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1MDB faces hiccups in power assets listing

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1 Malaysia Development Bhd's (1MDB) plan to list its power assets has hit another bump in the road, with the unanticipated outage at the 1,400MW coal-fired Jimah power station in Negeri Sembilan.

According to various industry sources, one of the two 700MW blocks at the Jimah plant had to be shut down because of leaking boiler tubes — the same problem that has been

plaguing Malakoff Corp Bhd's 2,100MW coal-fired plant in Tanjung Bin.

The outage is expected to last two to three weeks, with the 700MW block firing up again only in early December. This costs money. Besides the repair costs, Jimah will not receive full-capacity payment. Worse still, there could be a penalty.

"If the boiler tube leaks, you will have to replace the whole thing. You can't just weld it. Luckily, I hear that there are spare ones available, so they (Jimah) will not have to wait for a

new one to be fabricated. However, it will still take some time to get the plant up and running again. Waiting for the plant to cool down alone takes about three days," says a veteran industry player.

However, 1MDB will not have to bear the cost of the outage, at least not yet. Although 1MDB has signed a RM1.2 billion agreement to acquire a 75% stake in Jimah, industry sources say completion of the deal has been delayed several times.

For the time being, the cost of repairs as well as the foregone capacity payments from Tenaga Nasional Bhd (TNB) will be borne by the Negeri Sembilan royal family, who have a 65% stake in the plant through their vehicle, Jimah Teknik Sdn Bhd.

The other 10% stake that 1MDB is acquiring belongs to Jimah O&M Sdn Bhd.

The remaining stake in Jimah is held by TNB (20%) and the Negeri Sembilan government (5%).

Despite the technical problems at the Jimah plant, 1MDB may still have to acquire it because the government investment arm is proposing to use the site adjacent to the Jimah plant in its bid for the 2,000MW coal-fired power plant development known as Project 3B.

Besides the land, which will come together with 1MDB's acquisition of Jimah, 1MDB's proposed plant is also expected to share common facilities with the existing plant in order to bring costs down.

Why does this matter for 1MDB?

Should 1MDB win Project 3B, it will have to acquire the Jimah power station for the land. However, it is not clear if 1MDB is committed to buying the now-impaired Jimah plant at the originally agreed price of RM1.2 billion. If the price remains unchanged, the yield on the Jimah plant may be much lower than originally expected. This will affect 1MDB's value proposition if it tries to list its assets.

Recall that MMC Corp Bhd had to call off its plans to list Malakoff after the outages at Tanjung Bin. To date, the foregone capacity payments are estimated at RM400 million.

According to industry sources, all three 700MW blocks at Tanjung Bin have encountered the same problem. As a result, one block is still offline, while the two that are in operation have been de-rated to 600MW each.

This is cause for concern for 1MDB because the Jimah plant is similar to that in Tanjung Bin. Both plants use boilers manufactured by Japan's IHI.

Currently, Malakoff's foregone capacity payments of RM400 million in the past two quarters are a result of its unavailability reaching about 12%, say industry players, adding that Jimah's unavailability is around 8%.

Both plants have an allowance of 6% unavailability. Anything above that will result in lower capacity payments from TNB.

Notably, Jimah's problems may not be as severe. It is only expected to change about 30 boiler tubes, compared with Tanjung Bin, which had to change more than 200, explains another industry player.

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Additionally, some industry players also point out that Jimah is one of the better-managed plants, and should be able to reduce its unavailability due to its efficiency.

As it stands, 1MDB faces an uphill battle trying to list its existing stable of power assets without a growth catalyst.

1MDB has two power plants in its stable — the 1,490MW Powertek Energy Sdn Bhd gas-fired plant, which it acquired from Ananda Krishnan for RM8.5 billion, and 75% of the 720MW gas-fired Kuala Langat plant, which was acquired from the Genting Group for RM2.3 billion.

According to bankers, 1MDB's cost of borrowing on its power assets would be higher than the yield it could offer to shareholders, making it difficult to create value through an initial public offering.

However, Project 3B would be the ideal "growth story" catalyst for 1MDB to take its power assets to the market, says one banker.

With more than RM35 billion in borrowings, it is no secret that 1MDB is under pressure to lighten its balance sheet and, therefore, the group is fighting very hard for Project 3B.

1MDB is going neck and neck with YTL Power International Bhd, which has submitted the cheapest bid of 25.12 sen per kWh, compared with 1MDB's bid of 25.33 sen. Last week, both front runners for the 2,000MW power project had come under scrutiny. **E**