



## Media Release

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### **RAM Ratings downgrades Telekosang Hydro One's Senior Sukuk to A<sub>1</sub>/Stable and Junior Bonds to BBB<sub>1</sub>/Stable**

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RAM Ratings has lifted the Negative Rating Watch on Telekosang Hydro One Sdn Bhd's (TH1 or the Issuer) RM470 mil ASEAN Green SRI Sukuk (2019/2037) (Senior Sukuk) and RM120 mil ASEAN Green Junior Bonds (2019/2039), concurrently downgrading the respective sukuk ratings to A<sub>1</sub> (one notch from AA<sub>3</sub>/Negative) and BBB<sub>1</sub> (two notches from A<sub>2</sub>/Negative). Both ratings carry a stable outlook.

TH1 owns and operates a 24 MW small hydro power plant (Plant 1) in Tenom, Sabah, while its sister company, Telekosang Hydro Two Sdn Bhd (TH2), owns and operates a 16 MW plant (Plant 2) at the same site.

Following our last rating update in September 2024, Plant 2 operations resumed in mid-November after an eight-month outage. Plant 1 operations were restored in August 2024. The timing of the recovery of outage insurance claims for the two plants is uncertain. The court hearing on an injunction obtained by the engineering, procurement, construction and commissioning (EPCC) contractors to halt the release of performance bond proceeds to the Issuer has been further delayed. As a result, the recovery of the proceeds sought by TH1 and TH2 remains unresolved.

In view of the unexpected plant outages and TH1's limited ability to access these contingent liquidity sources, RAM's downgrade actions reflect the Issuer's weakened debt-servicing ability, as measured by the Senior Sukuk's annual finance service coverage ratios, which are projected to converge to a minimum of 1.50 times in contrast with initial expectations of at least 1.65 times. The wider three-notch gap between the ratings of the subordinated Junior Bonds and the Senior Sukuk indicates lower available cash reserves due to outage losses. The Junior Bonds were structured as zero-coupon bonds, with repayments starting only in August 2038 and August 2039, after the Senior Sukuk is fully redeemed.

While we expect the Issuer to meet the required Finance Service Reserve Account (FSRA) threshold within the extended remedy period ending 7 May 2025, a potential FSRA breach (also an event of default under the sukuk terms) may still be likely on the February 2026 payment date. The sukukholders, though, may grant indulgence as they have before. The breach is only reflected in RAM's sensitised analysis which assumes lump sum penalty payment amounting to RM7.4 mil for failing to deliver at

least 70% of the declared annual availability under the respective EPCC contracts. The Issuer has requested an installment payment plan for the penalty from Sabah Electricity Sdn Bhd and is awaiting their response. All things considered, we expect the Issuer to fully meet ongoing Senior Sukuk and Junior Bond obligations.

Any reassessment of the ratings will be dependent upon the resolution and certainty of recovery of the performance bond proceeds and insurance claims, which we will continue to closely monitor.

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### **Date of release: 11 March 2025**

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