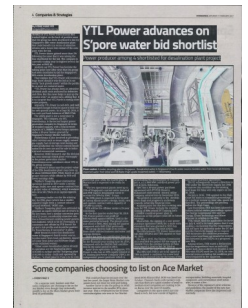


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# YTL Power advances on S'pore water bid shortlist

## Power producer among 4 shortlisted for desalination plant project

By **LEONG HUNG YEE**

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SHARES of YTL Power International Bhd tracked higher on the back of positive news that the group has been shortlisted to bid for Singapore's fifth water desalination plant that could benefit it in terms of attractive returns and a lower risk venture if the company wins the bid.

YTL Power shares gained more than 2% following the news that it was among the four shortlisted for the bid. The company is currently trading near its highest level so far this year at RM1.48.

Analysts say YTL Power has become the talking point now after news that the group had been shortlisted to bid for Singapore's fifth water desalination plant.

They explain that YTL Power will receive a huge boost should it win the bid as it currently "lack growth assets" within the portfolio as most are matured assets.

"YTL Power has always been an attractive dividend yield stock anchored by defensive cash flow. But this news helps to jazz up the counter a bit," an analyst says, adding that it is no surprise that YTL Power is eyeing other water projects.

Arguably, YTL Power is cash-rich, and well managed enough to fuel its quest to look out for new growth assets. As at Sept 30, 2016, it has cash and bank balances of RM9.57bil.

The utility giant is not a newcomer in Singapore. The company, via YTL PowerSeraya, is the second largest power generation company in Singapore in terms of installed capacity, with a total licensed capacity of 3,100MW. PowerSeraya operates under a 30-year licence granted by Singapore's Energy Market Authority.

PowerSeraya is also involved in providing other services such as steam supply, natural gas supply, fuel oil storage tank leasing and water production via reverse osmosis desalination for its own use and for sale to industrial and commercial customers.

However, MIDF Research says the division has seen earnings shrink given oversupply in the power generation market. PowerSeraya now contributes about 19% to the group earnings.

The research house says the project value of the fifth desalination plant may come up to about S\$380mil (RM1.19bil), based on past project winners while offtake by PUB will

lower earnings risks.

"Hyflux's Tuaspring plant (commercial operation started in 2013 under a similar design, build, own and operate contract) has a project value of S\$890mil, which translates into circa S\$2,794/cu m in capital expenditure.

"Assuming similar cost for the winning bid, the fifth plant (which has a smaller capacity) might fetch a contract value of around S\$383mil," MIDF says.

"Hyflux's Tuaspring plant was estimated to generate an equity internal rate of return in the low teens over a similar concession period of 25 years; considerably attractive relative to PowerSeraya's existing power generation business, which is hit by oversupply. A concession and offtake by PUB lowers the project's risk profile and should be positive for PowerSeraya, if successful," it adds.

MIDF Research notes that desalinated water is Singapore's fourth water source, besides water from local catchments, imported water from Johor and NEWater (high-grade reclaimed water).

"Other water desalination plants already in operation are the SingSpring plant (130,000 cu m/day) and the Tuaspring plant (318,500 cu m/day – built and operated by Hyflux). "A third plant in Tuas is to be completed this year while the fourth plant in Marina East is expected to be ready by 2020.

"The two operational plants meet up to 25% of Singapore's current water demand and PUB expects desalinated water to account for 30% by 2060," it says.

The fifth plant is expected to be located at Jurong Island under a design, build, own and operate contract with a capacity of 137,000 cu m/day.

PUB will be the offtaker under a 25-year concession.

In the first quarter ended Sept 30, 2016 YTL Power posted a net profit of RM146.54mil against RM186.72mil in the same period previously. The group's revenue stood at RM2.34bil during the quarter compared with RM3.22bil previously.

The group derives bulk of its revenue from multi utilities business and water and sewage division.

There has been no contribution from its

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power generation division in the first quarter for financial year ending June 30, 2017, compared with the RM290.1mil contribution in the same period in 2015.

Apart from operations in Singapore, YTL Power is also has an 80% equity interest in PT Tanjung Jati Power Company (TJPC), an independent power producer which is

undertaking the development of Tanjung Jati A, a 2 x 660 MW coal-fired power project in Java, Indonesia.

TJPC has a 30-year power purchase agreement with PT PLN (Pesero), Indonesia's state-owned electric utility company, entered into in December 2015.

The project is currently in the development stage and progress is underway towards achieving financial close.

Analysts point out that key re-rating catalysts for YTL Power include the commissioning of 80%-owned PT Tanjung Jati's 1,320MW coal-fired power plant in Indonesia as this project could lift its future earnings.

Meanwhile, the signing of a new power purchase agreement (PPA) for a short-term extension that was granted in 2015 has been further delays by court action.

The PPA between YTL Power Generation Sdn Bhd (YTLPG) and TNB expired on Sept 30, 2015.

On Aug 5, 2015, the Energy Commission (EC) awarded the project for the supply of 585MW from the existing facility in Paka from March 1,2016 to Dec 30, 2018 to

YTLPG under the short term capacity bid.

The PPA with TNB is yet to be signed as TNB included a condition for a new land lease to be entered into for the terms of the new power purchase agreement.

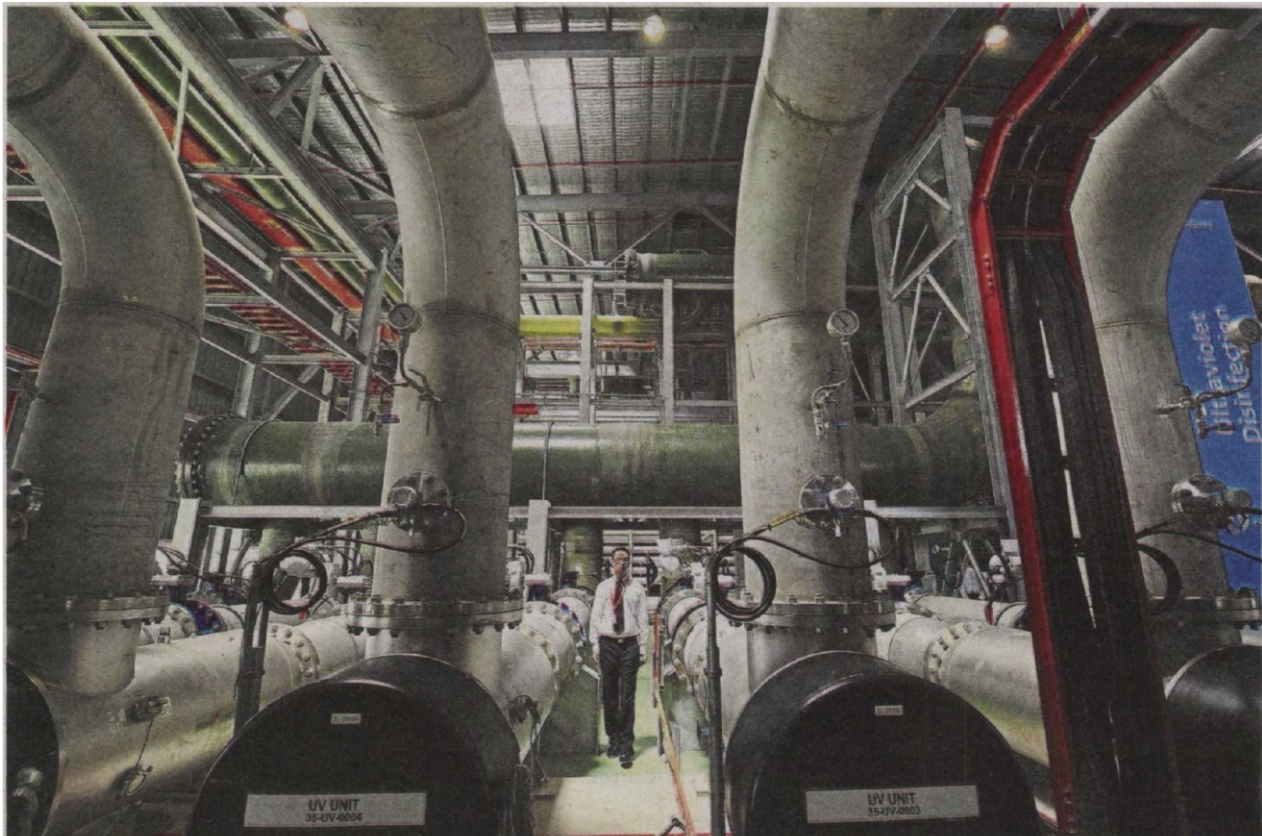
The EC subsequently issued a directive to TNB under the Electricity Supply Act 1990 to remove this condition as the existing land lease for Paka will only expire on Dec 30, 2018.

On July 4, 2016, TNB applied to the High Court for leave to commence proceedings for a judicial review to, inter alia, quash the directive. The proceedings are pending before the High Court.

Last November, TNB has been allowed to initiate judicial review proceedings against the Energy Commission (EC) and the Energy, Green Technology and Water Minister in relation to the PPA.

TNB, which filed the application for leave on July 4, said in its court papers that it was seeking a declaration that the respondents did not have the authority under the EC Act and the Electricity Supply Act to require TNB to remove the condition precedent that a new land lease agreement be entered into between it and YTLPG in a proposed new PPA.

Among others, TNB wants a declaration that the respondents have no authority under both Acts to direct it to finalise a new PPA with YTLPG until Dec 31, 2018, on commercial terms excluding the condition precedent required by the applicant.



**Clean water:** A water-recycling plant in Singapore. Desalinated water is Singapore's fourth water source, besides water from local catchments, imported water from Johor and NEWater (high-grade reclaimed water). — Bloomberg