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Assets sale

Malaysia fund strikes power deal with Beijing

Accord worth \$2.3bn will help scandal-hit 1MDB reduce large debt pile

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Malaysia's scandal-hit 1MDB state investment fund has clinched a deal to sell power assets to one of China's fast-expanding state nuclear companies for \$2.3bn.

The agreement with China General Nuclear Power Group helps cut the fund's big debt pile but hands over a keystone of sovereign-backed 1MDB's activities to a Chinese state buyer.

It is the latest twist for the state investment fund, where the fate of billions of dollars borrowed as it ran up more than \$11bn of debts from contentious deal

making has sent ripples reverberating from Malaysia to the Middle East to the Cayman Islands.

The higher than expected price also raises the question of whether the deal is in part a reminder by Beijing of its influence in Malaysia, after US President Barack Obama's efforts last week to woo Najib Razak, the country's premier, as an ally on US-China maritime disputes.

While beating expectations, the 9.83bn ringgit pricetag represents a steep discount on the roughly 12bn ringgit that 1MDB has said it paid for the assets over the past few years, although included power purchase agreements are closer to expiry and so less valuable.

Foreign buyers also benefit from the steep fall in the value of the currency, which has tumbled by about a fifth in the past year against the dollar.

CGN's main local rival bidder was Tenaga Nasional, the state-owned electricity company, and the auction process attracted companies from Saudi Arabia and Qatar. Shares in Tenaga rose 5 per cent early yesterday, apparently in relief that the company would not be used by the government to bail out 1MDB.

But the sale to CGN creates complications of its own, given how factions of the ruling United Malays National Organisation have stoked hostility towards the country's Chinese Malaysian business elite. The deal also appears to over-ride rules that limit foreign investors to minority stakes in the Malaysian power production industry without a special waiver.

James Chin, director of the Asia Institute at Australia's Tasmania university,

said there could yet be a backlash against CGN if electricity users ended up paying more.

"It will become a racial issue if there is a power [price] hike to benefit the new operators," Mr Chin said.

Arul Kanda, the former Abu Dhabi-based banker brought in earlier this year to restructure 1MDB, said CGN was the "clear winner" of an auction he hailed as a "vote of confidence in the Malaysian economy".

Malaysia has been under growing economic pressure because of a mix of international energy price falls, high consumer debt levels and concerns about the fallout from 1MDB's troubles.

Both the price and the politics of the CGN deal are now likely to come under greater scrutiny, at a time when the Najib government is under severe

pressure over its stewardship of 1MDB.

The premier has for months been fighting off a campaign to oust him over mysterious payments of almost \$700m to his personal bank account. He denies wrongdoing and says the money was from an unnamed Middle Eastern donor.

CGN's 1MDB deal was revealed after Mr Najib held talks on Monday with Li Keqiang, his Chinese counterpart. Mr Li announced Beijing would buy more Malaysian government bonds and offer Kuala Lumpur the chance to purchase almost \$8bn of Chinese debt and shares.

The 1MDB deal is part of a broader overseas expansion by CGN, including a high-profile push in the UK. China National Nuclear Corp, CGN's rival, agreed a deal last week to build two nuclear power plants in Argentina.

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