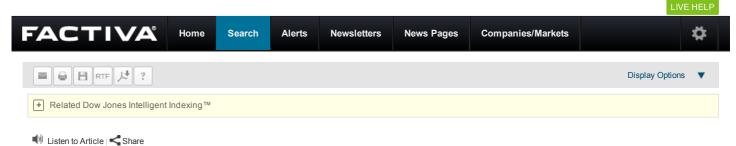
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## FINANCIAL REVIEW

SE Market Wrap - Street Talk

HD ERM faces cash call dilemma on Delta

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LP ERM was forced to play second fiddle in the high-powered race for NSW's \$2 billion Macquarie Generation assets and its comparatively small balance sheet has already sparked questions about how it will fund the next bid.

The Queensland energy business, the fourth-largest electricity retailer in the country, is understood to have submitted an expression of interest for the next state sell-off. Delta Coastal.

TD Once again ERM, controlled by the founding St Baker family, will have to tough it out against the heavyweights.

Thai-backed RATCH is also believed to be in the mix, as is the Japanese colossus Marubeni. China's Shenhua has also been mooted as a potential bidder, despite widespread scepticism about the depth of its interest in the two generators. Another Thai contender, Banpu, may also enter the race. Asian investors have swarmed over Australian infrastructure over the past few years, driven on largely by the search for a dependable yield amid record low interest rates throughout much of the developed world.

But accumulating power generators amidst a persistent decline in the electricity wholesale market seems a risky proposition. So far, much of the offshore interest in the energy sector has been concentrated on power distribution networks, as in China State Grid's acquisition of stakes in SP AusNet and SPIAA, one of the nation's largest energy networks.

Yet for ERM, a sizeable foothold in the wholesale market would buttress its rapidly growing retail business. The question is how does it pay for the assets and can it avoid an equity raise?

Few in the market believe ERM can avoid the latter route, and last week there was some talk about a cash call in advance of a bid for the Delta power stations. This would seem an unlikely strategy, and the consensus view is the company's approach will once more be contingent upon funding, forcing it to submit a non-compliant bid.

Whether this second-class status will hinder ERM remains to be seen.

NSW Treasurer Mike Baird has already admitted Delta's 668MW Colongra gas-fired peaking plant is an easier sell than the Vales Point coal station, which, at 1320MW, has under a third of the capacity of MacGen. The recent paltry earnings forecasts for Delta will further weaken the sales pitch.

CO macgen: Macquarie Generation

 $IN\ i16: Electric ty/Gas\ Utilities\ |\ i16101: Electric\ Power\ Generation\ |\ ieutil: Electric\ Utilities\ |\ iutil: Utilities\ |\$ 

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