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MARC affirms Kapar Energy's RM2b sukuk rating

BY BILLY TOH

KUALA LUMPUR: Malaysian Rating Corp Bhd (MARC) has affirmed its AA+IS rating on Kapar Energy Ventures Sdn Bhd's RM2 billion sukuk, but revised the outlook to negative from stable.

The local rating agency said the assessment considers Tenaga Nasional Bhd's (TNB) strategic interest in Kapar Energy and the strong financial and operational linkages between them. Kapar Energy is the owner and operator of Kapar Power Station, Selangor, the largest domestic multi-fuel thermal power station with a nominal capacity of 2,420MW.

The sukuk is backed by operational revenue derived from a 25-year power purchase agreement with TNB expiring in 2029.

"The negative outlook reflects the weakened operational performance of Kapar Energy's multi-fuel thermal power station, leading to low liquidity buffers to meet its near-term debt obligations," said MARC in a statement yesterday.

It also reflects the rating agency's view that Kapar Energy's weak liquidity position is likely to persist over the near term.

"Any further significant plant underperformance in Kapar Energy's cash flow and/or changes in TNB's rating and/or its supportive stance towards Kapar Energy will exert pressure on the sukuk rating. Conversely, we may reverse the rating outlook to stable if Kapar Energy's operational performance improves," said MARC.

It noted that the recurring multiple operational issues at Kapar Energy's four generating facilities (GFs) contributed to lower capacity payments of 14% and 15.2% below the projected capacity revenue for the financial year ended Aug 31, 2015 (FY15) and the first half of FY16 respectively. In particular, Kapar Energy's GF2 and GF3 achieved average rolling unplanned outage rates that sharply exceeded the stipulated unplanned outage limit of 6%.

Kapar Energy widened its pretax loss to RM198.3 million in FY15 from RM147.3 million in FY14 due to high finance costs. It also recorded a lower revenue of RM1.4 billion in FY15 from RM1.9 billion in FY14.

MARC opines that Kapar Energy's profitability will remain under pressure given that the operational issues of the GFs have not been fully resolved.

For FY17, Kapar Energy is expected to generate free cash flow of RM409 million to cover the next sukuk repayment and profit payment of RM200 million and RM66.5 million respectively, translating into a pre-distribution finance service coverage ratio of 1.86 times.

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