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Malaysia Deal Offers Potential for China

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Chinese companies could gain leverage on projects, including a high-speed railway

China's \$2.3 billion deal to buy power assets from a debt-ridden Malaysian government-investment fund could give Beijing greater sway in the Southeast Asia nation and pave the way for Chinese companies to win a string of coveted infrastructure deals.

By P.R. Venkat in Singapore and Rick Carew in Hong Kong

State-owned China General Nuclear Power Corp. agreed to pay 9.83 billion Malaysian ringgit (\$2.3 billion) in cash and take on an unspecified amount of debt for a group of power plants from Malaysia Development Bhd., or IMDB.

The deal came as part of series of agreements struck between Chinese Premier Li Keqiang and Malaysian Prime Minister Najib Razak's government, including Beijing buying Malaysian government bonds and boosting investment in Malaysia, according to China's state-run Xinhua News Agency. The Southeast Asian nation's economy has been rocked by a political scandal involving IMDB and by low oil prices.

For China, the deal appears to offer the world's second-biggest economy broader influence across the region, in line with the government's "One Belt, One Road" policy.

In addition to the pledge to buy government bonds, Mr. Li expressed an eagerness for China to cut infrastructure deals in Malaysia, including



The Kuala Langat power plant is among 13 sold by Malaysia Development to state-owned China General Nuclear Power Corp.

building a high-speed railway linking Malaysia and Singapore, other rail projects in the country and a China-Malaysia port deal, Xinhua reported.

The political nature of the deal was reinforced by China General Nuclear's decision to buy the assets instead of the company's Hong Kong-listed unit, CGN Meiya Power Holdings Co., which withdrew from the bidding process after making an initial approach.

The unlisted China General Nuclear has greater financial firepower and flexibility to en-

sure a deal would close quickly. It won't need to seek shareholder approval or make the same disclosures as the Hong Kong-listed company would. Malaysia's tender rules had limited foreign ownership of local power assets to a minority stake, but an exception to those rules was made for the Chinese buyer, according to people familiar with the situation.

The deal with China came days after a visit to Malaysia by U.S. President Barack Obama, who spoke broadly

during a town hall event about human-rights protections and civil liberties. Mr. Obama had pushed for closer ties between the U.S. and Malaysia to offset growing Chinese influence in Southeast Asia.

The Chinese state-owned firm outbid an offer from a Malaysian state-run power company, Tenaga Nasional Bhd., which is 30%-owned by Malaysia's sovereign-wealth fund Khazanah Nasional Bhd., wouldn't offer as steep a price as China General Nuclear, given controversies surround-

ing IMDB, according to people familiar with the situation.

The deal to unload IMDB's energy assets may have helped lift sentiment toward the Malaysian stocks and the ringgit. The Malaysian stock market gained 0.4% on Tuesday, while the ringgit rose 1.1% against the U.S. dollar late in Asia. Tuesday morning in New York, the dollar was buying 4.2233 ringgit, down from 4.2856 ringgit late Monday.

After IMDB bought power plants in 2012 from two Malaysian companies, it wrote

down the value of the purchase from one of them, and the seller recorded a big gain on its financial statements. IMDB said the premium it paid reflected the experience of the staff that ran the power plant.

The fund paid roughly 12 billion ringgit for the plants and valued them at around \$4 billion in a planned initial public offering this year.

After the deal, funds tied to one of the companies were donated to a charity linked to Mr. Najib, which later donated money to schools in a battleground state during a tightly fought national election. The Wall Street Journal reported in June. The IMDB fund denied the purchases were driven by political considerations. Mr. Najib has denied wrongdoing.

Mr. Najib formed IMDB in 2009 to spur growth in the Southeast Asian country, but the fund has since accumulated more than \$11 billion in debt and is the focus of a series of global investigations.

Political rivals to Mr. Najib criticized IMDB for overpaying for the power plants and losing money. Tony Pua, a member from the opposition Democratic Action Party, said that IMDB spent 12.1 billion ringgit to acquire the power companies, which came with about 8 billion ringgit of legacy debt. "Now IMDB desperately sold its power companies for 9.83 billion ringgit, clocking in 2.27 billion ringgit of losses."

IMDB wouldn't comment. Xinhua News Agency quoted Mr. Li as saying that China would also grant a 50 billion yuan (\$7.8 billion) quota to Malaysia under the Renminbi Qualified Foreign Institutional Investor program to boost trade and investment between the two countries.