

How 1MDB overpaid for its power assets

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KINIBIZ Most of 1MDB's power assets were acquired within a 16-month time frame between March 2012 and July 2013. The spending spree raised many questions at the time, which remain unsatisfactorily unanswered as at writing time.

The underlying logic of buying over independent power producers (IPPs), as understood by market observers, would likely be the strong cash flow.

In simple terms, IPPs have a steady stream of cash flow by virtue of their power purchase agreements (PPAs), which are iron-clad agreements that guarantee a steady stream of money in exchange for a steady level of power generation as stipulated in the agreement.

This helps with 1MDB's growing pile of debt at the time as strong cash flow would enable the company to service its obligations. Having issued a RM5 billion bond in 2009, 1MDB later issued more debt papers and by March 31, 2012, when its 2012 financial year ended, 1MDB's total borrowings came to RM7.93 billion.

However, its trail of acquisitions raised eyebrows for the wrong reasons - the market at the time was abuzz with how the company strangely paid a generous premium for the power assets.

By conservative estimates, the company, forking out RM12 billion or so overall, overpaid by some RM3 billion.

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