1MDB's Edra asset sale sees positive response

GOOD SIGN: Ringgit rises the most among emerging-market currencies yesterday

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INVESTORS reacted positively to 1Malaysia Development Bhd's sale of its entire energy assets to China General Nuclear Power Corp (CGN), with the stock market, ringgit and bonds strengthening yesterday.

The more than RM17 billion deal (equity and debt assumed), which would significantly reduce 1MDB's debts, has reduced lingering negative sentiments in the markets, analysts said.

The FTSE Bursa Malaysia Kuala Lumpur Composite Index rallied for a fourth day, adding 0.36 per cent to close at 1,677.03 points, its highest in two weeks, from 1,670.90 points on Monday.

The ringgit rose the most among emerging-market currencies yesterday, strengthening to 4.2425 against the United States dollar.

Analysts said other positive factors that improved market sentiment included the oil price recovery and the recent announcement by China Premier Li Keqiang that China might buy more Malaysian government bonds as a strong endorsement and positive indication that the economic powerhouse was ready to help stabilise the region's financial markets.

The yield on Malaysia's US currency government debt due in 2021, meanwhile, fell four basis points to 2.96 per cent and the 10-year yield declined two basis points to 3.46 per cent.

MIDF Research head Zulkifli Hamzah said the ringgit rallied and was the best performing currency in Asia yesterday, and the equity and bond markets were also experiencing a positive day. The evidence has so far been promising.

"The ringgit has been hit by negative sentiments, particularly since the 1MDB issue heated up in August this year. But the market has strengthened and our foreign exchange rate model is indicating that without all of the negative sentiments, the ringgit should be at RM3.70 against the US dollar," he told *Business Times*.

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> *MIDF Research head*

The 1MDB-CGN deal, the country's largest merger and acquisition (M&A) transaction this year, was also positive for Tenaga Nasional Bhd (TNB), which lost in the bid to acquire the power assets.

Some analysts were concerned that TNB buying the Edra Global Energy Bhd assets would put a strain on the national utility's balance sheet. The blue-chip stock rose to a six-month high of RM13.58, up 1.1 per cent from its Monday's closing.

"As sentiment was one of the negative factors affecting the ringgit, CGN's injection of RM9.83 billion into 1MDB would boost investors' confidence," Leong Sook Mei, Southeast Asia head of global markets research at Bank of Tokyo-Mitsubishi UFJ in Singapore told Bloomberg.

"It is expected that the group (CGN) would receive an exemption from the 49 per cent cap on foreign ownership of domestic power assets," AmResearch analyst Max Koh said in a note to investors.

Edra owns 13 power assets with eight located abroad and five domestic plants.

With a 3,112MW capacity in Malaysia, it is the nation's biggest independent power producer (IPP) after Malakoff Corp. It is the largest IPP in Bangladesh and Egypt.

"Edra Global Energy Bhd's plants are governed by the power purchase agreements (PPA), with two plants having secured extensions up till 2019 (Powertek) and 2026 (Genting Sanyen) previously.

"In future, we do not rule out competition in bidding for new capacity, since Edra is sizeable, being the second largest IPP in the country," said Zulkifli.