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BGMC International eyes Malaysia's third large-scale solar PV tender

BY **KANG SIEW LI**

Fresh from winning a concession to build a 30MW large-scale solar photovoltaic (LSSPV) plant in Kuala Muda, Kedah, BGMC International Ltd — a Hong Kong-listed Malaysia-based construction firm — is preparing to bid for the government's third round of tenders for LSSPV plants with a target aggregate capacity of 500MW. Companies have until August to submit their bids.

This is in line with the group's plans to beef up its recurring revenue stream by expanding its concession business through more public-private partnership projects, says BGMC CEO Datuk Michael Teh Kok Lee.

BGMC was among the companies that won the LSSPV2 tender to build solar plants in Peninsular Malaysia, Sabah and Labuan for commercial operation in 2019/20. BGMC is to construct a 30MW LSSPV plant in Kuala Muda, which is slated for commercial operation by Sept 30 next year. It has also signed an agreement with Tenaga Nasional Bhd (TNB) that obligates the national utility company to buy the energy generated by the facility for 21 years.

Teh says in the upcoming round of tenders, BGMC will propose to develop a plant with a larger production capacity than the 30MW plant it will build in Kuala Muda, adding that it makes more financial sense.

Based on its experience from the first project, when BGMC tried to obtain financing for the construction of the 30MW plant, the group found that banks were hesitant to hand out term loans of this size.

"(For the construction of a 30MW plant), the banks will say that it is too much for a term loan. But if you go to the bond market, they will tell you the amount is too small. Because of our close relationship with our bankers, we have managed to arrange financing for the project. So, in LSSPV3, we will bid to construct solar plant with a larger production capacity," he tells *The Edge*. Teh is the second largest single shareholder in BGMC, with a 19.1% stake, after its chairman and executive director Tan Sri Barry Goh Ming Choon, who holds a 48% stake.

It is understood that BGMC is planning a 50MW LSSPV plant project, which will cost RM300 million to RM400 million to build.

Teh declined to reveal details of its proposal except to say that the plant's capacity will be lower than 100MW. "The project must also achieve certain investment criteria for us, such as return on investment and profit margin before we submit our bid proposal."

What BGMC has going for it is that it has secured the land to build the LSSPV plants.

"We bought land in Kuala Muda in 2017. While it is not sufficient for a LSSPV3 plant, we can expand by acquiring the neighbouring land. We believe we have a fair chance of winning based on the experience that we picked up with LSSPV2," says Teh.

Apart from its newly won LSSPV2 concession, BGMC has one other concession with the Universiti Teknologi Mara (UiTM) Dengkil campus to provide asset management services for 20 years from November 2015.

"We have about 17 years to go. The outstanding imputed interest income for the concession segment yet to be recognised stood at RM829.7 million as at Sept 30, 2018, while the outstanding contract value for the maintenance services segment was RM184 million.

"This will generate stable income for the group going forward, as opposed to our construction contracts that are subject to the cyclical nature of the business. (Hypothetically), if today, we decide that we will do away with the construction business, we can survive because we have recurring income from the UiTM and LSSPV2 projects for the next 21 years," Teh says.

He sees promising prospects in new concession projects as Malaysia has set a target for 20% of the country's electricity to be generated from renewable sources by 2025, from 2% currently. This means about 3,991MW of new energy capacity will be required.

"This is doable," he says.

Teh also notes that more new power plants will be built as the existing coal- and gas-fired plants will gradually be retired. "Most of the first-generation power purchase agreements (PPAs) were signed in 1996 and a PPA would typically last 21 years. So, most are due to expire soon. As new capacity is installed, solar, hydro and biomass power plants will come into play."

Still, its construction services division will remain the group's bread and butter although the concession segment has become an important contributor in the last few years. The construction services division contributed 97.6% or RM502.7 million of the group's total revenue of RM515.1 million for the financial year ended Sept 30, 2018 (FY2018).

Teh says as at Sept 30, 2018, the group's outstanding order book stood at RM1.4 billion, which will keep it busy for the next 24 months.

"The outstanding order book is at record high and we are not running it down as actively as before. That is because most of our ongoing projects are still in the structural stage of progress," he explains.

BGMC's ongoing projects are D'Pristine Medini in Johor, the Sky Seputeh and Bangsar 61 in Kuala Lumpur, Setia Spice Hotel in Penang and the TNB worker's quarters in Kuala Berang, Terengganu.

Amid the slowdown in the construction sector, the group saw a drop in its order book replenishment in terms of value last year. It bagged 26 new contracts worth a combined RM537.6 million compared with 23 new projects with a total value of RM792.6 million in FY2017. "Year to date, we have secured new contracts worth RM516 million. We hope that in the next couple of months, we can get a few more to maintain a high order book record," says Teh.

He adds that the group is open to collaborations, partnerships, joint ventures and mergers and acquisitions in the construction segment "if they give us a competitive advantage".

"Going forward, technology will play a big role in the construction industry. If we can acquire certain technology or pioneers (in certain construction technologies), we will do it."

KENNY YAP/THE EDGE

Teh: As new capacity is installed, solar, hydro and biomass power plants will come into play

Third profit warning from BGMC

BGMC issued its third consecutive profit warning to investors on March 28, ahead of the earnings announcement for the six months ended March 31, 2019 (1HFY2019) on May 29. In a filing with the Hong Kong stock exchange, BGMC says it expects to record a net loss in 1HFY2019 compared with a net profit of RM13.6 million a year ago.

It attributes the expected turnaround from net profit to net loss to a "substantial decrease in the revenue and consolidated profit due to, among others, the fact that most of the group's projects are still in the early and intermediate stage of progress".

BGMC also blames the expected net loss on additional costs allocated to all the projects due to the reintroduction of the Sales and Services Tax on Sept 1, last year, which led to higher costs for certain materials used for its projects.

YTD, BGMC's shares have fallen 5% to close at HK$0.19 last Wednesday from HK$0.20 on Dec 31, 2018, for a market capitalisation of HK$349.2 million.