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Rocky path likely for Edra listing

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THE listing of Edra Power Holdings Sdn Bhd, the electricity generator owned by China General Nuclear Power Corp (CGN), is not likely to be a smooth exercise.

It had been reported that Edra, formerly owned by 1Malaysia Development Bhd (1MDB), was aiming for a listing this year to raise US$1bil, alongside other big flotations such as QSR Brands (M) Holdings Sdn Bhd and Malayan Banking Bhd's insurance arm Etiqa Group.

Bankers say Edra may not get the valuation it seeks considering the change in the political landscape in Malaysia.

"Investors would look for growth in utility stocks such as Edra. However the new government has said it would be careful with finances and public spending. So licences to build new power plants may not come so easily as seen in the past three years," say a banker.

The banker also says the 1MDB factor would bog down Edra because the new government has said that it would look into all the transactions of the fund.

"Investors wanting to own a piece of the company would want some clarity before they put their money. It is only natural when there is a change in the landscape," says an investment banker.

Even before the results of GE14, prospective investors were already nervous that an Edra IPO would face the same fate as Felda Global Venture's (FGV) IPO – one where it received a resounding response during its listing, but later saw its shares hit basement levels as scandals were uncovered.

One indication of this was on Jan 5 when Edra Energy Sdn Bhd issued RM5.09bil of Islamic bond to finance the construction of its 2,242 MW gas fired power plant in Melaka. The construction of the power plant would take around three years and thereafter be on a 21-year PPA period.

The actual bond amount was less than the initial plan to raise RM5.2bil.

"The market appetite for the bond was poor and hence the bond issuance had to be downsized," says one source.

The other issue of the Edra bonds was that its borrowing rates were too high.

Edra Energy has locked in borrowing rates of 5.61% to 6.71% for a series of bonds ranging from four to 21 years.

Thus this would translate into total borrowing costs of RM3.96bil for the whole period.

Just two months prior when Southern Power Generation Sdn Bhd, a JV between SIPP Energy Sdn Bhd, a company linked to the Sultan of Johor, and TNB formed to install a 1440MW gas fired power plant, they also raised funds via islamic bonds.

Compared to that issuance, the borrowing rates of the Edra bonds were nearly 1% higher.

"Even if it is accepted that those different pricings reflect different credit risks, strangely the bonds were transacted at much lower rates of 5.17% to 6.38% across most of its tenures when compared to its locked-in rate.

"If Edra Energy has been able to raise the bonds at those lower rates, its borrowing costs will go down further by RM261mil to RM3.7bil for its project period," says the source.

Meanwhile, bankers say Edra would submit its proposal to the authorities for listing by next month so that it can be listed by end of this year.

Prior to GE14, the usual suspects would be Malaysia's public institutions such as Tabung Haji, the Employees Provident Fund, Retirement Fund Inc (KWAP) and sovereign wealth fund like Khazanah Nasional Bhd.

With the political landscape, it is left to be seen if the funds take up a stake in the company.

When Edra was under 1MDB, the fund tried to list the company. The proposal was submitted in late 2014 but could not fulfill the requirements of the Securities Commission (SC).

In March 2015, 1MDB withdrew its application from the SC.

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Edra's failed listing attempt due to inability to secure proper valuation

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Without being able to raise IPO proceeds, 1MDB did not have sufficient funds to develop its 2,000 coal fired power plant in Jimah East Power (JEP) in Negri Sembilan, better known as Project 3B.

Project 3B was won by 1MDB in February 2014.

Thus Edra Global Energy Bhd sold a 70% stake in JEP to Tenaga Nasional Bhd (TNB) for RM46.98mil in July 2015.

Following the cancelled IPO, 1MDB then sought to sell off its power assets instead.

Indicative offers for Edra's assets were first received in June 2015 via an international tender process run by 1MDB's financial adviser Maybank Investment Bank Bhd.

After the sale of Project 3B to TNB in July, Edra Global landed another power plant project. It soon announced that it would build a plant with a total nominal capacity of 2,242 MW in Alor Gajah, Malacca. It has since signed a 21-year power purchase agreement with TNB for this plant, that would commence commercial operations in 2021.

In November 2015, 1MDB disposed off its power unit Edra Global Energy Bhd to China General Nuclear Power Corp for RM9.83bil. The sale was completed in March 2016.

1MDB power assets that were sold to CGN Group are Edra Solar Sdn Bhd, Edra Energy Sdn Bhd, Powertek Energy Sdn Bhd, Jimah Teknik Sdn Bhd, Jimah O&M Sdn Bhd, Mastika Lagenda Sdn Bhd and Tiara Tanah Sdn Bhd.

CGN Group assumed Edra Global Energy Bhd's gross debt which came up to some RM8bil, as at March 31, 2015.

Thus, this gives Edra a book value of between RM16bil and RM18bil. However reports had indicated that this valuation inclued a huge RM3.3bil of goodwill which put investors off.

When companies possess great potential along with sound fundamentals, institutions will be lining up to get a piece of the pie.

One of the reasons for Edra's failed listing attempts in the past have been its inability to secure a reasonable valuation relative to the cost 1MDB paid for its energy assets.

Sources now say that valuation and growth prospects of Edra that would be the key for its listing prospects, if it happens this year.

Currently Edra has 13 power assets in its stable, with eight of them located abroad plus the right to build a 2,000MW gas power plant in Melaka

In total, it has gross installed capacity under management of 6,619 MW with an effective capacity of about 5,594 MW.

In Malaysia, it has 3,112 MW of capacity, making it the nation's biggest independent power producer after Malakoff Corp Bhd.

Malakoff has a net generation capacity to 6,346 MW from its seven power plants.

If we were to use Malakoff as a guide, it was listed back in 2015 at RM1.80 per share, valuing itself at RM9bil. This gave it a price earnings multiple of 18 times its financial year 2015 earnings.

However its share price has been on a downward trajectory since then. It is currently trading at 89 sen and at a forward earnings ratio of some 15 times. It is however offering an attractive dividend yield of 6.97% now.

Nonetheless the power utilities sector remains an attractive bet for investors, as their profitability is back by long term power purchase agreements. This guarantees capacity payment as long as requirements are met.

However, both listed IPP players Malakoff and YTL Power International Bhd are down 25.36% and 36.77% respectively, over a one year period.