‘Ugly duckling’: AGL’s Loy Yan A coal plant could be sold off: Macquarie

AGL Energy may look to divest or split out its Loy Yang A coal plant in Victoria to reduce its carbon footprint and gain a rerating as a greener energy operator, Macquarie said.

Ahead of the company’s investor day on March 30, the broker said such a move could be considered by AGL given it had already flagged the potential for structural change.

“There are numerous paths that can be chosen, but an obvious path is divestment or in specie distribution of all or part of the coal fleet. The extreme would be the divestment of the whole thermal fleet, albeit we do not expect that,” Macquarie analysts said.

The power giant is reviewing its business model and hinted at potential changes to its retail and generation arms as a solar-sparked price rout and government intervention slams the brakes on earnings growth.

That led some analysts to suggest it may consider a split of its retail and generation arms and could sell one of its coal plants to grab extra market value from a move into green energy.

The discussion about Loy Yang comes two weeks after AGL rival EnergyAustralia announced it would close its coal-fired Yallourn plant in the La Trobe Valley four years early, with a shutdown planned for mid-2028.

AGL chief executive Brett Redman has been touring sites ahead of the investor day and such a move could help answer an expectation in the market for a bigger strategy shift.

“Loy Yang A is the ‘ugly duckling’ as it is a brown coal-fired generator. Such demergers have history. BHP has done it twice with BlueScope and S32, Amcor demerged Paperlinx Brambles, and Wesfarmers demerged Coles,” Macquarie said.
“AGL detering Loy Yang A would not be surprising, and while it may see some transition for some investors, its attraction will be as a yield stock, that can focus on cost reductions. Our expectation is the equity value of Loy Yang A is in the range of $1.4bn to $1.8bn, depending on hedging profile.”

AGL on Wednesday approved a 250 megawatt battery at its Torrens Island site in South Australia, the latest move in a plan to hit 850MW of battery storage by 2024.

The 250MW battery will have one hour duration rather than the four hours originally envisaged and follows a day after it inked plans to proceed with a 200MW, four-hour duration battery at its Loy Yang A coal plant in Victoria's Latrobe Valley.

“Generating more power from wind than any other state, we know this battery will be instrumental in maintaining reliable and affordable supply for households and businesses in South Australia in the years ahead,” Mr Redman said.

AGL is targeting full operation of the Torrens system by early 2023 and says it can eventually expand to four hours of storage capacity.

A 150MW battery at its Liddell coal plant in NSW remains under development despite uncertainty around the state government’s controversial energy blueprint.

It’s also planning a 50MW facility in NSW’s Broken Hill along with storage projects in Wandoan, Maoneng and Dalrymple.

AGL selected Finland’s Wartsila and US firm Fluence as battery suppliers in January after a competitive tender although its battery investments still require sign-off from the power giant’s board.

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