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Power players push for overseas plants

- **Players** seeking to expand operations in greenfield and mature markets overseas
- **Growth** in domestic electricity demand slowing down

By F Saad

MALAYSIAN power plant operators are aggressively pursuing overseas opportunities, both in developing and mature markets.

Newly-listed Serba Dinamik Bhd is tapping into opportunities in Africa, while Malakoff Corp Bhd is looking at more brownfield acquisitions in the Middle East, Europe and Australia.

Serba Dinamik founder and group CEO Datuk Mohd Abdul Karim Abdullah says the company has selected the African continent as its next growth area and targeting to set up plants with a capacity of between 100 MW and 150 MW.

"For now, we hope to enter Cote D'Ivoire (Ivory Coast) and Tanzania. Those are countries undergoing development so the need for power generation is huge, and will only increase over time. That will (potentially) widen our revenue contribution by 15-20%. Currently, overseas contribution to revenue is at 65%," Karim tells *FocusM*.

Both the Cote D'Ivoire and Tanzania projects are at the negotiation stage and the company will make an announcement following confirmation.

Karim also says the company is tapping on its collaboration with the Islamic Development Bank (IDB), which is experienced in the region. "IDB can also provide syndicated facilities in collaboration with local banks. Many African countries are members of the OIC (Organisation of Islamic Cooperation), so we will leverage on that presence," he adds.

According to an industry observer, stiff competition and high costs in Malaysia are driving companies to look for opportunities abroad, where pioneer status in certain areas, including green energy, can get them additional incentives.

"Overseas opportunities for power plants are mainly in green energy such as hydro, solar and gas. Coal-fired plants have a high operating cost and are less attractive, given the environmental concerns. Profitability of coal plants also rely on commodity prices," says the observer.

He adds that demand for electricity in Malaysia is also not expected to increase much, compared with growth in other emerging economies.

Last year, total generating capacity in Peninsular Malaysia was 12,013.4 MW, of which 50.8% came from coal-fired plants and 45.2% from gas.

Despite a slowdown in energy demand growth, Karim feels there are still opportunities here. "Malaysia is a signatory of the Kyoto Protocol and the government has to show proof that it is committed to reducing its carbon footprint. This includes increasing the use of all forms of green energy, including hydro and solar," he says.

Bahrain potential

Earlier this month, Serba Dinamik and its consortium partner EAG Capital Sdn Bhd inked a memorandum of understanding with the Malaysia-Bahrain Business Council and the Bahrain-Malaysia Business Council to conduct a feasibility study on the construction of an integrated solid waste management and water desalination plant in Bahrain.

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Karim feels there are still opportunities for power companies in Malaysia

Offsetting lower demand from Tenaga

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Malaysia filing, Serba Dinamik said it expected to bear the capital outlay for the plant, amounting to about 320 million Bahraini dinar (about RM3.2 bil). This will be funded by internally generated funds and/or bank borrowings. The plant is expected to be at the forefront of green energy production in Bahrain, with the aim of producing energy and eliminating the use of landfills.

The plant, which will have a capacity of 30 MW (after deducting plant utilisation of 24 MW), will also allow for sustainable management of solid waste covering all sources and aspects. It will be involved in generation, segregation transfer, sorting, treatment, recovery and disposal in an integrated manner with an emphasis on maximising resource efficiency.

"The Bahrain plant falls under our EPCC (engineering, procurement, construction and commissioning) segment, and we have already been in talks with the Bahrain parties for the last six years," says Karim.

He says although maintenance of plants can be costly, Serba Dinamik will use its own expertise to keep costs down. "We will be able to manage maintenance on our own for plants with a capacity of less than 1,000 MW, but hopefully we will be able to train our people as and when required."

Serba Dinamik registered a net profit of RM78.33 mil for the first quarter ended March 31, mainly generated by its operations & maintenance (O&M) segment. Revenue at this segment was RM555 mil (RM614.42 mil overall), coming mainly from operations in Malaysia followed by Qatar and Bahrain.

Repeat customers

Revenue at its EPCC segment amounted to RM56.5 mil, which was mainly derived from its UAE and Malaysia operations.

"Recall that owing to its track record and past performance, almost 80% of its O&M revenue is from renewed contracts and repeat customers, and 65% of its contracts are from international operations – denominated in the US dollar – while 35% comes from domestic operations," says RHB Research analyst Wan Mohd Zahidi in a report dated May 24. He has a buy call on Serba Dinamik with a target price of RM2.78. The counter closed at RM2.09 on May 31.

Malakoff is still reliant on income from the Tanjung Bin plant in Johor, which contributed 22% of total capacity income of RM150 mil

As for Malakoff, it is currently evaluating opportunities to acquire more than 10 power generation assets in line with its plan to increase its power generation capacity to 10,000 MW from the current 7,537 MW by 2020.

Compared with Serba Dinamik's greenfield approach in relatively fresh markets, Malakoff's strategy is to acquire assets via partnerships in more mature markets, as this would result in a more immediate impact on its balance sheet.

"We are also looking at some developed markets and plan to go in with partners who can add value to our existence," Malakoff group managing director Datuk Wira Azhar Abdul Hamid told reporters following the company's AGM in April.

Part of the reason behind Malakoff's desire to increase its overseas presence is the decreased demand from Tenaga Nasional Bhd for electricity from its plants.

Newer and more efficient plants located in the northern region have overtaken the company's plants in merit order, which ranks plants based on ascending order of price, along with the amount of energy generated.

Capacity factor for Port Dickson Power, one of Malakoff's projects, dropped to 2% from 11% in the previous year, while its Prai Power's capacity factor dropped to 43% from 44.6%. Transmission constraints in the central region also added to the drop in demand, says TA Securities analyst Kylie Chan in a recent report. She has a hold call on the stock, with a target price of RM1.23. The counter closed at RM1.17 on May 31.

Malakoff reported a Q1FY17 net profit of RM99 mil, down 8% from the previous corresponding quarter. The results were impacted by higher operating and maintenance expenditure, and coal barging costs and lower capacity payment from gas plants.

Contribution from its overseas associates increased more than five times to RM31 mil (Q1FY16: RM6 mil) due to improved performance across all projects, particularly from Hidd Power (Bahrain) and Al-Ghubrah (Oman).

Plant management is no easy task. Malakoff is still reliant on income from the Tanjung Bin plant in Johor, which contributed 22% of total capacity income (RM150 mil), although the plant's capacity factor dipped to 31% in March due to a scheduled outage of 46 days from March 12.

The repair works were completed on May 4, but the next day a leak was spotted in a water tube and the plant was shut down again until May 25.