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Aljomaih, QIA eyeing 49% of Edra

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Two Middle Eastern outfits — Aljomaih group and Qatar Investment Authority (QIA) — are understood to be in talks to buy as much as 49% in Edra Global Energy Bhd, a wholly owned unit of beleaguered 1Malaysia Development Bhd (1MDB), sources say.

It is learnt that the plan to sell the equity in Edra to either one of the two companies is part of a prelude to a possible flotation exercise of the power generation company's shares on Bursa Malaysia.

It is learnt that the sale of equity in Edra's units would allow parent 1MDB some breathing space to cover interim expenses, before unlocking further value in the assets via the initial public offering.

This plan to sell 49% in Edra, however, flies in the face of earlier assumptions that the IPO is being shelved.

"Earlier indications were that the listing (of Edra) was off, but there seems to have been a revival of the plan to float Edra's shares on the local bourse. The logic is that if 1MDB were to sell the power generation assets

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'Need to be prudent with national assets; not just sell them quickly'

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now, it (1MDB) would get a fire-sale price as everyone knows the pressure it is under. On the other hand, if some cash was obtained — like from selling just 49% — merely to settle some of the more pressing loans, after which 1MDB would then renegotiate the remaining debt commitments, 1MDB may be able to still hold on to control of Edra while solving its problems," the source explains.

At present, several parties such as IJM Corp Bhd, state-controlled utility giant Tenaga Nasional Bhd, Singapore's Sembcorp Industries Ltd, Saudi company Acwa Power International and San Miguel Corp of the Philippines are understood to have expressed interest in Edra.

It is not clear whether there is any rift in 1MDB regarding the company's future plans but the sale of a 49% stake and the subsequent listing will surely scuttle plans for an outright sale of Edra.

"These assets under Edra are national assets. 1MDB is a GLC (government-linked company) so there is a need to be prudent and not just sell the assets quickly, sweep all the problems under the carpet — there is a need to get the best value from the sale," the source adds.

It is not clear how much the partial sale would rake in for 1MDB, but the enterprise value of Edra is in the region of RM16 billion to RM18 billion.

News reports have the value of Edra based on the sale to the interested parties pegged at around RM15 billion.

It is understood that the plan to sell the 49% equity has already been communicated to some of the top government officials.

The Edge understands that Edra already has an existing relationship with Saudi Arabian company Aljomaiah, in which the latter, via its unit Aljomaiah Automotive Co Ltd, has a 45% equity interest in Pendekar Energy (L) Ltd; the remaining 55% is held by 1MDB. This, it seems, places them as the frontrunners to bag the sale of equity in Edra.

Aljomaiah has a presence in trading and distribution of branded products, manufacturing, investment, telecommunications, finance services, real estate, power and water, to name a few areas of interest, and is controlled by the Aljomaiah family. It is also known to be among the largest business groups in the Middle East.

QIA, however, cannot be written off, as it is known to be "quite persuasive"; the sovereign wealth fund of Qatar is estimated to have in excess of US\$170 billion of assets as at end-December 2013.

Much of the issues at Edra stem from its parent 1MDB having accumulated some RM49 billion worth of debts at high finance costs. In March last year, 1MDB's debts were RM42 billion, meaning that in a span of more than one year, the strategic investments funds' debts have gained close to 17%.

To make things worse, there is uncertainty as to 1MDB's financials, with reports of a RM25 billion hole. Nevertheless, 1MDB is indeed looking to solve its high debt issue. The strategic investment firm announced late last week that it was seeking equity investors for its Bandar Malaysia project, a 495-acre parcel strategically located in the Klang Valley. This initiative could value the plot at just below RM13 billion, according to news reports.

Another of 1MDB's assets, its 70-acre parcel in Tun Razak Exchange, meanwhile, is valued at about RM5.5 billion, while Abu Dhabi-based International Petroleum Investment Co will inject in excess of RM16 billion into 1MDB. With the cash obtained from the sale of equity in Edra to either Aljomaiah or QIA, and the initiatives mentioned above, 1MDB could repay a chunk of its borrowings.

A check with the Companies Commission of Malaysia indicates that Edra's financials were not yet available as the company was only registered in July last year.

Nevertheless, 1MDB's main revenue generator is its power business. For its financial year ended March 2014, 1MDB suffered an after-tax loss of RM665.4 million from RM4.3 billion in revenue.

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