



<b>Tenaga Nasional</b>		<b>Market Price:</b>	<b>RM8.59</b>
		<b>Market Cap:</b>	<b>RM37,337.3mil</b>
		<b>Board:</b>	<b>Main</b>
<b>Stock Code/Name:</b>	<b>5347 / TENAGA</b>	<b>Sector:</b>	<b>Trading/Services</b>
<b>Strong Demand Recovery in FY10</b>			

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## **RESULTS - 9M/FY10 and 3Q/FY10**

Tenaga Nasional Berhad (TNB) announced a net profit before forex translation of RM2,145.4 million for the 9M/FY10 compared to RM1,687.1 million in 9M/FY09 principally due to stronger demand growth. A 5.3% increase in group revenue was achieved against a 3.5% increase in group operating expenses. During the 9-month period, electricity demand growth in Peninsula had increased by 9.9%. TNB's EBITDA (earnings before interest, tax, depreciation & amortization) margin at 28.2% was better than the 26.1% achieved for the corresponding period in FY09. The group had a forex translation gain of RM668.1 million during the 9-month period.

### **“Stronger demand for electricity”**

For 3Q/FY10 ended 31<sup>st</sup> May 2010, TNB recorded net profit before forex translation of RM538.0 million compared to RM855.7 million reported for 2Q/FY10. The lower profits resulted from the higher cost of generation from coal in order to meet the rising domestic power demand. Group revenue had increased by 4.5% q-o-q versus 2Q/FY10 whilst operating expenses had increased by 12.3%. Group operating profit had increased by 17.0% y-o-y due to lower fuel prices and higher demand. Group EBITDA was at 23.3% compared to 32.1% in 2Q/FY10. The lower EBITDA margin was due to rising coal prices. However, the higher demand growth and the appreciation of the Ringgit lessened this impact. During the quarter, TNB had a forex translation gain of RM569.1 million.

## **DEMAND GROWTH**

Looking at the y-o-y domestic demand for electricity, the industrial demand for electricity has been on the uptrend since November 2010. This was in the aftermath of the earlier economic recession. While the **industrial** demand for electricity has grown steadily this year (+11.6% for 9M/FY10), it has yet to reach the levels of 2008 (pre-recession). YTD, the electricity demand from Electronics (-1.2%) and “Cement & Concrete” (-5.2%) recorded negative growth while Petrochemical (+17.1%) and “Iron & Steel” (+31.2%) recorded positive growth.

Demand from **commercial** and **domestic** users have also been on the uptrend during YTD FY10, being up by 7.9% and 9.5%, respectively. There was strong y-o-y growth from commercial sub-sectors such as Low Voltage (Shop Lots & Retail Business) (+7.2%), Medium Voltage (Shopping Malls, 3 Star Hotels, Office Buildings) (+8.3%) and Medium Voltage (Peak/Off-Peak) (Mega Shopping Malls, 4-5 Star Hotels, Hospitals, Airports, Ports) (+9.0%). Overall, from September 2009 till June 2010, electricity demand has grown by around 10% y-o-y.



## **OPERATING COSTS**

Looking at TNB's operating expenses, the group's main costs are payment to IPPs (independent power producers) (48.0%), fuel costs (18.0%), depreciation/amortization (14.9%) and staff costs (10.0%). The group's 3.5% y-o-y increase in 3Q/FY10 was mainly due to increases in payment to IPPs and depreciation/amortization.

Although there was a 5.6% decline in cost per unit sold, from 30.1 sen/kwh to 28.4 sen/kwh, the strength in coal prices (one of the fuel costs) are putting pressures on margins. TNB's average selling price for electricity is 31.1 sen/kwh.

### **“Increase in coal costs”**

Electricity derived from coal increased to 39.8% of total units generated YTD. This was due to the reduction in gas allocation from Petronas and also due to the overall higher demand for electricity. YTD, TNB's fuel costs mainly consists of coal (RM1731.8 million) and gas (RM1412.8 million). Electricity is also generated from sources such as hydro (no fuel costs), distillates and oil. TNB estimates its total FY10 coal procurement quantity to be around 18.8 million metric tonnes and expects coal prices to further strengthen.

## **DEBT & FOREX EXPOSURE**

TNB's forex (foreign exchange) exposure is mainly due to the fluctuation of the Ringgit (RM) against the US Dollar (USD) and Japanese Yen. TNB's forex exposure had been reduced by 5.2% y-o-y, resulting from the strengthening of the RM against the USD and Yen. The group managed to obtain RM668.1 million in overall translation gain from its USD and Yen exposure during its 9M/FY10.

### **“Gains from Stronger RM”**

As at 31<sup>st</sup> May 2010, TNB's total debt is RM21.6 billion, which translates to RM13.6 billion net of the RM8.0 billion cash. Of this debt figure, 54.0% consists of RM, 22.2% consists of USD and 23.8% consists of Yen-denominated debt. Based on final exposure, TNB's debt consists of 98.8% fixed-rate type and 1.2% floating-rate, with a weighted average cost of debt of 5.3%.

## **CAPITAL EXPENDITURE**

In 3Q/FY10, TNB spent around RM2.7 billion capital expenditure (capex) on items such as distribution, transmission, generation and other areas. Of this amount, 60.7% of total capex incurred were on carried-forward projects while 73.6% of the total capex incurred relates to efforts on new supply and system improvements.

## **TNB's “WISH LIST”**

- Stronger RM against the USD and Yen
- Lower/stable coal prices
- More allocation of gas supply from Petronas
- Renegotiation of “fairer” PPAs (purchasing power agreements) with IPPs upon expiry
- Implementation of new electricity tariff structure by the federal government
- New plants/capacity to meet the nation's electricity needs, given that Bakun Dam will not serve Peninsular Malaysia's needs



## APPENDIX

### TNB: Major Shareholders

\*as at May 2010

Name	Holdings
Khazanah Nasional Berhad	35.7%
Employees Provident Fund Board	15.3%
Skim Amanah Saham Bumiputera	9.8%
Kumpulan Wang Persaraan	1.4%
Other Corporations & Govt. Agencies	21.8%
<b>Sub-Total (local institutions)</b>	<b>84.0%</b>
Foreign	10.0%
Malaysian Public	6.0%
<b>Total</b>	<b>100.0%</b>
Paid-Up Capital (RMm shares)	434.4

Source: TNB

### TNB: Key Performance Indicators (KPIs)

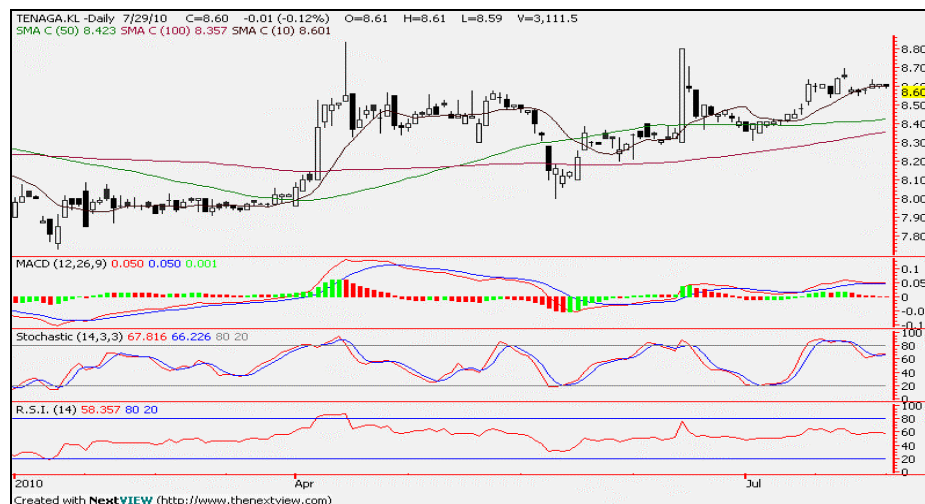
Initiatives	FY09 achieved	9M/FY10 achieved	FY10 target
Return On Asset (ROA) (%)	4.0	4.9	4.5
Gearing (%)	46.5	43.2	44-46
Unplanned Outage Rate (%)	2.9	2.2	3.6-4.0
YTD T&D Losses (%)*	9.7	9.8	9.0-9.5
Transmission System Minutes (min)	1.0	0.2	5-7
Distribution SAIDI (min)#	68.6	63.2	68-72

Source: TNB

#System Average Interruption Duration Index (SAIDI) is commonly used as a reliability indicator by electric power utilities. SAIDI is the average outage duration for each customer served.

\*YTD T&D is year-to-date transmission & distribution

### TNB: 6-month chart



Source: NextView