



## MARC RATINGS BERHAD

# P R E S S   A N N O U N C E M E N T

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### MARC RATINGS AFFIRMS SOUTHERN POWER'S SUKUK RATING

MARC Ratings has affirmed its **AA-1s** rating on Southern Power Generation Sdn Bhd's (Southern Power) outstanding RM2.9 billion Sukuk Wakalah with a **stable** outlook.

Southern Power owns a 2x720MW combined-cycle gas-fired power plant in Pasir Gudang, Johor. Tenaga Nasional Berhad (TNB, AAA/Stable) indirectly owns 70% of Southern Power through its wholly-owned subsidiary TNB Power Generation Sdn Bhd; the remaining stake is held by SIPP Energy Sdn Bhd.

The rating reflects the strength of Southern Power's 21-year power purchase agreement (PPA) with TNB that allocates demand and fuel price risks to the offtaker, subject to plant performance meeting PPA requirements. The rating is moderated by the risk of plant underperformance curtailing revenue and Southern Power's ability to recover energy costs.

As of end-May 2025, Unit 1 recorded an unplanned outage rate (UOR) of 7.0% (end-2024: 3.6%), exceeding the PPA limit of 4.0%, mainly due to a high-pressure steam bypass sensor failure in February 2025 and cold reheat pipeline leaks in April 2025, both resolved within the same months in which they occurred. In contrast, Unit 2 has not experienced any material outages year to date, with its UOR continuing on a downward trajectory to 4.8% as at end-May 2025 (end-2024: 7.3%). Barring any further unplanned events, UORs are expected to fall below the PPA limit by end-March 2026 for Unit 1 and end-October 2025 for Unit 2.

Outages reduced capacity payments (CP) by RM12.9 million through May 2025. For the full year, Southern Power expects the total reduction to not exceed RM19 million, or approximately 3.6% of projected CP. Additionally, both units' heat rates slightly exceeded PPA thresholds by around 2% during 1Q2025, limiting full pass-through of fuel costs.

In 2024, Southern Power received RM163.0 million in liquidated damages from the engineering, procurement, and construction contractor for delays in achieving its commercial operation date, with about RM75 million offset against the contractor's retention. It also received RM4.4 million from original equipment manufacturer GE Vernova, Inc under the gas turbine service agreement. These inflows improved project liquidity. Cash and bank balances stood at RM274.8 million as of end-September 2025, sufficient to meet the upcoming sukuk principal and profit payments totalling around RM195 million on 31 October 2025.

Southern Power's base case cash flow yields an average financial service coverage ratio of 1.69x (minimum 1.37x) and remains resilient under moderate stress scenarios, including a 2% heat rate increase above PPA limits, 2% higher outages, and a 10% rise in operating costs.

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