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Go ahead for Project 3B transfer to TNB

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THE government has approved the transfer of 1Malaysia Development Bhd's (1MDB) 70% stake in the 2x1,000MW coal-fired power plant, Project 3B, to Tenaga Nasional Bhd (TNB) with the levelised tariff fixed at 26.67 sen per kWh.

In a note to the exchange yesterday, TNB announced that the financial closing date will be achieved no later than Oct 15, 2015.

"Jimah East Power Sdn Bhd (JEP) shall enter into the project documents and fulfil the conditions precedents to their effectiveness.

"The scheduled commercial operation dates for Unit No 1 and Unit No 2 shall respectively be no later than June 15, 2019, and Dec 15, 2019," stated the note.

The announcement, however, did not provide details on how much was paid for the stake and to whom TNB is paying it, thus leaving the question of viability of the project unresolved.

TNB's shares took a hit when the

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Non disclosure of project details to depress shares

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news first came out about the takeover and analysts expect its shares to remain depressed until details of the project are released and the investing community could ascertain that it is not a bailout of 1MDB.

The concession of Project 3B, which was supposed to be built near Port Dickson in Negri Sembilan, was initially awarded to JEP, of which the 70% stake was held by 1MDB with the remaining 30% held by Japan's Mitsui & Co Ltd.

The concession was initially at a levelised tariff of 25.33 sen per kWh for a concession period of 25 years.

1MDB, however, was unable to meet the financial close which was due in mid-April this year as it sits on RM42 billion worth of debt.

Reuters recently published a

story citing unnamed sources that TNB will be issuing RM10 billion worth of sukuk.

1MDB and Mitsui initially proposed to raise as much as RM8.4 billion in debt and the rest in equity to fund the RM11 billion project.

Industry observers said the higher sukuk figure now being proposed is to take into account the ringgit depreciation and higher interest costs.

While the observers do not see the takeover as a bailout nor that TNB would pay a higher price, concerns over the project's internal rate of return remain an issue as it is expected to be at 8% to 9%, which is below TNB's threshold of 10%.

TNB's shares closed at RM12.60 yesterday, six sen below last Friday's closing price.