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Power tariff hike will be boost for TNB

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PETALING JAYA: A possible tariff increase in January 2014 could serve as a boost for Tenaga Nasional Bhd (TNB), according to AffinInvestment Bank analyst Chong Lee Len.

She said the hike could incorporate a RM3 per million metric British thermal unit (mmbtu) increase in gas price, an increase in coal price to US\$95 per tonne from US\$85 per tonne as well as liquefied natural gas (LNG) to RM40 from RM38 per mmbtu.

This could equate to a 15% increase in electricity tariff, said Chong. It was reported that consumers would pay more for electricity if there was an increase in fuel costs once TNB implements the Fuel Cost Past Through (FCPT) mechanism next year.

The Government last raised the tariff by 7%, more than two years ago in May 2011, to the current 33.5 sen per kwh. The Government might set up a stabilisation fund to share the burden with end-users, Chong said in a research note.

However, she said the recent weakening in the ringgit against the dollar and yen could have an impact on TNB's bottomline due to its foreign debt exposure.

Since June 2013, the ringgit has weakened 5% and 9% against the said currencies, which could translate into TNB recognising non-cash translation losses in its quarterly earnings.

As at May 31, 2013, TNB had RM2.72bil in US-dollar denominated borrowings, as well as RM3.83bil in yen denominated borrowings. TNB's US-dollar denominated borrowings represented some 12% of its total outstanding loans of RM22.89bil while its yen-denominated loans accounted for about 16.7% of its total borrowings.

Chong estimated that for every 1% depreciation of the ringgit against the US-dollar and the yen will translate into RM27mil and RM37mil of translation loss to the group's bottomline.

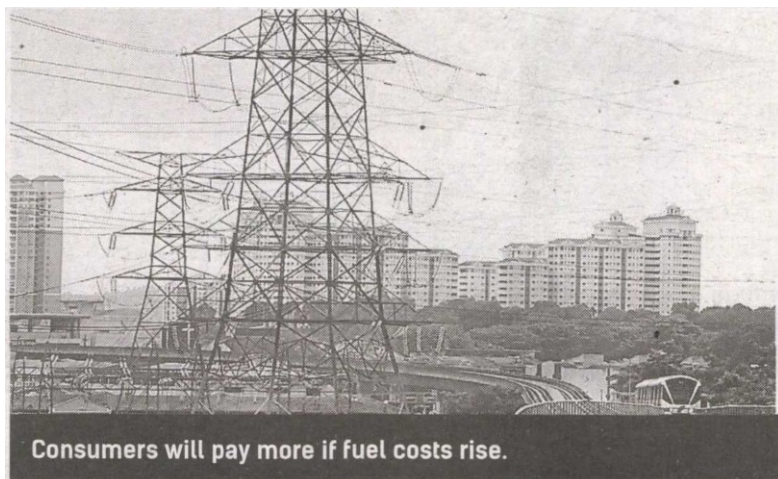
While AffinInvestment maintains

its year-end exchange rate of RM3.15 per 1 US dollar and RM3.10 per 1 US dollar for 2013 and 2014 respectively, it said that every 1% change in the exchange rate would swing its forecasted earnings per share (EPS) for financial years 2014 and 2015 by 0.6% and 1.3% respectively.

"Having said that, we expect the global coal price to remain benign in the near-term given the cautious global economic outlook and the absence of speculative element in commodity prices," Chong said.

She added that modest movements in coal prices in the next two to three years would bode well for TNB while waiting for the implementation of the FCPT mechanism in 2014.

AffinInvestment is maintaining a "buy" call on TNB with a target price of RM10.75 per share. "We believe successful implementation of the mechanism will help to further re-rate TNB closer to our discounted cash flow valuation. This, we opine, could help unlock the long-term 'value trap' in TNB," it said.



Consumers will pay more if fuel costs rise.