Edra hogs the limelight

BY BEN SHANE LIM

There may not have been any new power projects to fight over this year but this sector has had a wild ride. Hogging the limelight is none other than 1Malaysia Development Bhd’s soon-to-be-disposed-of energy unit, Edra Global Energy Bhd.

Early in the year, 1MDB’s plans to list Edra were shelved amid the firestorm of negative publicity on the former’s alleged financial mismanagement.

Interestingly, MMC Corp Bhd still managed to list its energy unit, Malakoff Corp Bhd, and raise RM3 billion despite the depressed market conditions.

Cash-strapped 1MDB was forced to seek other means to monetise its power assets to pare down the RM21.8 billion debt it had incurred to acquire the assets.

Tenaga Nasional Bhd (TNB) was the obvious choice, and talk of a bailout of 1MDB would wreak havoc on the national utility’s share price.

It didn’t help that Edra’s financial situation appeared to be increasingly dire, especially when it was forced to sell a power plant project — Project 3B — to TNB because it did not have enough funds to develop the project itself.

Bailout fears continued to push down TNB’s share price, although it only paid RM47 million to take over Project 3B.

Talk of Edra’s sale also extended to companies like LJM Corp Bhd and Malakoff, affecting both their share prices.

1MDB then opened a tender for the sale of Edra, which drew interest from foreign companies such as Qatar’s Nebras Power QSC, Saudi Arabia’s Aljomaia Group and China General Nuclear Power Corp (CGN). TNB was the only local bidder.

In the end, the tender came down to a two-horse race — between CGN and TNB — after the others pulled out. CGN went on to win the bid after the government waived the 49% foreign ownership rule. The Chinese company will pay RM9.83 billion for Edra, substantially more than TNB’s reported RM8 billion bid.

1MDB, however, was not the only player struggling to develop a power project. The Sultan of Johor-linked SIPP Energy Sdn Bhd saw its power project — Project 4A — revoked by the government after the company failed to meet key milestones in the project.

These delays, however, have benefited other players. Three extensions for power purchase agreements (PPAs) were awarded to YTL Power International Bhd, Malakoff and 1MDB.

However, YTL Power would find itself at odds with Petronas Nasional Bhd (Petronas) and TNB, which is getting in the way of signing the PPA extension.

With all this going on, the Energy Commission (EC) and the Ministry of Energy, Green Technology and Water had to make several difficult decisions.

Fortunately, weak crude oil and coal prices have kept energy costs down so far. But as the government continues to remove the subsidy for natural gas, which the sector uses, electricity tariffs will creep up.

With the rising cost of living becoming a hot topic these days, the power sector and its regulators can expect more public scrutiny.
Tan Sri Francis Yeoh
MANAGING DIRECTOR OF YTL CORP BHD

At first, it seemed that YTL Power International Bhd’s dry spell in the local power scene was letting up. The group announced in August that it had received an extension for its 808MW combined cycle gas turbine power plant in Paka.

While the extension is relatively short — only two years and 10 months — it could be seen as a turn of fortunes for YTL Power. After all, the group has not secured a new power project in two decades.

But instead of signalling YTL Power’s return to the sector, the extension underscores a rift between YTL Power and its stakeholders, shareholders excluded. (YTL Power’s largest shareholder is YTL Corp Bhd.)

Petronas is reportedly making it difficult for YTL Power to sign a new gas supply agreement that is critical for the extension. It just so happens that YTL Power is claiming an estimated RM700 million from Petronas for overcharging for natural gas. YTL Power reportedly won an arbitration for the claim, but it seems to have strained relations with Petronas.

Petronas didn’t have to, but it completely cut off gas supply to YTL Power’s plants the moment the latter’s power purchase agreements (PPAs) expired in September. Meanwhile, TNB is reportedly refusing to sign the PPA unless YTL Power signs a new lease for the Paka plant land.

Moving forward, YTL Corp managing director and major shareholder Tan Sri Francis Yeoh will need to rebuild the group’s relationship with its stakeholders and the public, or find itself on the receiving end of bad publicity. For example, the group is singled out when the Express Rail Link raised its fare from RM35 to RM55, although Tabung Haji owns a 40% stake in the rail company.

Now, the YTL Group wants to develop the KL–Singapore high-speed rail project, but with a tense relationship with the public as well as the government, it may be challenging.
Datuk Seri Maximus Johnity Ongkili
MINISTER OF ENERGY, GREEN TECHNOLOGY AND WATER

While the Energy Commission is the regulator of the power sector, all major decisions ultimately land on the table of Datuk Seri Maximus Johnity Ongkili, the Minister of Energy, Green Technology and Water.

This year, Ongkili had to make several major decisions that will affect not only corporate balance sheets but also future electricity costs.

In the case of the delay of Project 3B, for example, 1MDB was not penalised at all, and even managed to recover its RM30 million performance bond. The cost escalation caused by the delay was also allowed to be passed on to the consumer, as TNB, which took over the project, was given the nod to increase the tariff for the project.

Interestingly, under Ongkili’s watch, almost every major power player was granted an extension. YTL Power International Bhd, 1MDB and Malekoff Corp Bhd were all awarded extensions of around three years for their expiring power purchase agreements (PPAs).

However, the ministry has withdrawn Project 4A from SIPP Energy Sdn Bhd. While SIPP is appealing against the decision, it is the first case where the ministry has rescinded a power plant project due to delays while Ongkili was minister.

Moving forward, Ongkili can expect many more unsolicited proposals from the country’s various power players, offering to develop power plants to replace Project 4A’s delayed capacity.

Interestingly, Ongkili is also mulling over plans to build Malaysia’s first nuclear power plant. An atomic energy bill is already being drafted and will be tabled next year, but Ongkili has made it clear that nuclear power is low on the country’s list of priorities.

While all this is going on, Ongkili’s own home state, Sabah, continues to suffer from electricity shortages with no long-term solution in sight yet.
As Datuk Seri Azman Mohd entered his second three-year term as president and CEO in the middle of this year, it turned out to be one of the most testing times for TNB.

It is a job with no shortage of challenges, but dealing with 1MDB and the sale of Edra Global Energy Bhd, 2015 may well be the most trying year for Azman in his 32 years at TNB.

Azman could not pass up the opportunity to buy Edra. It would have increased TNB’s electricity generation footprint at home and gained it a foothold in countries like Egypt, Bangladesh and Pakistan. It was the perfect opportunity to cement his ambition for TNB – to become a local and regional champion.

The only problem was public and shareholder perception. TNB did not want to be seen as bailing out 1MDB. With the amount of bad press 1MDB was receiving, addressing public perception was an uphill battle, to say the least.

Unfazed, Azman took the pre-emptive approach and announced an unsolicited non-binding offer to take over Edra’s power assets well before 1MDB opened up a tender for the sale of Edra.

Azman’s timing was well calculated. The announcement came a few weeks after the company took over Project 3B for a token sum of RM47 million.

Despite showing that TNB can wrangle a good deal from 1MDB, the national utility’s share price still took a beating when it announced its intention to buy Edra.

Although TNB did not win the bid, the group continued to pursue its regional expansion plans with the acquisition of a 30% stake in Turkish energy firm, Gama Enerji AS, for US$243 million (RM1.05 billion).

Nonetheless, Azman will have to deliver earnings growth if TNB is to resume its position as the darling stock of the FBM KLCI, having lost some of its shine this year.

It doesn’t help that the company was slapped with an additional RM2.1 billion in taxes by the Inland Revenue Board, which will dent its enviable earnings – one basis for its phenomenal share price performance that bucked the trend at the beginning of the year.
Sultan Ibrahim Sultan Iskandar
SULTAN OF JOHOR

The Sultan of Johor is known to be one of the most outspoken among his peers. Sometimes he even touches on national and political issues. He struck a nerve with Putrajaya when he met Tan Sri Muhyiddin Yassin just after the latter was sacked as deputy prime minister.

Little to no effort was made to keep the meeting a secret, once again showcasing the ruler’s indifference to Putrajaya’s sensitivities, the latter, then battling a political storm of allegations surrounding 1MDB.

But even as he flexes the muscles of Johor’s autonomy from Putrajaya, either by his statements or by his decrees, he doesn’t always get things his way.

A case in point is when the Ministry of Energy, Green Technology and Water took back Project 4A from SIPP Energy, a project that had been directly awarded to SIPP by the government in the first place.

SIPP is currently appealing against the decision, but the reason the project was taken back was because SIPP could not meet the deadlines to develop it. Still, it is puzzling that SIPP could not secure an extension.

TNB had originally been SIPP’s partner to develop Project 4A but the two could not submit a tariff that was low enough for the Energy Commission. Subsequently, TNB pulled out of the project, leaving SIPP high and dry.
Datuk Mark William Ling
PRESIDENT AND EXECUTIVE DIRECTOR OF EDRA GLOBAL ENERGY BHD

Listing Edra Global Energy Bhd must have been a daunting task with its parent, 1MDB, in the limelight for all the wrong reasons. Nonetheless, that was the job that Datuk Mark William Ling took on in October last year.

While Ling, 53, was not a familiar face in corporate Malaysia prior to his appointment at Edra, he sits on the board of Mclean Technologies Bhd, an ACE Market-listed company that does fabrication for the oil and gas sector.

While Edra’s listing plans fell through, Ling did manage to gather international interest to buy Edra, lock, stock and barrel. Leveraging his international experience in the power business that dates back to 1996 when he worked for Powergen International, Ling brought in Qatar’s Nebras Power QSC, Saudi Arabia’s Aljomaih Group and China General Nuclear Power Corp (CGN).

Interestingly, the public viewed a sale to foreigners in negative light, while a sale to TNB was seen as a bailout. Battling concerns about national energy security for selling to foreigners, Ling managed to get a waiver for the 49% foreign ownership limit.

Ultimately, China’s CGN won the bid for Edra, paying RM9.83 billion. Including net debt of RM6.8 billion, this valued Edra at RM16.63 billion.

With CGN as a major shareholder, however, next year looks brighter for Edra, which can now focus on developing new power assets instead of chasing funds for its shareholders.