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Three indicators why Malaysia will go nuclear

Will Edra sale to Chinese nuclear company be an indicator that CGN might hit the jackpot?

WAN AHMAD FAYHSAL WAN AHMAD KAMAL

THE sale of Edra Global Energy Bhd to China General Nuclear Corp (CGN) Group has opened up a new vista for Malaysia's power and utility sector.

The first question about the sale of Edra, which groups the power assets of 1Malaysia Development Bhd (1MDB), for RM9.83 billion and its relevant gross debts to the Chinese nuclear company, is whether the Chinese is eyeing a possible future deal to justify the purchase.

Was it a win-win deal for both 1MDB and CGN?

From 1MDB's side, as stated by its CEO-cum-president Arul Kanda Kandasamy — it's all about "monetisation", "value maximisation", "acceptable commercial terms" and "certainty of transaction execution".

From CGN's side, the group chairman He Yu mentioned key words such as "major commitment" and "long-term global diversification", and promised to "take it to the next level".

The writer would speculate, based on clues hinted by both parties that the possible upside potential, that made CGN willfully taking all the necessary risks arising from the expensive acquisition, is due to the possibility for CGN to build Malaysia's first nuclear power plant (NPP).

To support this view, the writer will marshal three indicators of these possibilities.

First Indicator: CGN Itself

The deal was announced and signed off hours before China's Premier Li Keqiang ended his visit to Malaysia where he had also promised many economic goodies to strengthen bilateral ties between Malaysia and China. The timing and occasion have raised many eyebrows among analysts.

One pertinent observation is that the company that acquired Edra is not the Hong Kong-listed CGN Meiya Power Holdings Co. Instead, the CGN Group is the Hong Kong company's unlisted and state owned entity.

CGN is one of the thousands of China's state-owned enterprises (SOE). In China's political economy, SOEs are regarded as the pillars of the national economy.

As outlined in China's The 12th Five-Year Plan (2011-2015), SOEs' domination in every important emerging sector is a strategic priority for Beijing.

Despite the fact that they only produced 30%-50% of all China's output, the state poured 75% of its capital back into SOEs. SOEs play critical role in furthering not only China's economic agenda but more importantly its foreign policy. This is more evident among China's energy and utilities SOEs.

Why then would Beijing send its SOE specialising in nuclear power project to acquire Edra's ageing power plants? Why wouldn't Beijing dispatch its other utilities SOEs equivalent to Tenaga Nasional Bhd (TNB), the likes of China Power Investment Corp, Huaneng Power International Inc and Datang International Power Generation Co Ltd?

On top of the traditional power assets of Edra, could there be a sweetener in the form of future NPP licence in the package that made CGN the most relevant party among the SOEs that was allowed by the Chinese government to place the bid in the very first place?

NPP projects have always been government to government. This has been demonstrated recently (jointly with France's Electricite de France (EDF)) in CGN's foray into Britain, where high-level political and economic agreements were cemented between President Xi Jinping and Prime Minister David Cameron, to develop three NPP projects.

Due to the strict compliance with international standards and regulations as governed by International Atomic Energy Agency (IAEA), such projects will only be feasible if they received solid backing from any of the five-permanent members of United Nation Security Council where China is a member.

So it's logical to speculate, given the political nature of the deal — ranging from timing of Premier Li and the nature of CGN itself that it must have something to do with far more lucrative prospect where the writer sees NPP fits the bill.

CGN being the leading China's SOE in NPP will leverage its political backing from Beijing to facilitate the process further.

Second Indicator: Malaysia's Nuclear Regulatory Act to be Tabled Soon

For CGN to agree with the Edra deal plus NPP on the table, there must be further assurance and commitment from the Malaysian government.

Last month, Energy, Green Technology and Water Minister Datuk Seri Dr Maximus Johnity Ongkili announced the government will table a new Atomic Energy Bill early next year that will pave the way for the country to adopt nuclear power into the energy mix by 2028.

As documented publicly by the Malaysia Nuclear Power Corp (MNPC), a government agency tasked to implement the nuclear energy programme, the drafted Act 304 is a new comprehensive nuclear law on safety, security and safeguards.

This Act, which will replace the older version of Atomic Energy Licensing Act, paves the way for the formation of a new independent nuclear regulatory body proposed as Malaysia Atomic Energy Regulatory Commission.

NPP project is already embedded within the government's Economic Transformation Programme under its Entry Point Project 11 of oil, gas and energy sector. The targeted

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milestone for competitive bidding is slated for 2017.

Before the Bill can be tabled in Parliament, it needs to be reviewed by IAEA and as reported by MNPC it is already a *fait accompli.*

Perhaps, when CGN saw that the bill was already presented at IAEA and already approved, there's a value and prospect for CGN to pay a premium as all the critical legal instruments are already in place. In short, is the NPP project good to go?

Third Indicator: Rothschild Advising Edra

The reputation of Rothschild Global Financial Advisory is unprecedented in the financial world. They also possessed a sterling track record in energy and power advisory with proven expertise across all segments of the energy sector. They have been advising large multinationals, regional players, and governments and SOEs.

There must be something more than just advising Edra in terms of monetising their distressed assets. Could Rothschild be involved in advising Edra on the nuclear financing to make it more attractive for CGN? Is Rothschild a big time player in nuclear energy financial advisory?

In 2005, UK newspaper *Sunday Business* reported how Rothschild was leading an initiative to finance, build and manage Britain's next generation nuclear power stations. The paper also highlighted "Rothschild's long-held ambitions to dominate the next phase of nuclear power development."

And in the last five years, there were two important nuclear financing deals bagged by Rothschild.

In 2010, Rothschild helped Constellation Energy in selling 49.99% stake worth US$4.5 billion of their nuclear generation assets to France's EDF.

In 2012, they were involved in preparing the business model and financing plan for the four-nation Baltic New Nuclear Power Project involving Lithuania, Latvia, Estonia and Poland to form Visaginas Nuclear Energy. The NPP is located in Lithuania.

Earlier this year, the writer had the chance to attend the Nuclear Power Asia 2015 — a leading international seminar on nuclear industry that was held in Kuala Lumpur. The writer found out that Rothschild was one of the big names that participated in the event. In one of the roundtable discussions, Peter Bird of Rothschild facilitated the segment on nuclear financing for newcomers.

It indicates that Rothschild is not a small player in the restructuring and providing of financial advisory for the international nuclear energy market. Now, they see the growing prospect within the emerging markets including Malaysia.

Is it nuclear then? To recap the salient questions: Why would CGN take all the debt? Why would CGN pay more than the true value that was placed by TNB when they know the concessions are ending? How can CGN recover and justify the payment?

We know that 1MDB needs cash in order to service their debt. Its only income-generating subsidiary — Edra Energy — could not generate the cash needed in the right amount urgently. The only logical way is to monetise the future value now.

Rothschild was brought in to help unlock the maximum value for the monetisation exercise. In order for Edra to make the deal attractive and feasible, either extend the concession or create another independent power producer to have a new concession.

The first option is not possible given the technical constraint of the ageing assets but the second proposal looks promising — what more with Rothschild's expertise in restructuring energy deal like NPP project, that could easily justify the deal.

Given the possibility to bag the licence to build Malaysia's first NPP that guarantees an attractive long-term concession and power purchase agreement, CGN might have hit the jackpot.

The writer is a fellow at Putra Business School.