



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 REVISES UiTM SOLAR'S RATING OUTLOOK TO STABLE FROM POSITIVE

MARC Ratings has affirmed its **A+_{IS}** rating on UiTM Solar Power Sdn Bhd's (UiTM Solar) outstanding RM172.3 million Green Sustainable and Responsible Investment (SRI) Sukuk. The outlook has been revised to **stable** from positive. UiTM Solar is a project company incorporated to develop a 50MWac solar power plant in Gambang, Pahang.

The affirmed rating is underpinned by the strength of UiTM Solar's 21-year power purchase agreement with Tenaga Nasional Berhad, under which the demand risk is eliminated as energy generated by UiTM Solar's plant will be purchased at a fixed tariff up to a certain level.

The outlook revision, however, reflects the moderation in margins and cash flow coverages from the unexpected increase in opex. The prior positive outlook had been driven by expectation of better cash flow from operations (CFO) from continued improvement in the plant's performance since resuming full operations on August 10, 2022, after a lengthy forced outage caused by damaged gas-insulated switchgear and transformer. This view was also supported by energy generation returning to P90 estimates.

MARC Ratings notes that the sharp rise of 50.4% y-o-y in opex contributed to a net loss of RM2.3 million in 1H2024 (1H2023: net profit of RM110K). The increase in opex was due to an upward revision in annual quit rent to RM2.9 million (2023: RM0.6 million) and annual insurance premium to RM1.2 million (prior to outage incident: RM0.3 million) beginning 2024. The weaker performance was exacerbated by the increasingly unpredictable weather patterns, particularly in eastern Peninsular Malaysia which has impacted electricity generation. During 1H2024, UiTM Solar recorded 7.7% lower energy generation than P90 estimates due to low irradiation, resulting in 7.7% lower revenue than budgeted.

As a result, CFO declined to RM6.0 million (1H2023: RM9.0 million). Consequently, CFO interest coverage of 1.09x in 1H2024 was lower than our expectation of 2.48x. The lower cash flow generation would put pressure on liquidity to support sukuk obligations, underlining the importance of UiTM Solar maintaining financial discipline. As of July 15, 2024, its liquidity of RM21.1 million is more than sufficient to meet its next profit payment of RM5.3 million due on October 28, 2024. Base case projections, incorporating the higher opex and assuming no dividend distribution, yield an average financial service coverage ratio of 2.47x, with a minimum of 2.17x. The cash flows can withstand moderate sensitivities of P99 energy generation, 2.4% plant unavailability and 10% increase in opex.

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