

Dr M: Exactly how is 1MDB debt reduced by Edra sale?

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Joining in the fray today over the supposedly questionable sale of 1MDB's Edra Global Energy Bhd to China General Nuclear Power Corporation (CGN) is former prime minister Mahathir Mohamad who wants to know the savings purportedly achieved.

"It is reported that 1MDB would reduce between RM16 billion to RM18 billion of its debts after selling Edra.

"I am trying to work out how the savings are achieved," Mahathir said in a blog post today.

He reminded that 1MDB had bought the power plants for RM18 billion along with debts of RM6 billion.

CGN, meanwhile, has paid RM9.83 billion for 100 percent of the energy assets.

"Having sold Edra for RM9.83 billion, how does this reduce 1MDB debts by between RM16 to RM18 billion?

"Again, considering the depreciation of the ringgit, how will the debts in US dollars be reduced?" he asked.

Not only that, he pointed out that when 1MDB first purchased the power plants, the ringgit was trading at RM3.2 against the US dollar but the rate now is at RM4.2 against the greenback.

Hence, in terms of the US dollar, the RM9.83 billion paid by the Chinese company is worth much less than the RM9.83 billion paid by 1MDB, he said.

"If the money borrowed by 1MDB is in ringgit, the loss would be minimal. But if 1MDB had borrowed in US dollars, it stands to lose RM1 for every dollar borrowed.

"In other words, what 1MDB gets from the sale will not be able to fully pay off the debts in US dollars raised by 1MDB," he asserted.

Mahathir also questioned if the RM6 billion debt assumed by 1MDB is considered as part of the assets sold to CGN.

Another pertinent question, he said, is whether Petronas would be selling gas to the power plants and if so, at what price would they do so.

'Doesn't sound like FDI'

He wondered if CGN's purchase of the power plants is a form of foreign direct investments

(FDI), though he immediately doubted the logic of this.

"The money brought in would go out to pay foreign debts, and the amount going out would be far more than the inflow.

"(It) does not sound like FDI to me," he said.

If the government plans to allow the full repatriation of the profits of these power plants in Malaysia, Mahathir reminded that China has a policy of repatriation in the form of exports of Chinese products, and not cash.

"How much control will the government have over a foreign-owned utility? Price-fixing which may cause a loss to the company may result in subsidy by the government," he noted.

In announcing the RM9.83 billion sale, 1MDB president Arul Kanda Kandasamy had described the purchase by the CGN Group as a clear vote of confidence in the Malaysian economy.

Describing the deal as a major milestone in the debt-ridden 1MDB's rationalisation plan, Arul also said: "CGN Group was a clear winner in this international tender, based on the objectives announced by 1MDB previously, namely value maximisation, acceptable commercial terms, and certainty of transaction execution."

The deal between Edra Global Energy Bhd and CGN Group, targeted for completion in 2016, is the largest announced transaction in Malaysia and one of the largest in the Asian power sector to date.

The assets sold are Edra Solar Sdn Bhd, Edra Energy Sdn Bhd, Powertek Energy Sdn Bhd, Jimah Teknik Sdn Bhd, Jimah O&M Sdn Bhd, Mastika Lagenda Sdn Bhd, and Tiara Tanah Sdn Bhd.

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