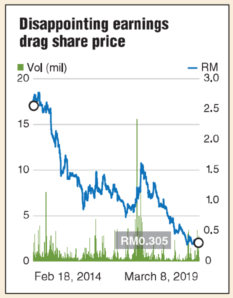
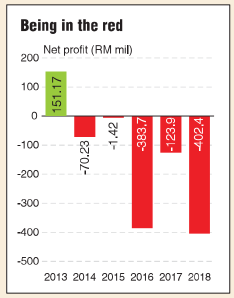
Headline	Mudajaya sees ray of hope in turning around		
MediaTitle	The Edge Financial Daily		
Date	11 Mar 2019	Language	English
Circulation	4,549	Readership	13,647
Section	Home Business	Page No	4,6
ArticleSize	466 cm²	Journalist	N/A
PR Value	RM 15,324		





Mudajaya sees ray of hope in turning around

KUALA LUMPUR: Mudajaya Group Bhd's share price has been on the decline since mid-2014 — the year when the group slipped into the red.

The group has been loss-making for five years up until the recently-concluded financial year ended Dec 31, 2018 (FY18). Those five years of losses have eaten up RM901 million of retained profit.

Given that, it is not surprising that Mudajaya is not appealing to investors although the stock has tumbled to 30.5 sen — the lowest level since November 2006. The stock was trading at the RM2.60 level five years ago.

Although Mudajaya is not a hot stock on Bursa Malaysia currently, the group is participating in major infrastructure projects, including the Mass Rapid Transit (MRT) Line 2 and Light Rail Transit (LRT) Line 3. Mudajaya has also secured a number of civil work contracts that were worth over RM1 billion at refinery and petrochemical integrated development project in Pengerang, southern Johor.

The group's order book is currently at slightly more than RM1 billion.

"Our local operation is profitable but it is shadowed by the impairment that we booked in for the operation in India," said its chief executive officer James Wong. "We are currently tendering jobs to replenish our order book."

Barring any unforeseen circumstances, Wong said, the group is expected to return to the black in the second half of the current financial year ending Dec 31, 2019 (FY19), judging by the current project orders in hand and the performance of its recurring income-generating assets.

For FY18, Mudajaya's net loss swelled to a record high of RM402.4 million versus RM120.8 million the year before. Its revenue, however, grew 40% to RM762.6 million from RM545.3 million in FY17.

The group incurred impairment of RM145.5 million in FY18, in addition to its share of losses in an associated company amounting to RM213.1 million. Operation-wise, it generated an operating income of RM47.38 million compared with RM76.28 million a year ago.

Wong explained that the impairments in FY18 are primarily related to the IPP (independent power producer) project in India due to the impact of the proposed restructuring plan of power assets under the Reserve Bank of India framework.

"With the completion of testing and commission of Unit IV by March this year, the construction phase of the IPP project will be considered fully completed.

"The outstanding challenges that remain will be to secure a PPA (power purchase agreement) for Unit IV and its associated working capital," said Wong.

He expects further share of losses in the next two financial quarters in the Indian operation. The losses are mainly from depreciation and interest cost of the completed units but have yet to commence power sales.

The group's venture into the Indian power production industry goes as far back as in 2009. It initially brought high hopes that the electricity production project in the continent, where power shortage is acute, would be a cash cow generating steady cash flow and recurring income to Mudajaya.

The group took up a 26% stake in RKM Powergen Pvt Ltd — a joint venture with India's RK Powergen & Associate — to undertake the construction of the power plant in Chhattisgarh state, with an estimated investment of RM5 billion.

However, it was never smooth sailing. The project encountered a host of challenges, including securing coal supply and renegotiating a PPA due to change of government policy there.

According to Wong, the first three units of the power plant have already secured a PPA through an open tender process.

"Notwithstanding this, we remain confident that the IPP project in India will generate positive results once power sales from all four units commence in the near future," he said.

Beside India, Mudajaya owns a 46% stake in PT Harmoni Energy Indonesia which runs a power plant in Sulawesi.

On the home front, the group has set its foothold in solar farming. Its solar photovoltaic power plant of 49MW in Sungai Siput, Perak, has achieved commercial operation in late November last year. It has signed a 21-year power purchase agreement with Tenaga Nasional Bhd.

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Mudajaya's current level of gearing is 'manageable'

FROM PAGE 4

Commenting on the group's balance sheet, Wong acknowledges that the concern on its high gearing at above 200% and its potential impact to the group's credit standing. But he stresses that the current level of gearing is "manageable".

"With the improvement in the performance of our ongoing businesses, this will continue to strengthen our equity base.

"In addition, the management is actively looking at streamlining its balance sheet by monetising its non-core assets to pare down its borrowing and also explore options on [a] corporate exercise to beef up its capital base and meet its funding and investment needs," Wong explained.

After years of disappointments, analysts and fund managers might not pin much hope on Mudajaya's power project in India. Some reckon there could still be a long passage before the power plant starts contributing to the bottom line.

Nonetheless, Mudajaya has not given up. In Wong's opinion, this could just be the last mile in the cross-country run after having tumbled into a rough patch.