



Display Options ▼

+ Related Dow Jones Intelligent Indexing™

Listen to Article | Share

FINANCIAL REVIEW

SE Market Wrap - Street Talk
HD ERM faces cash call dilemma on Delta

AU [Sarah Thompson](#), [ANTHONY MACDONALD](#), [gretchen friemann](#)
BY Edited by Sarah Thompson, Anthony Macdonald and Gretchen Friemann
WC 404 words
PD 24 February 2014
SN [The Australian Financial Review](#)
SC AFNR
ED First
PG 16
LA English
CY Copyright 2014. Fairfax Media Management Pty Limited.

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 : Electricity/Gas Utilities | i16101 : Electric Power Generation | ieutil : Electric Utilities | iutil : Utilities

NS ccat : Corporate/Industrial News

RE austr : Australia | queensl : Queensland | apacz : Asia Pacific | ausnz : Australia/Oceania

PUB Fairfax Media Management Pty Limited

AN Document AFNR000020140223ea2o00025