Headline	Tadmax gets govt nod for Pulau Indah power plant		
MediaTitle	The Star		
Date	14 Sep 2019	Language	English
Circulation	175,986	Readership	527,958
Section	Star BizWeek	Page No	3
ArticleSize	427 cm²	Journalist	GURMEET KAUR
PR Value	RM 30,627		

Tadmax gets govt nod for Pulau Indah power plant

Next step is for company to sign PPA and complete financial close

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AFTER many months of uncertainty, Tadmax Resources Bhd says it has secured the government's go-ahead to proceed with its power plant project in Pulau Indah, Selangor.

The company says it has received a letter from the Energy Commission (EC) notifying that the government has agreed to proceed with the development of the 1,000MW–1,200MW combined cycle gas and turbine power plant.

The announcement ends speculation as to the status of the RM3.5bil project after four independent power producer contracts were reportedly scrapped by the Pakatan Harapan government last year in its review of projects.

The property-based company first received the conditional award for the power plant project from the EC on a direct negotiation basis in August 2016 during the previous Barisan Nasional government.

Tenaga Nasional Bhd (TNB) was invited to participate in the project, but the utility giant did not take up the offer.

Without in-house expertise in the power sector, Korean Electric Power Corp (KepCo) was roped in for a 25% stake in the development of the power plant.

The company also teamed up with Worldwide Holdings Bhd, which controls 35%, while Tadmax will own 40% of the power plant.

For those not in the know, Worldwide Holdings is a company linked to the Selangor state government.

These parties signed an agreement to work together on this project last September.

With the green light from the government this week, now the real work starts.

Observers say a fair bit of work is cut out for these parties.

For starters, before construction of the plant can begin, Tadmax has to sign a power purchase agreement (PPA) with TNB and complete its financial close, which is the stage when all the conditions of financing are fulfilled prior to the availability of funds.

"The question is the tariff, which will determine how lucrative the project is," quips an industry observer.

The benchmark now is TNB's Prai power plant, which started operations in March 2016 at a levelised tariff of 34.7 sen per kilowatt-hour (kWh).

Other recent PPAs have come at levels between 36.3 sen/kWh and 37.4 sen/kWh, and one plant down south reportedly managed to secure a levelised tariff of around 38 sen per kWh.

One issue that has cropped up is the power plant's distance to the main load centre, which some consider long.

According to industry players, this could result in a "power loss" during transmission. There is also the cost of the transmission line to connect the power plant to the electricity grid.

Generally there is a power loss of 2%, which is seen as normal in the industry. But in the case of Tadmax, there is a possibility of an undersea cable because its proposed power plant will be on an island, say sources.

The concern is the power loss could go up to as high as 5%. Over a 21-year concession period, this loss can be substantial, says an industry player.

This has to be factored into the calculation of the tariff and could result in higher tariffs, according to some.

On a brighter note, KepCo, which is South Korea's state-run power company, is expected to play a key role in driving the project.

Another issue is funding.

Tadmax's 2018 annual report indicates that a fund-raising exercise, which includes a sukuk issuance, is on the cards for the company.

Business-wise, with a 1,000MW to 1,200MW capacity, the power plant could be a future stable income driver for Tadmax.

Property development now contributes the bulk of the company's earnings - standing at 97% in financial year 2018 (FY18).

A news report two years ago quoting a Tadmax official said that a 1,000MW power plant could generate RM2.5bil in annual revenue at a tariff level of 34.5 sen/kWh.

It was scheduled to begin operations by early 2023, after Edra Power Holdings Sdn Bhd's combined cycle gas turbine power plant in Alor Gajah, Melaka in 2021.

Tadmax's share price has run up 60% year-to-date to close to 32 sen yesterday, giving it a market cap of RM251mil.

There have been changes at the helm too for the company, which returned to the black in FY18.

Last month, Datuk Gan Seong Liam was appointed as the company's managing director (MD).

Gan, who has been in the company for some time, holds close to a 10% stake - making him the single largest shareholder now.

The company's deputy chairman Datuk Seri Anuar Adam, who was previously the MD and single largest shareholder, has cut his stake to 2.79%

Just about a year ago, Anuar controlled 26.43% in the company.

For the six-month period ended June 30, it made a net profit of RM10.9mil as compared to a loss of RM2.12mil in the same period a year ago.

Long term-borrowings stood at RM48.75mil as at end-June.