

Infrastructure and Structured Finance Outlook 2011

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Toll Roads: Policy bumps ahead?



General Outlook: Stable

- 2010 traffic volume on highways saw growth expected with the recovery.
- Main driving factors:
 - Recovery from recession of 2009
 - Restructuring of toll rates/hike of highways
 - Fuel price kept low throughout 2010
- Proposed toll rate freezes and roll-backs may pressure credit quality unless mitigated by sufficient compensation.
- Fuel price remained largely unchanged in 2010. Increase in fuel prices in 2011 not expected to be drastic.

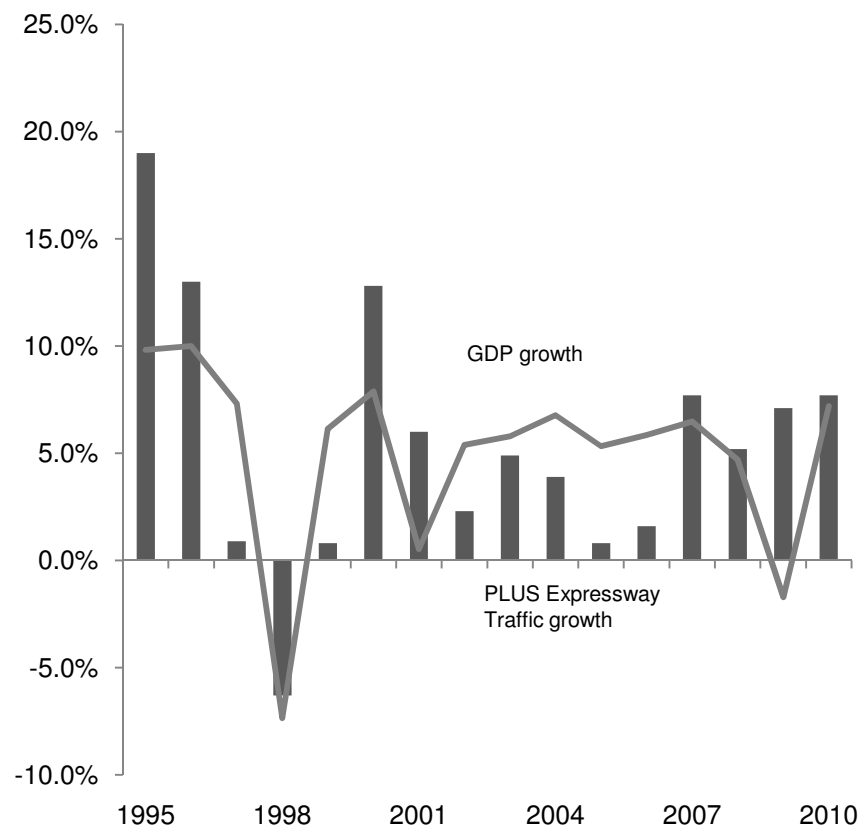


Toll Roads: Policy bumps ahead? (cont.)



The past year - 2010

- GDP expanded by 7.2% in 2010.
- Vehicles on highways increased by about 7%.
- Toll rate hikes for 10 highways were deferred further in 2010. There was one case of a decrease in toll.
- Minor and step-wise fuel price increase helped in growth of traffic.



Sources: MARC's Economic Research, CEIC

Toll Roads: Policy bumps ahead? (cont.)



2011 Outlook

- **Toll rates review of 10 highways in 2010 not done**
 - Are we going to see a continuing freeze on toll hikes? Compensation mechanisms need to be examined before making credit calls.
- **Review of retail fuel price in 2010**
 - Retail fuel price increased gradually in 2010.
 - Retail price of RON95 increased from RM1.80/liter to RM1.90/liter.
 - Need to monitor implementation of fuel subsidy rationalization scheme.
- **More highways to be taken private and toll freezes enforced?**
 - We need to see how it is implemented (i.e. restructuring a concession, renegotiating a new concession etc) in a few cases to have a firm view.

Toll Roads: Policy bumps ahead? (cont.)



Credit Outlook: Stable

- Refinancing of existing toll road-related debts are on the anvil as markets continue to improve and longer dated papers become more acceptable.
- Some greenfield projects seem to be inching towards closure. Credit view on these are dependent on characteristics of the individual project.
- Non monetary compensation, such as extension of toll roads concession may negatively affect toll road concessionaire's credit profile.

Power: Positive current



General Outlook: Stable

- Electricity demand and economy
- Recent electricity demand performance
- Fuel prices
- Electricity generation mix
- Credit outlook: Stable

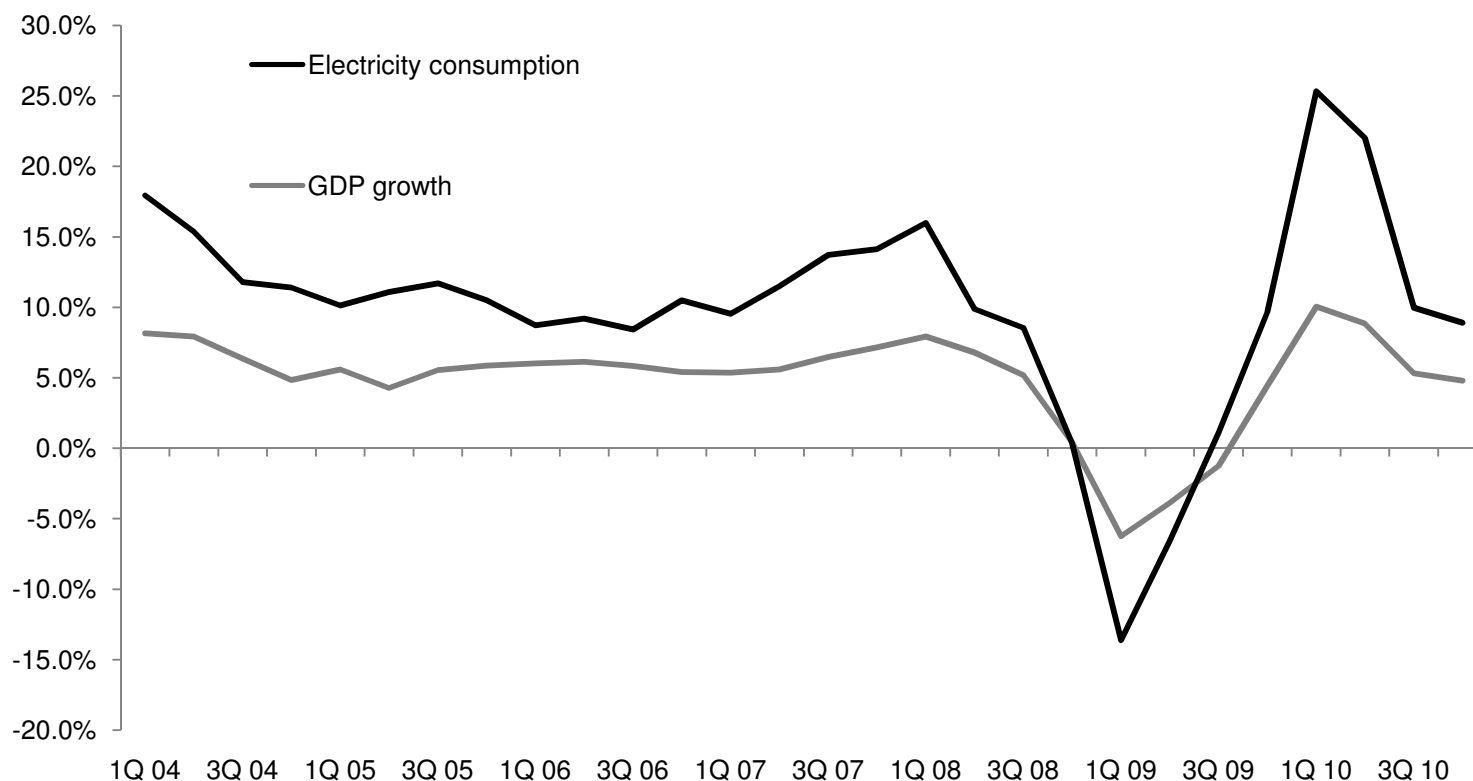


Power: Positive current (cont.)



Electricity demand vs GDP

- Electricity demand is highly correlated with GDP growth as this graph shows:-



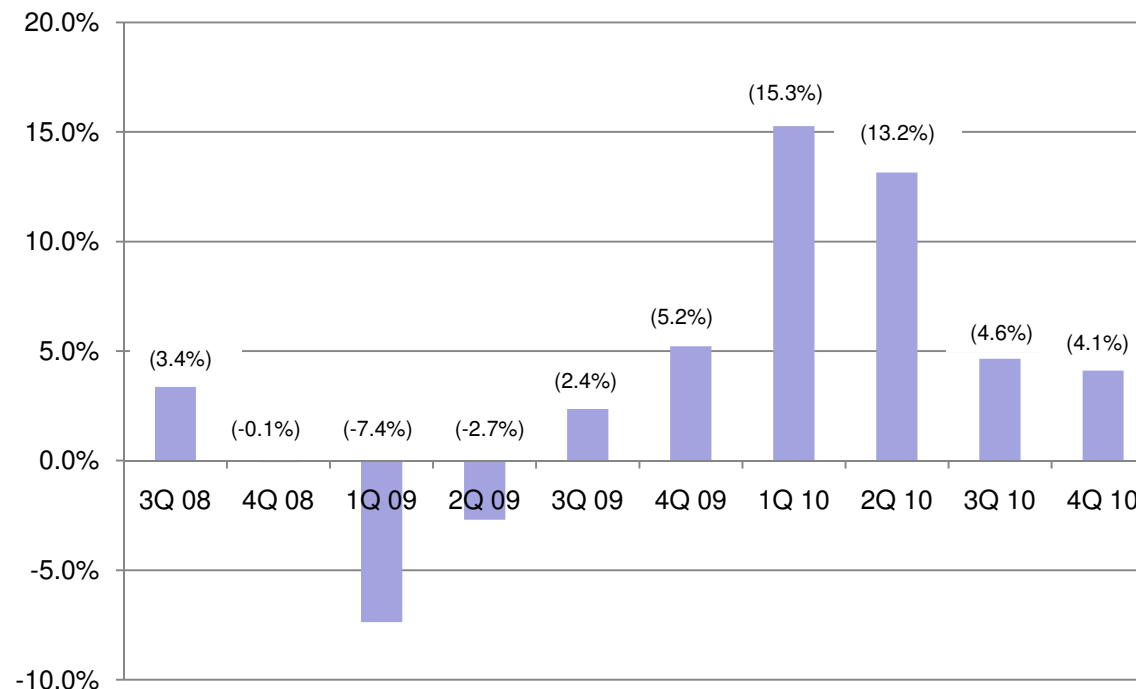
Source: CEIC

Power: Positive current (cont.)



Electricity demand has rebounded

- Electricity demand has seen sharp improvement, especially in Q1 and Q2 2010, some of it possibly due to the low base effect of 2009.
- Electricity demand expected to be steady as we expect it to be closely correlated with GDP growth.

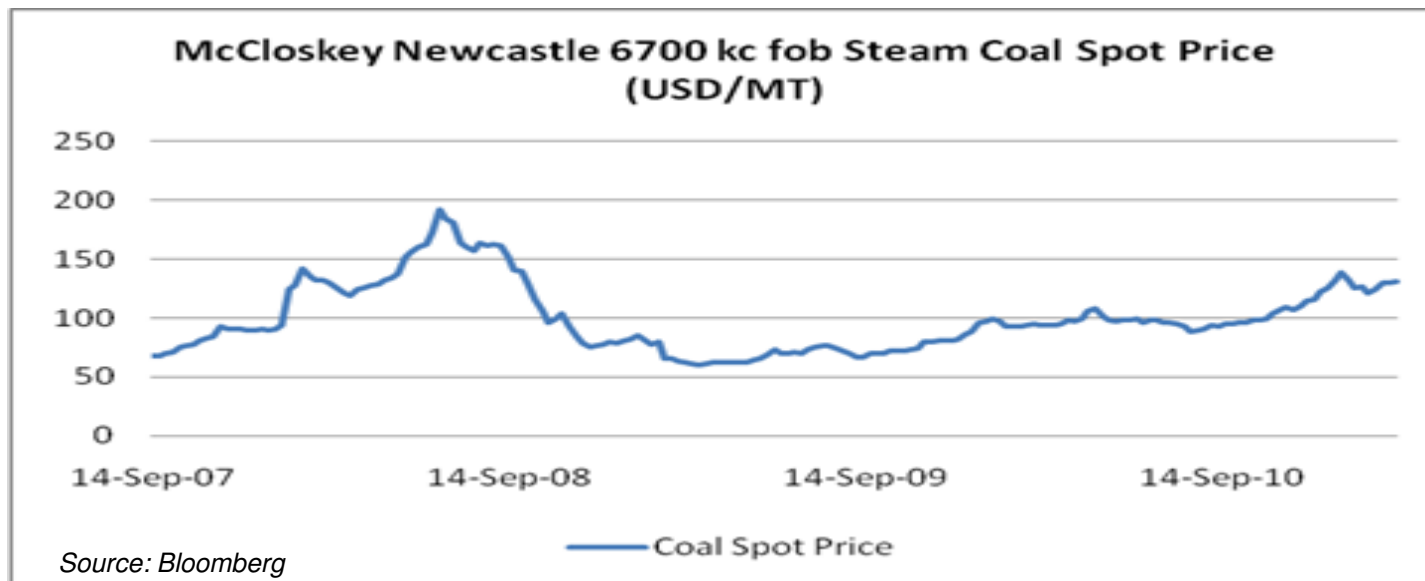


Power: Positive current (cont.)



Fluctuation in fuel prices remains a challenge

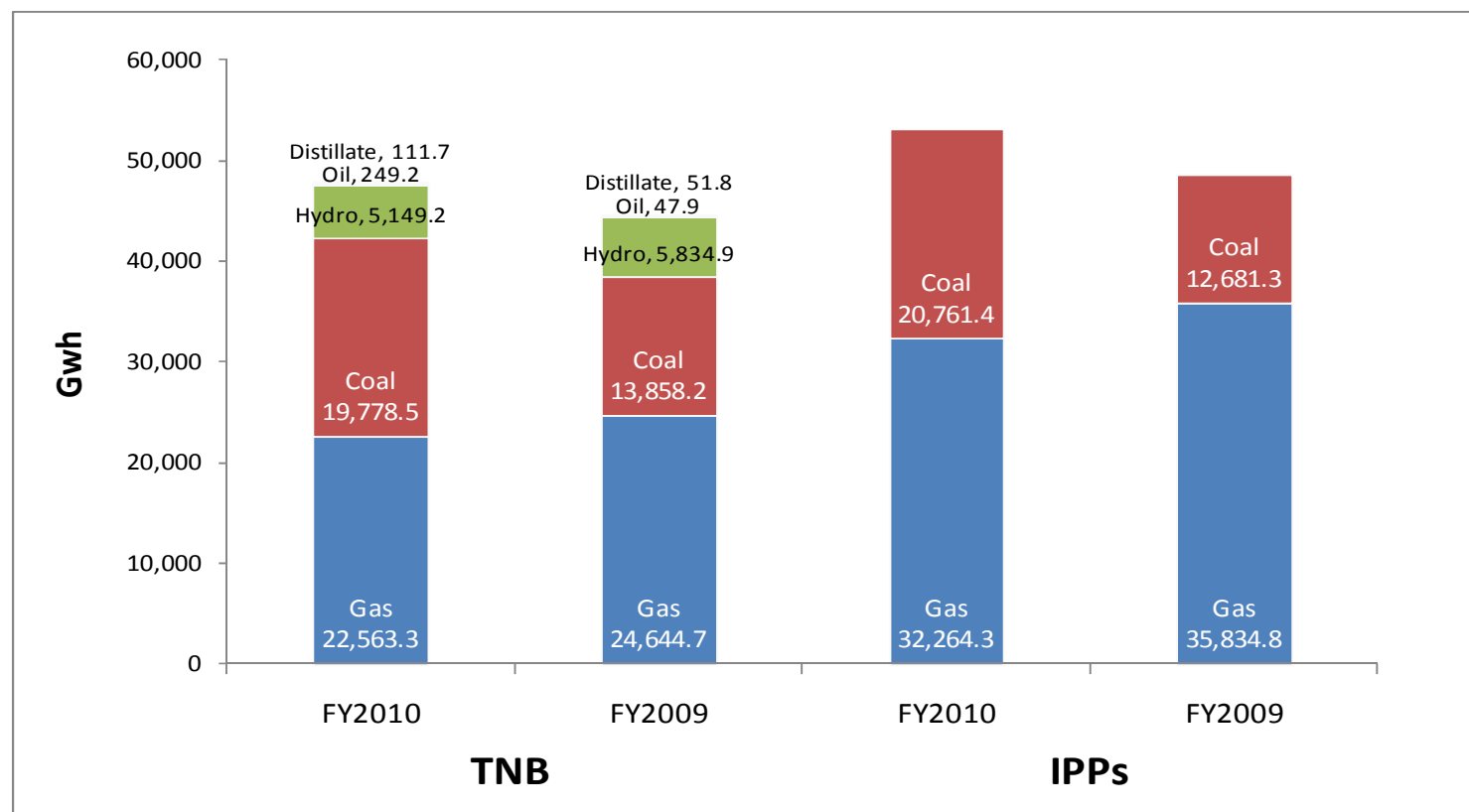
- Gas prices were restored to their subsidised price of RM10.70 per mmbtu from RM14.31 per mmbtu.
- Coal prices went up to about USD140 per metric tonne in late 2010 in line with mines being disabled in Queensland, Australia. However, alternative supplies have been sourced for power plants.



Power: Positive current (cont.)



Overview of generation mix by unit (Gwh) in Peninsular Malaysia (August 2009 vs. August 2010)



Source: TNB

Water: Where is it flowing?



General Outlook: Developing

- New regulatory regime
- Implementation of WSIA
- Selangor
- Credit outlook: Negative



Water: Where is it flowing? (cont.)



New regulatory regime; a recap

- **Problems with previous industry structure**
 - different water enactments and regulatory bodies in different states;
 - the lack of central regulation led to the lack of coordination among stakeholders;
 - ineffective regulatory structures and poor enforcement;
 - capital expenditure constraints; and
 - varying levels of success in privatising water supply projects in several states.
- **Enactment of the Water Services Industry Act (WSIA) and National Water Services Commission Act**
 - ensure uniformity of policies to properly control and regulate the water services industry nationwide.
- **Establishment of National Water Services Commission (SPAN)**
 - regulator and supervisory body for water supply and sewerage services.
- **Establishment of Pengurusan Aset Air Berhad (PAAB)**
 - owner of water assets.

Water: Where is it flowing? (cont.)



New regulatory regime implementation; a recap

- All existing state water supply enactments were repealed, replaced or amended.
- All state water supply supervisory bodies are to cease operations.
- Existing concession-holders are given the option to migrate to a new licensing regime (licensee) or remain as concession-holders.
- No new concessions to be awarded.
- PAAB has taken over water assets in Melaka, Negeri Sembilan and Johor with a total acquisition value of RM6.1 billion. In 2010, the water assets of the state of Perlis were taken over.

Water: Where is it flowing? (cont.)



Selangor:

- Attempts at consolidation by various parties have not yielded results.
- Little clarity on the resolution of all issues on consolidation, but resolving it becomes more pressing now.
- SYABAS' inability to obtain rate hikes has resulted in downgrades on nearly all of Selangor's water related debt.
- This, in turn has cast a shadow on the entire sector.
- Mitigating measures need to be in place in the first half of 2011 to avoid potential defaults.
- Utilisation of Selangor water treatment facilities has reached more than 90% of their capacity. Capacity expansion will be needed soon.

Water: Where is it flowing? (cont.)



Some positives:

- Tariff hikes have been implemented in other states.
- Performance under new regime in Johor state is encouraging.
- Work is progressing on the Pahang – Selangor water tunnel.

Structured Finance & Plantations: Revived interest?



Developing new avenues

- ABS issuances have restarted, especially in real estate. Interest in receivables based/bond repackaging transactions gaining ground.
- Primary CLOs have not performed well. In 2009 Cap One matured with a default in its most senior tranche and Prima Uno Tranches (to mature in 2012) saw sharp downgrades.
- Not much activity is expected in the Primary CLO segment in the near future.
- However, transactions related to real estate, plantations, receivables with salary deduction at source for civil servants have held up well and should prove resilient.
- New transaction structures using principles of structured finance seeing high interest.
- More and more new products using Structured Finance Technology will see interest.

A grayscale image of a large, empty conference room. In the center is a large, white, oval-shaped table. Around the table are several modern office chairs with high backs and armrests. The room has a high ceiling and large windows in the background, letting in natural light.

Thank You