Edra sold, but RM12 bil debt still remains from 1MDB’s RM22 bil power misadventure

BY BEN SHANE LIM

Malaysia Development Bhd (1MDB) is finally rid of its power assets. With one stroke of the pen, the scandal-ridden fund will effectively shed one third of its debt, reducing its burden from an estimated RM48.36 billion to RM31.73 billion.

This is because the RM9.83 billion disposal of Edra Global Energy Bhd to China’s General Nuclear Power Corp Ltd (CGN) last week will take with it some RM6.8 billion in gross debts at Edra, which had been consolidated into 1MDB’s books.

The disposal is still subject to various conditions precedent being met over the next six months, but come May next year, 1MDB’s balance sheet should be in much better shape.

However, it will take more than asset stripping to pay off debt to pacify 1MDB’s critics. After all, the Edra disposal also crystallised 1MDB’s paper losses into real losses — estimated at RM2.79 billion.

Recall that 1MDB paid RM12.05 billion to acquire the power assets, which came with an estimated RM8.15 billion in inherited debt and RM3.23 billion in cash. In total, that works out to an enterprise value (using net debt + equity value) of RM16.97 billion.

However, 1MDB is selling Edra for an enterprise value of only RM14.18 billion, resulting in a loss of RM2.79 billion.

On an equity value basis, 1MDB will recognise a loss of RM2.22 billion. Note that Edra has a carrying value of RM10.3 billion in 1MDB’s books, so the loss on disposal for the current financial year will be RM470,000. Note also that the remaining RM1.8 billion in losses have already been booked in as write-downs for impairment on goodwill in FY2013 and FY2012.

1MDB did not respond to questions from The Edge on the losses it will incur from the sale of Edra.

These losses do not even include the exorbitant fees and the interest from some RM21.97 billion in borrowings that 1MDB took to finance the acquisitions in the first place.

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1MDB had everything going for it

Take for example the US$393 million (RM1.3 billion at the then exchange rate time) in fees and commissions that Goldman Sachs pocketed for raising US$3.5 billion in bonds in 2012 for the purpose of acquiring the power assets.

At the same time, the RM9.83 billion proceeds from disposal amounts to less than half of the debt 1MDB incurred to acquire the power assets in the first place.

When things go wrong, especially when it involves a state-owned company, there needs to be accountability. Was it the change in economic conditions, or was it the overwhelming negative sentiment that caused 1MDB to lose billions in its energy ventures?

Or does it boil down to poor decisions by the management, which opted to raise huge amounts of debt and overpay for the assets?

In fact, it could be argued that 1MDB had everything going for it. The timing to venture into the power generation business could not have been better. Just as 1MDB acquired the power assets, the country began an aggressive planting-up programme. Over the past five years, over 5,000MW of new power projects have been awarded while a number of expiring power purchase agreements (PPAs) were given extensions.

Now, there is still about 3,000MW to 3,800MW of power projects in the pipeline.

Riding on the expansionary cycle, 1MDB secured about 4,400MW of thermal power plant capacity — Project 3B, a 2,000MW coal-fired power plant, and Project 4B, a 2,000MW to 2,400MW combined cycle gas turbine (CCGT) power plant.

1MDB was also awarded up to 500MW of solar power plant capacity, of which 50MW has been approved. On top of this, 1MDB had secured extensions for its expiring PPAs.

If ever there was a good time to jump into the power business, this was it.

Market conditions cannot be blamed either. Malakoff Corp Bhd managed to raise RM3.6 billion when it listed in May this year. Meanwhile, national utility Tenaga Nasional Bhd (TNB) has been one of the top performing component stocks of the FBM KLCI benchmark index, gaining 44% over the past two years.

After all, energy utilities are seen as stable cash-generating businesses that are best able to weather economic volatility. 1MDB, however, could not capitalise on these advantages.

The state-owned fund literally did not have enough capital to grow the power business with almost all free cash in the group channelled to servicing interest payments.

In fact, according to 1MDB’s accounts for the financial year ended March 2014, there was about RM3.2 billion in cash sitting with Edra. Of that amount, only an estimated RM2.4 billion was restricted cash. By March 2015, it is understood that all the free cash in Edra had been utilised to pay interest.

As a result, 1MDB was ultimately forced to sell Project 3B to TNB for a token sum of RM46 million. 1MDB simply could not finance the power project.

It is time for 1MDB to face facts and put to rest the rhetoric that has been spun over the past couple of years that 1MDB was safeguarding strategic national assets, or that there was economic value to be unlocked from the venture.

With the assets completely sold off, all 1MDB has to show for its misadventure into the power sector is billions in losses (RM2.79 billion) and debt of around RM12 billion that still has to be paid.

And almost 15% of the country’s power generating capacity is now in foreign hands.
Edra sold, but RM12 bil debt remains

1MDB incurs a book loss of RM 2.79 billion from sale of Edra

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ENTERPRISE VALUE: (EQUITY VALUE + NET DEBTS)

16.97 | 14.18 | 2.79

SOURCE: 1MDB FINANCIALI
TOTAL DEBT AT 1MDB LEVEL

RM 48.36 BILLION

EDRA DISPOSAL REDUCES 1MDB'S DEBT BY 34%

RM 31.73 BILLION

PROCEED FROM DISPOSAL RM 9.83 BILLION

INHERITED DEBT DISPOSED OF RM 6.8 BILLION
The columns in red show the estimated RM21.79 billion in debt cumulatively incurred by 1MDB in relation to the power business, based on its FY2014 financials, ended March 31. It does not include interest charged or accrued.

Neither is it reflective of 1MDB’s present debt level since some of the debt has since been settled, paid down or refinanced. Foreign exchange translation due to the depreciation of the ringgit, from 3.3 to 4.3 against the US dollar, has also increased the dollar-denominated liabilities substantially in ringgit terms — by an estimated RM4.5 billion.

It is estimated that 1MDB still has RM24 billion in outstanding debt incurred in relation to the power business.
DEBT TAKEN BY 1MDB TO BUY POWER ASSETS IN EDRA ENERGY

DEBT REMAINS
RM21.79 BILLION

WHERE DID THE MONEY GO?

HOW IT WAS RAISED

1. DISPOSAL OF POWER ASSETS
   - RM9.83 BILLION
2. GOLDMAN SACHS BONDS
   - US$3.5 BILLION (RM11.55 BILLION @ US$3.3)
3. DEUTSCHE BANK LOAN
   - US$975 MILLION (RM3.2 BILLION @ US$3.3)
4. BRIDGING LOAN
   - RM6.17 BILLION

HOW IT WAS USED

1. DEPOSIT WITH AABAR
   - US$1.4 BILLION (RM4.26 BILLION @ US$3.3)
2. COMMISSIONS & FEES PAID TO GOLDMAN SACHS PLUS OTHER COSTS
3. TANJUNG ENERGY
   - RM8.5 BILLION
4. GENTING SANIYEN
   - RM2.35 BILLION
5. JIMAH ENERGY VENTURE
   - RM1.2 BILLION

DISPOSAL OF POWER ASSETS STILL LEAVES RM12 BILLION DEBT TO BE PAID

BEFORE DISPOSAL

AFTER DISPOSAL
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