



Sukuk Financing for RM950 mil Mukah Coal- Fired Power Plant Using Mudharabah Principle

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MALAYSIA MUKAH 2X135MW COAL - FIRED POWER PLANT



SARAWAK ENERGY BERHAD

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Project Summary

Project	2x135 MW total installed capacity coal-fired power plant in Mukah, Sarawak, Malaysia
Project Company	Mukah Power Generation Sdn Bhd (MPG), 100% owned subsidiary of Sarawak Energy Berhad (formerly known as Sarawak Enterprise Corporation Berhad) (SEB)
Project Cost	RM800 million + estimated financing cost during construction of RM104 million
Construction Period	35 months
Scheduled Commercial Operations Date	1 November 2008 (first unit) & 1 April 2009 (second unit).

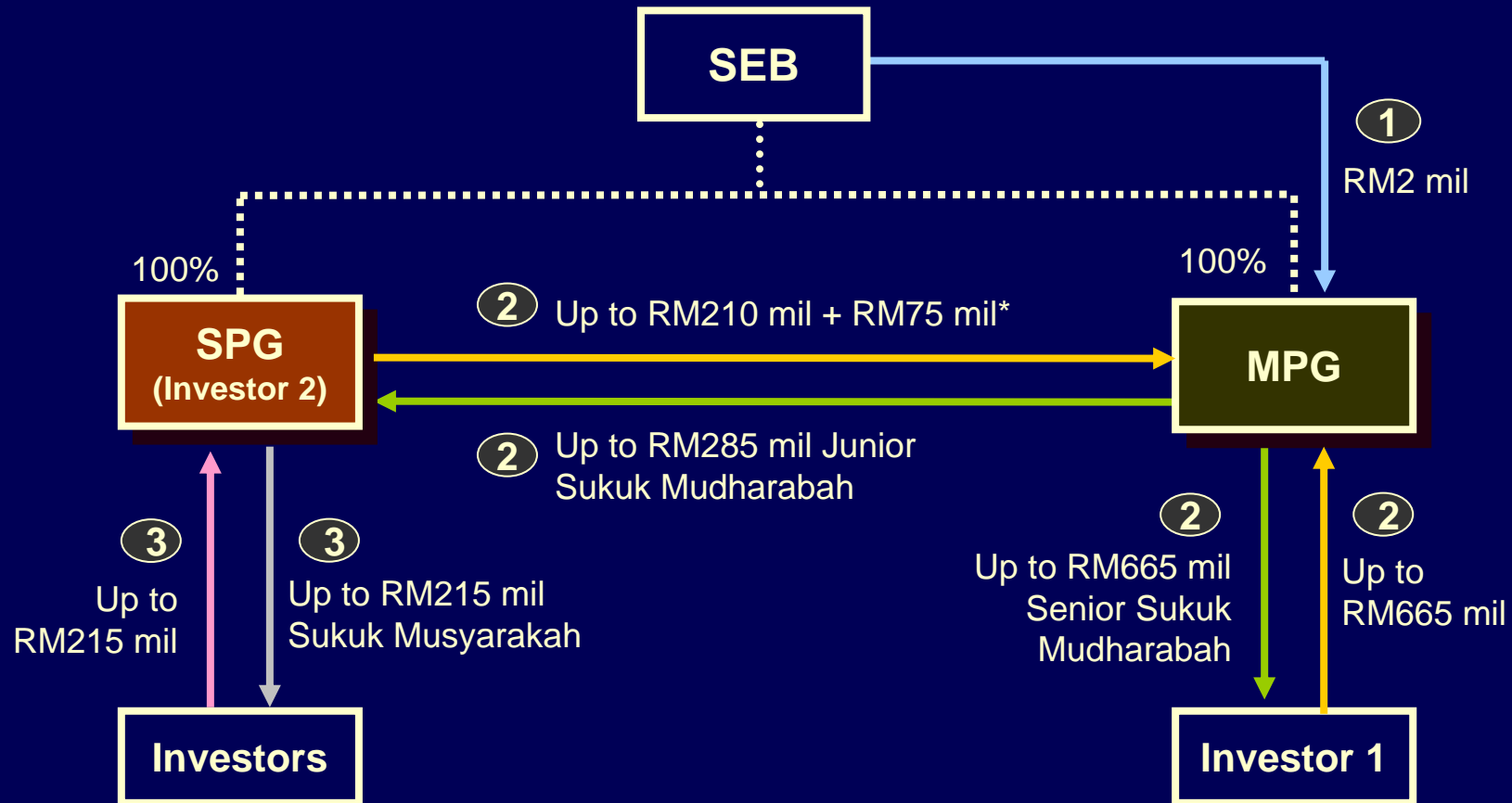
Parties Involved

Power Purchaser	Syarikat SESCO Berhad (SESCO), 100% owned subsidiary of SEB*
EPC Contractor	Plant Zone Contract - China National Machinery & Equipment Import & Export Corporation (CMEC) Non-Plant Zone Contract - PPES Works (Sarawak) Sdn Bhd
Coal Supplier	Sarawak Coal Resources Sdn Bhd, 80% owned by State Financial Secretary Incorporated and 20% owned by SESCO

* *SEB is a public-listed company controlled by the Sarawak State Government. It is an investment holding company principally involved in the power and electricity sector.*

- ✓ **Comprehensive financing package**
- ✓ **Minimal capital outlay**
- ✓ **Low overall cost of financing**
- ✓ **Non-recourse long-term financing to SEB**

Mukah Power Plant Financing Structure



*Note: RM75 mil is to be funded by Sarawak Power Generation Sdn Bhd (SPG)'s internal funds.

A. Project Financing

Issuer: MPG

1. MPG as project company with minimal paid-up capital of RM2 mil.
2. MPG issues Senior Sukuk Mudharabah and Junior Sukuk Mudharabah to finance Project. Features of MPG Sukuk:
 - ❖ The MPG Senior Sukuk issue size is up to RM665 million. The MPG Junior Sukuk issue size is up to RM285 million.
 - ❖ The Senior Sukuks are issued with an Istisna' facility. The Senior Sukukholders shall be entitled to the Istisna' Profit payable by MPG during the construction period.
 - ❖ Senior Sukuk (rated AA3) has a tenure of 15 years whereas Junior Sukuk (rated A2) will mature in 22 years.

B. Quasi-Equity (Junior Sukuk) Financing

Issuer: SPG (sister co. of MPG)

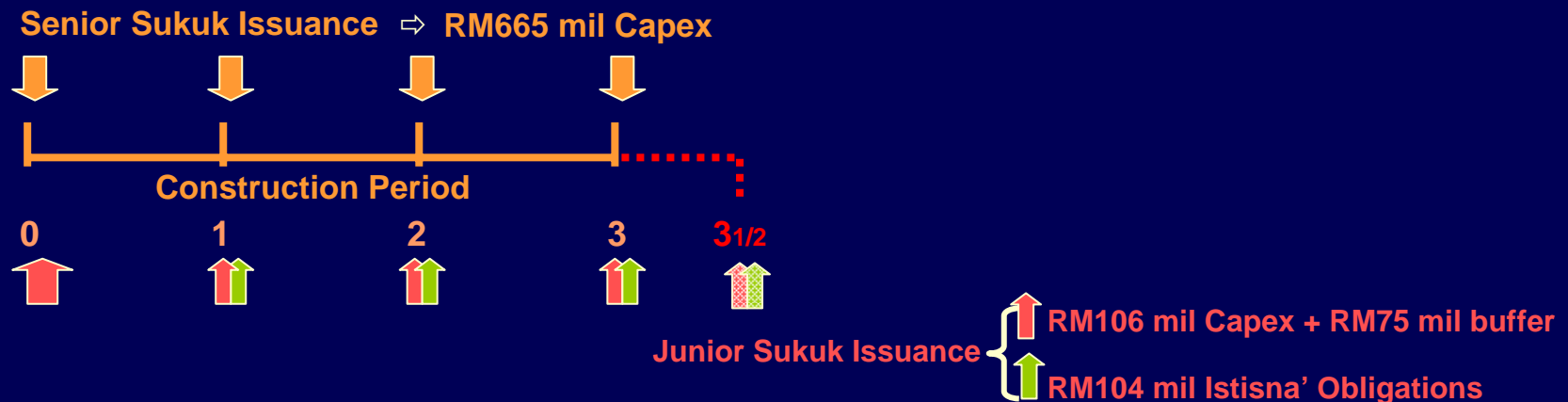
3. **SPG uses internal fund and issues Sukuk Musyarakah (SPG Sukuk) to fund subscription of Junior Sukuk. SPG Sukuk is proposed (vs. ordinary / preference shares) as it is more tax efficient and allows flexibility for outflow of funds to shareholders (vs. dividends). Features of SPG Sukuk:**
 - ❖ The issue size of SPG Sukuk is up to RM215.0 million.
 - ❖ SPG Sukuk (rated AA1) has a tenure of 15 years.
4. **Additional subscription of Junior Sukuk of up to RM75 million provides buffer to MPG to meet its funding requirement in the event of cost overrun and completion delay.**

MPG Project Financing

Issuer: MPG

Up to RM665 million
AA3 Senior Sukuk

1. Senior Sukuk terms driven by MPG's cash flow (normal project financing); **BUT**
2. Added enhancement: Quasi-Equity Financing (Junior Sukuk) used to meet MPG's Istisna' obligations during construction period plus funding requirement in the event of cost overrun and completion delay.



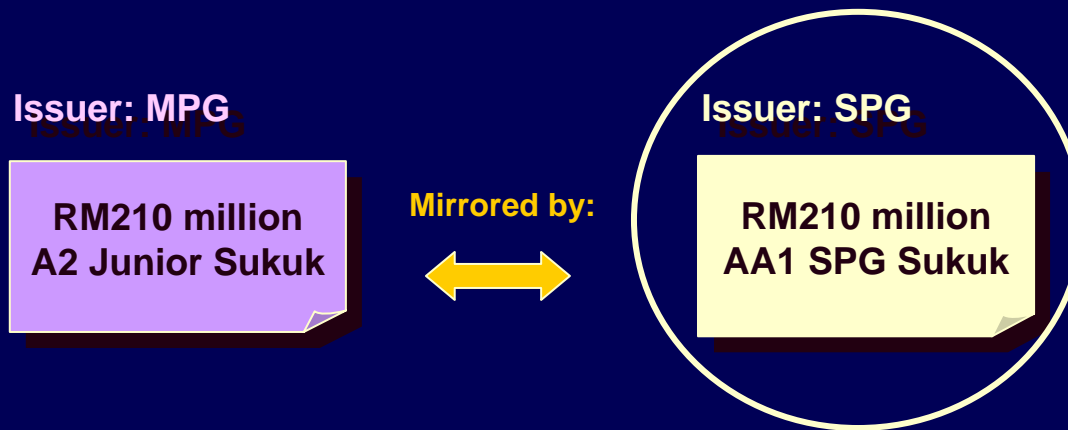
3. Profit payments made during **construction period** - lowers financing cost vs. capitalising profits.

- Mudharib (MPG) and Rabbul Mal (Sukukholders) will share in profit & loss generated from Project on 6-monthly basis beginning from month 6 after Project has commenced operations.
- Profit sharing scheme between MPG and Sukukholders :
 - If the MV achieves a Profit above $RM(x+y)$, $RM(x+y)$ should be distributed to the Sukukholders and the balance to MPG.
 - If the MV achieves a Profit less than / equal to $RM(x+y)$, distributions to MPG and Sukukholders shall be in the ratio of 1% and 99% respectively.
- Whatever sum the investors receive will be divided further between Rabbul Mal 1 (Senior Sukukholders) and Rabbul Mal 2 (SPG) based on the following pre-agreed formula:
 - Distribution to Senior Sukukholders shall rank in priority to distribution to Investor 2.
 - If distribution to Sukukholders is equal to / more than RMx , RMx shall be distributed to Senior Sukukholders and the balance to SPG.
 - If distribution to Sukukholders is less than RMx (say P), such P shall be distributed to Senior Sukukholders and SPG shall not receive any Profit distribution.

Where:

- x : Profit which yields the required return of Senior Sukukholders
- y : Profit which yields the required return of SPG

SPG Quasi-Equity Financing



1. Leverages on Bintulu power plant's cash flows to raise funds for SPG to subscribe to Junior Sukuk.
 - ⇒ Reason: SPG is rated AA1, thus effective cost of equity financing to SEB Group is AA1 vs. A2.

- Comprehensive financial solution:
 - *100% Financing*
 - *Allows scheduled issuance to match capex requirement*
- Reduce overall cost of financing via AA1 rated quasi-equity funding (vs. BBB).
- Non recourse to 3rd party, i.e. SEB
- Junior Sukuk provides consistent cash flow stream to SEB group v.s dividends.
 - *SPG may pay dividend-in-kind to SEB in the form of Junior Sukuk.*
- SEB group can realise cash by selling Junior Sukuk without losing control + realise non-taxable capital gain (when rating improves after plant completion).
- Issuance expenses are tax-deductible.

- **Most Innovative Products in Islamic Project Financing**

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- **Most Improved Islamic Bank in Asia**

.....Euromoney Islamic Finance Awards 2007

- **RAM Lead Manager Award 2006 (2nd Position)**

.....Rating Agency Malaysia Berhad

- **RAM Award of Distinction 2006 – New Project Finance Benchmark Deal**

.....Rating Agency Malaysia Berhad

