

Corporate | AUGUST 21, 2013 by

Gunung aims to acquire stakes in multiple hydro plant sites

Gunung Capital (formerly known as Taiping Super) today announced its proposed acquisition of an 85% equity stake in Pusaka Hijau Sdn Bhd.

Gunung is set to expand its mini-hydro aspirations in view of the Energy, Water & Green Technology Ministry's support in providing an economically viable platform for investments in the renewable energy sector.



Pusaka Hijau via its 60% owned subsidiary Perak Hydro Renewable Energy Corporation Sdn Bhd is principally involved in developing, maintaining, and operating mini hydro plants (defined by the Sustainable Energy Development Authority as hydro plants up to an installed capacity of 30MW).

Perak Hydro Renewable Energy Corporation has been mandated by the State Government of Perak to act as the master developer and overall coordinator for the development of mini hydro plants in the state. On Dec 17, 2012, Perak Hydro Renewable Energy Corporation entered into a water rights agreement with the government of Perak, which outlines the terms and conditions, duties, rights and obligations of both parties in the development of mini hydro plants in the state.

Prior to the proposed acquisition of Pusaka Hijau, Gunung, through its 70% owned subsidiary, Gunung Hydropower Sdn Bhd, had secured two sites to develop mini-hydro plants with a total estimated installed capacity of 20MW (announced Sept 3, 2012), on a build, operate, and own concept. This was achieved via a joint venture agreement with Perak Hydro Renewable Energy Corporation, the remaining 30% shareholder of Gunung Hydropower.

The water rights agreement, includes the right to build, operate and own small hydro plants at 25 pre-identified sites approved by Majlis Mesyuarat Kerajaan, with an estimated total installed capacity of 176 MW, for a period of 216 years commencing from the feed-in-tariff commencement date for each site. The water rights agreement includes land and water usage rights.

On April 29, 2013, the State Government of Perak and Perak Hydro Renewable Energy Corporation entered into a supplemental agreement to extend the list of pre-identified sites by an additional six, resulting in an additional estimated installed capacity of 116MW.

The Energy, Water & Green Technology Ministry's push for the development of renewable energy as 'fifth



national fuel' involved the implementation of a feed-in-tariff (FiT) system, which supports the developers of renewable energy by fixing a premium tariff for electricity generated from non-fossil fuel sources, such as mini-hydro schemes, biomass, and solar.

The introduction of the Renewable Energy Act 2011 provides a mandatory requirement for the utility to buy renewable energy power. In the

case of mini-hydro plants with an installed capacity of up to and including 10MW, the FiT rate payable by Tenaga Nasional is 24 sen per kilowatt hour for a mandatory period of 21 years. This has improved the commercial viability of the renewable energy industry in Malaysia.

Executive chairman, and CEO, Syed Abu Hussin Hafiz Syed Abdul Fasal, is positive over Gunung's foray into the renewable energy sector, saying "the long term stable income stream derived from the mini-hydro Projects will reduce Gunung's dependency on incomes solely from chartering land-based transportation assets & speciality vehicles.



"The initial earnings contributions from the mini-hydro sites are expected to commence at the beginning of 2016"

Executive director, Iskandar Ibrahim added "Roughly based on capital expenditure of RM10 million per megawatt, the hydrology characteristics of the individual sites, the subsequent energy yield, a relatively low annual operational expenditure, and a fixed income stream, we are looking to meet our targeted 12%-14% internal rate of return for each mini-hydro project.

Syed Abu Hussin Hafiz Syed Abdul Fasal

"Unlike solar which does not generate energy at night, and biomass which requires a continuous supply of feed-stock and produces heat as a by-product which can adversely affect the plant and equipment, mini-hydro can be extremely efficient with very little annual down-time required for preventive maintenance. As long as the river flows, energy can be generated."

Gunung has produced stellar results in the last two financial years ending Dec 31, 2011 and 2012, upon the completion of a successful corporate restructuring exercise in October 2010, involving a change of business direction, acquisition of a 100% equity stake in a strong cash-flow producing business (GPB Corporation Sdn Bhd) and the entry of a new substantial shareholder, Syed Abu Hussin.

Earnings per share attributable to shareholders, was 9.53 sen per share for financial year ended Dec 31, 2011, and 12.47 sen per share in financial year ended Dec 31, 2012.

Based on a closing price of 99.5 sen on Tuesday, Aug 20, the historical price earnings ratio (PER) is eight times. Gunung's share price is backed by a solid balance sheet.

As of June 30, 2013, the unaudited net asset value per share was 64.2 sen, which includes cash & cash equivalents comprising of over RM20 million (or 17.1 sen per share).

Gunung's cash balance is growing with positive operational cash-flows, and from the conversion of the warrants 2003/2013 which are in-the-money, and expire in October 2013. Interim single tier dividends have been paid to shareholders in financial year 2011 (a total of 3 sen), financial year 2012 (a total of 1 sen) and so far in financial year 2013 (a 1 sen dividend to be paid in September).

Iskandar Ibrahim noted "we have been very focused on finding the equilibrium of rewarding shareholders with dividends in appreciation of their on-going support, and building a cash war- chest for revenue producing acquisitions which will generate further shareholder value"