinking in the context of where are our two core places of operation, it's the Americas and it's

Europe. We continue to be active and to see opportunities in both the renewable and the thermal space in those two areas.

We have always liked and looked to add onto existing assets and existing footprint. Adjacency is a very meaningful concept when it comes to taking advantage of the operational leverage that we have in the business.

As we think about the places where the market is presenting meaningful opportunity, I would say that the Caribbean is an area where we've been interested and active, because you see the transaction occurring right in front of your eyes as these islands move away from a dependency on imported liquid fuel. We're able to integrate into existing thermal asset things like storage and renewables, which is what we've been doing on the island of Bonaire for the last two and a half years and we'll continue to do so.

So we like the Caribbean region a lot for that region. We have scale there. This is a meaningful addition to that region. We continue to see opportunity that's driven by the fundamentals of changes in technology. A desire for these islands to be greener, and the sustainability alignment that comes with moving away from a higher cost of fuel, which on these islands, in many cases, is liquid fuel.

We like the complex that's developing around the integration of the gas markets between the United States and Mexico. We obviously saw that, and we're attracted to that in the context of the acquisition we did in Mexico last year. All of these combined-cycles and co-generation assets in Mexico that we acquired are burning gas that's sourced in the United States and is coming over the border with the natural gas pipeline network that's been built out.

The natural gas that will be burning in Hobbs and Borger, in Texas and New Mexico, is sourced from the same region. We see a very powerful integration of the gas markets, obviously, between the US and Canada through the NAFTA process. But we're also seeing the integration of electricity markets in the southwestern United States around the cost of gas that's reflecting Mexican demand. So we see opportunity in this region, this footprint north and south of the border, in these types of technologies.

Slightly further afield, we've been active, since 2006, in Columbia, another Caribbean nation. So we continue to like the idea of building out our footprint in countries where we have already existing assets and longstanding operations. So net-net this opens up, through the step into the United States, obviously a very large market, with what we see as a lot of opportunity in both the thermal and renewable space. We view it as a complement to the continued attractiveness and buildout in Europe, primarily in the renewable space there.

Stefan, do you want to talk about how we think about cost of debt, maybe as a parent company, reflecting this type of acquisition with a high-quality credit offtake [at the outcome]?

Stefan Schellinger

Yes, sure. So I mean overall, from a weighted average cost of debt perspective across the Group probably around 4%, I think we think about this acquisition as very much of an enhancing to our capital structure and our cost of debt. We stated that part of the acquisition will be funded at parent company level where, as you know, we have two bonds outstanding. The bond market is in relative strong shape today. We see, certainly, a refinancing potential here which will allow us to improve our weighted average cost of debt. So it's really accretive from a cost of debt perspective.

But then if you also look not only short term and in terms of current environment, but really long-term perspectives that we have on the credit, and the external stakeholders have on the credit, given that the weighted average credit rating of the offtakers that are coming on board will be accretive to our credit, the currency is accretive and the further diversification is accretive qualitatively. So it's definitely, I think, a positive from a cost of debt and credit perspective.

Marc Elliott - Investec

Great, thank you very much, guys.

Operator

The final question in the queue comes in from the line of Ayesha Khalid calling from Citigroup. Please go ahead.

Ayesha Khalid - Citigroup

Hi, this is Ayesha from Citigroup. Thanks a lot for your call. My first question is on the Borger plant. Will the 10-year extension be on the same basis as that of the current contract, in terms of economics? A couple of two modelling-related questions if that's okay. Would you say an additional interest expense of in the ballpark of $25 million sounds reasonable? Any guidance on EPS accretion on the back of this acquisition? Thank you.

Alice Heathcote

So I can answer those. So, first of all, that's correct. So Borger will be extended on the same terms as the current PPA. So the terms are already baked in and foreseen in the original PPA. So it's done as an option extension with all the contractual terms already baked into that extension.

On the second question on the interest level, yes, that would be approximately in the ballpark of what we're expecting of new interest costs. Then on the EPS accretion, we would not expect to be EPS dilutive next year, given the depreciation charge and the integration costs. We expect to be slightly EPS accretive a couple of years following this. Then it would become more meaningfully EPS accretive four or five years from acquisition.

Ayesha Khalid - Citigroup

Awesome, thank you.

Stefan Schellinger

To add to that, to the EPS accretion, I mean clearly it will be accretive from year 2 onwards. But also coming back to our overall financial framework, we are very much focused on the cash generation of the business, on the ability to redeploy capital and then pay dividends and then grow the dividend. I want to look, for instance, at our dividend cover from a cash perspective.

Ayesha Khalid - Citigroup

Great, thanks, Stefan.

Operator

Thank you. There are no further questions coming through. So I shall turn the call back across to yourself, Joseph, for any closing remarks.

Joseph Brandt

Right, thank you, Courtney. Thanks, everyone, for joining. Please feel free to reach out with any questions you may have. We're, obviously, very excited about this transaction. It's sizeable, it's a meaningful expansion of the Company's footprint, very attractive financial terms, and will really give us an opportunity to create value through our operating capabilities. So thanks again for joining and we'll talk soon. Bye-bye.

[End]