

1MDB Has No Business Taking Over An Existing IPP

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The Singapore Straits Times reported yesterday that 1MDB has acquired Tanjong Energy Holdings (TEH) from Ananda Krishnan for RM8.5 billion. Tanjong Energy owns and operates nine power plants in Bangladesh, Egypt and Malaysia and smaller joint ventures in Sri Lanka, Pakistan and United Arab Emirates.

While TEH is certainly a profitable business, there is hardly any justifiable reason for 1MDB to be making a RM8.5 billion investment to acquire it.

According to its own website, "1MDB is a strategic development company wholly owned by the Government of Malaysia. As a strategic enabler for new ideas and new sources of growth, 1MDB leads in market-driven initiatives to help transform Malaysia into a thriving economy."

The acquisition of TEH hardly qualifies 1MDB as a "strategic enabler for new ideas" and the power generation business is certainly not by any reasonable definition a "new source of growth". While IPPs are crucial to any economy, 1MDB's entry into Malaysia's IPP scene will add little value as we have already got a crowded with IPP scene. Malakoff Bhd, YTL Power and Genting Sanyen leads a list of more than 20 IPPs in the country today.

What's more, the RM8.5 billion highest bid by 1MDB, 100% owned by the Malaysian Government appears to have paid handsomely to Ananda for the power generation assets of Tanjong PLC Bhd. Less than 2 years ago, Ananda has acquired all shares of Tanjong PLC listed on Bursa Malaysia for RM8.8 billion. Tanjong PLC had owned TEH, a gaming business and several other leisure and property assets.

Tanjong PLC had sold the gaming business to a private consortium for RM2 billion last year. Adding that to the RM8.5 billion for TEH, Ananda has made a profit of RM1.7 billion (or 19.3% returns) on his RM8.8 billion "investment" in 2010. Tanjong PLC continues to own its leisure and property assets.

The question that needs to be asked is whether this is a pay-off for Ananda Krishnan, who according to former prime minister Dr Mahathir Mohamad, made his billions as a direct result of his administration's policies.

What is of greater concern however, is the manner which 1MDB is financing its business and operations, which is funded entirely by debt guaranteed by the Federal Government.

The last time it took a RM5 billion debt, it invested RM4.2 billion in a speculative PetroSaudi Joint Venture with PetroSaudi International company for an oil exploration project. However, within 6 months, 1MDB converted its 40% investment in the joint venture into an 11-year loan to a company whose "track record" stretched back only to 2005.

The PetroSaudi stunt left 1MDB with very little cash for its new projects awarded without tender, by the Federal Government – the 160ha Bandar Malaysia in Sg Besi and the RM26 billion Kuala Lumpur International Financial District. Hence as it stands, 1MDB is already in need to secure further financing to develop these 2 mega projects.

Now, with the new RM8.5 billion investment in Tanjong Energy, there is absolutely no question that 1MDB will be the most leveraged company in Malaysia, with the risk entirely borne by the tax-payers. With absolutely no expertise or experience in oil and gas, property development and now, the power generation sector, 1MDB is setting itself up to become Malaysia's mother of all bail-outs. If it happens, it will be a disaster of epic proportions to our financial sector which will trigger possibly the worst economic crisis the country has ever faced.

The Prime Minister and Finance Minister, Najib Razak must present an official ministerial paper to Parliament when its in the session commencing next week. Brakes and risk management measures must be put in place to prevent the country from falling headlong into financial disaster.

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