RAM
RATINGS

Media Release

RAM Ratings downgrades Telekosang Hydro One's Senior Sukuk and Junior Bonds, maintains Negative Rating Watch

RAM Ratings has downgraded the rating of Telekosang Hydro One Sdn Bhd's (TH1 or the Issuer) RM470 mil ASEAN Green SRI Sukuk (2019/2037) (Senior Sukuk) to BBB_1 from A_1. Concurrently, the rating of its RM120 mil ASEAN Green Junior Bond (2019/2039) (Junior Bonds) has been lowered to BB_2 from BBB_1. Both ratings remain on Rating Watch with a Negative outlook, reflecting increased execution, liquidity and recovery risks for the transaction, following the prolonged outage of the project assets.

The rating actions reflect a marked deterioration in TH1's debt-servicing ability after severe floods in February 2026 forced the shutdown of its two small hydropower plants from 24 February 2026. In our view, the prolonged loss of generation has materially increased the liquidity stress and the likelihood of a payment default in August 2027, in the absence of timely and sufficient external liquidity support. Without such support, TH1 could face further downward rating pressure. The Senior Sukuk and Junior Bonds are serviced from the combined cashflow generated by TH1 and its sister company, Telekosang Hydro Two Sdn Bhd (TH2) (collectively, the Group or Project Companies), from their respective small hydropower plants.

Despite the increased default risk, the Senior Sukuk's rating considers potential recoveries that could become available over the next few months. These include insurance proceeds for business interruption losses arising from the current plant downtime and possible performance bond recoveries, with the latter subject to the resolution of the ongoing legal suit/arbitration with the contractor by end-2026.

Under RAM's scenario analysis, which assumes the Plants are recommissioned only by February 2027 and generate no cashflows up to June 2027, estimated loss of revenue insurance proceeds of RM49 mil could be sufficient to preserve the Senior Sukuk's investment grade rating, provided plant rehabilitation progresses as planned and claims are received in a timely manner. The Group has received various vendor proposals and is close to appointing an experienced contractor as the main rehabilitation civil contractor, although execution risk remains high until works commence and a firm recovery timeline is established.

The ratings remain on Rating Watch with a Negative outlook because material uncertainties remain over the quantum and duration of revenue loss, the timing and

RAM Rating Services Berhad
(763588-T)
Level 8, Mercu 2
KL Eco City
No. 3, Jalan Bangsar
59200 Kuala Lumpur
Malaysia
T + 603 3385 2488
F + 603 3385 2582
E ramratings@ram.com.my
www.ram.com.my

cost of restoring full plant operations, the quantum and timing of insurance claims and performance bond proceeds, and the risk of a Senior Sukuk default in August 2027. Any slippage in plant restoration, recovery proceeds or liquidity support could further compress the Group's liquidity runway and could trigger a multi-notch downgrade. RAM expects to provide an update by early 2027, following greater visibility on the legal suit or arbitration and the rehabilitation timetable.

The Junior Bonds are now rated four notches below the Senior Sukuk, compared with three notches previously. The wider notching reflects their equity-like absorption features, deep contractual subordination to the Senior Sukuk in terms of cashflow priority, and weaker recovery prospects as stress at the senior Sukuk level intensifies. In our view, the increased probability of default on the Senior Sukuk increases the likelihood that cash flow shortfalls or recovery delays will be borne by the Junior Bonds.

RAM has also revised TH1's environmental risk assessment to *vulnerable* from *neutral*, reflecting the significant credit impact of the February 2026 floods. Climate change presents heightened risks to run-of-river hydropower plants given their exposure to increasingly severe weather events. Despite being designed to withstand a 1% annual probability flood event, the plants sustained substantial damage, resulting in a force majeure declaration and weakened cash flows. In response, the Group is implementing measures to enhance flood resilience and mitigate future flood-related disruptions, although the effectiveness of these measures remains untested.

RAM's Rating Watch highlights a possible change in an issuer's debt rating. It focuses on identifiable events such as mergers, acquisitions, regulatory changes and operational developments that place a rated debt under RAM's special surveillance. In a broader sense, the Rating Watch covers any event that may result in changes in risk factors relating to the repayment of principal and interest.

Issues are put on Rating Watch when some of the abovesaid events are expected to or have occurred. The Rating Watch, however, does not mean that the rating will inevitably be changed. It only means that RAM is evaluating the rating and a final affirmation is pending. A "positive" outlook indicates that a rating may be raised while a "negative" outlook indicates a possible downgrade. A "developing" outlook refers to unusual situations in which future events are so unclear that the rating may potentially be raised or lowered.

Analytical contacts

Karin Koh, CFA
(603) 2708 8237
karin@ram.com.my

RAM RATINGS

Media Release

Chong Van Nee, CFA
(603) 2708 8210
vannee@ram.com.my

Media contact

Sakinah Arifin
(603) 2708 8212
sakinah@ram.com.my

Date of release: 31 July 2026

The credit rating is not a recommendation to purchase, sell or hold a security, inasmuch as it does not comment on the security's market price or its suitability for a particular investor, nor does it involve any audit by RAM Ratings. The credit rating also does not reflect the legality and enforceability of financial obligations.

RAM Ratings receives compensation for its rating services, normally paid by the issuers of such securities or the rated entity, and sometimes third parties participating in marketing the securities, insurers, guarantors, other obligors, underwriters, etc. The receipt of this compensation has no influence on RAM Ratings' credit opinions or other analytical processes. In all instances, RAM Ratings is committed to preserving the objectivity, integrity and independence of its ratings. Rating fees are communicated to clients prior to the issuance of rating opinions. While RAM Ratings reserves the right to disseminate the ratings, it receives no payment for doing so, except for subscriptions to its publications.

Similarly, the disclaimers above also apply to RAM Ratings' credit-related analyses and commentaries, where relevant.

Published by RAM Rating Services Berhad
© Copyright 2026 by RAM Rating Services Berhad