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# Initial AA2 rating for Destinasi Teguh's bonds

RAM Rating Services Bhd has assigned respective preliminary long-term ratings of AA2 (stable outlook) to Destinasi Teguh Sdn Bhd's proposed RM395 million secured bonds and Sungai Harmoni Sdn Bhd's proposed RM90 million redeemable loan stocks.

Destinasi Teguh, incorporated as a wholly owned subsidiary of Taliworks Corporation Bhd, is a single-purpose vehicle that will act as a funding conduit to raise funds for its parent.

Taliworks is an investment-holding company with primary interests in the operations and maintenance (O&M) of water-treatment plants in Selangor and Langkawi, through wholly

owned Sungai Harmoni — the O&M service provider for Sungai Selangor Phase 1 — and Taliworks (Langkawi) Sdn Bhd, respectively.

In a media release, RAM said Destinasi Teguh will undertake to enter into a sale and purchase agreement with Taliworks for the entire block of Sungai Harmoni's loan stock, Sungai Harmoni's proposed RM210 million redeemable preference shares and Taliworks (Langkawi)'s proposed RM95 million redeemable preference shares.

It said the preliminary ratings reflect Sungai Harmoni's strong business profile, which is underscored by its 30-year O&M

Agreement (OMA) with Syarikat Pengeluar Air Sungai Selangor Sdn Bhd (SPLASH) for the O&M of SSP1. The terms of the OMA mirror SPLASH's privatisation agreement with the Selangor State Government.

Based on RAM's analysis, the Group is expected to generate an average of RM39 million of pre-financing cashflow per annum. This will translate into a healthy projected financial profile, with a sensitised minimum DSCR (with all cash balances) of 2.69 times — sufficient to support the AA2 rating of the proposed Bonds.

The rating house assumptions incorporate sensitivity to the

timing of Sungai Harmoni's collections from SPLASH.

On this note, it said the timing of the latter's payments to Sungai Harmoni has been deteriorating since February 2009, as SPLASH contends with weaker collections from its own off-taker — Syarikat Bekalan Air Selangor Sdn Bhd (Syabas).

In turn, Syabas has been facing funding shortfalls due to its hefty capital expenditure and the postponement of water-tariff hikes amid the industry restructuring.

Nonetheless, RAM expect this to be only a temporary glitch until the conclusion of Selangor's water-industry restructuring.