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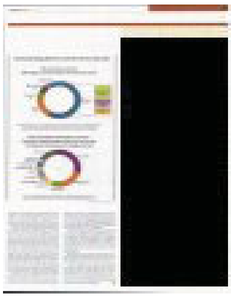

Cross-border solutions make overseas expansion easier

PICTURES BY PATRICK GOH/THE EDGE

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Ooi: From a currency risk perspective, we adopt a natural hedging strategy for our Myanmar loan

In 2015, Pestech International Bhd (PIB) made use of cross-border financing for its venture in Cambodia where the power substation and transmission line-related infrastructure engineering firm has a 25-year power transmission concession under its 60% subsidiary, Diamond Power Ltd (DPL).

The development cost of the 230kV Kampong Cham-Kratie transmission system project — a build-operate-transfer scheme — is US$92 million (RM355.7 million).

PIB group executive director and CEO Paul Lim Pay Chuan says the development of the concession assets is being funded by Export-Import Bank of Malaysia Bhd (Exim) and that cross-border funding arrangements have enabled DPL to successfully complete the assets development smoothly with the financial support of the bank.

Lim says the funding arrangement under Exim is project-specific and for a tenure of about 10 years. It is denominated in US dollars, which eliminates any foreign currency fluctuation risks for DPL, he adds.

Being a Malaysia-based company, the group will have better access to funding resources by getting cross-border financial services from Malaysia rather than from Cambodian banks, says Lim.

He adds that more often than not, it is more practical for a parent company of a group to raise funds locally to assist the operations of a subsidiary in the region. This is particularly when the overseas subsidiary is still at an early stage of operation and lacking the financial strength to raise the required funding overseas.

However, this could change as overseas operations become more mature and business volumes grow in size, Lim says.

For instance, in PIB's case, owing to differences in risk profile, the company's overseas subsidiary will (subsequently) endeavour to procure its own funding in the country it is operating in.

"In that regard, the funding structure of the group is dynamically planned to ensure smooth cash flow allocation is achieved for various stages of development of its group of companies, tapping both local and foreign funding resources."

But in cross-border financing, it is natural for companies to have concerns about payment certainty as there could be political risks over the loan tenure.

Lim says there are ways to resolve this. "The concern is aptly managed by the procurement of political risk insurance to ensure such a risk event is mitigated accordingly."

In 2015, telecommunications services provider OCK Group Bhd announced plans to erect up to 3,000 telecom towers in Myanmar over a five-year period with its Myanmar partner, King Royal Technologies Co Ltd.

In the initial phase, OCK will invest US$75 million to build 920 telecom towers for Telenor Myanmar Ltd, to be delivered under a long-term build-and-lease business model.

OCK group managing director Sam Ooi says in meeting the financing needs of its telecom tower roll-out in Myanmar, OCK made its biggest cross-border loan, which was a syndicated term loan facility of up to US$40.2 million.

"The syndicated facility is one of the largest syndicated loans by onshore foreign banks since the Myanmar financial sector was opened to foreign banks in 2015."

Financial institutions that participated in the US dollar-denominated syndicated loan were the Yangon branch of OCBC Bank, Maybank, United Overseas Bank and Bangkok Bank.

"We always put a lot of planning into our foreign investment. From a currency risk perspective, we adopt a natural hedging strategy for our Myanmar loan. As the revenue streams from Myanmar are all denominated in US dollar, OCK is not exposed to foreign exchange risk.

"We believe by structuring our business in this manner, we will not need to engage in any active hedging strategy, which could be very costly at times," Ooi explains.

He says management views cross-border financing as a way for OCK to leverage the company's good relationship with the local banks to support and grow the business overseas in partnership.

Sometimes, there are challenges as some local banks may not have a presence in the new markets that companies want to foray into.

Moreover, the overseas branches of some local banks could have "single customer limits".

"However, we do not see this as a major obstacle as there are many ways for us to overcome this situation," he says.

"Some of the biggest challenges that we faced were during the activation or first drawdown of the loan. We struggled a little bit in trying to meet the regulatory requirements of both countries (Malaysia and Myanmar), but with great teamwork and support from OCK's treasury team, the banks and lawyers, we were able to draw down the loan in a timely manner in 2016 to support our aggressive roll-out plan."