Fitch sees TNB incurring RM46b capex for FY16-FY19

KUALA LUMPUR: Tenaga Nasional Bhd (TNB) is expected to incur about RM46bil in capital expenditure (capex) from financial year ending Aug 31, 2016 (FY16) to FY19 to increase its domestic generation capacity and for maintenance, according to Fitch Ratings.

The rating agency said TNB’s domestic generation capacity was 11.65 GW at end-2015 and the company planned to add 3.4GW of new domestic capacity by December 2019.

It said TNB also planned to pursue international opportunities, as reflected in the acquisition of a 30% stake in Turkey-based power company GAMA Enerji AS in December 2015.

“Fitch has not factored any new acquisitions in its financial forecasts for TNB, and will analyse the impact if and when any materialises.

“Fitch expects TNB to generate cash flows from operations of about RM12bil per year, and to be able to comfortably fund the majority of the expected capex through internal cash generation,” it said in a statement yesterday.

The ratings agency had also affirmed TNB’s long-term foreign- and local-currency issuer default ratings at BBB+ and its foreign- and local-currency senior unsecured ratings at BB+. It said the outlook was stable.

At the same time, Fitch also reaffirmed TNB’s short-term foreign- and local-currency IDR at F2 and simultaneously withdrew these short-term ratings as Fitch no longer considered them relevant to the agency’s coverage.

It said TNB’s ratings reflected its position as the owner and operator of Malaysia’s electricity transmission and distribution network, its near-53% share of Peninsular Malaysia’s power generation capacity and stable financial profile.

“The ratings incorporate a one-notch uplift to TNB’s standalone rating due to its strategic importance to the Government (A-/stable), which effectively owns over 60% of the company,” it said.

Fitch said the Government allowed TNB to adjust its regulated tariffs every six months to reflect changes in fuel costs, subject to government approval.

The adjustment reflects the difference between actual fuel cost and the amounts stipulated in the imbalance cost pass through (ICPT) framework.

TNB’s tariff effectively increased by 2% to 37.01sen/kWh for January-June 2016 from 36.28sen/kWh for July-December 2015 due to lower fuel-cost savings in the second half of 2015 versus first half 2015, and a smaller tariff rebate to customers.

Fitch also expects TNB’s fuel costs to be lower than the amounts stipulated in the ICPT mechanism till 2017, and the company would pass on to customers the difference by way of tariff rebates.

This will mainly be driven by higher coal-fired generation, which accounted for about 45% of Peninsular Malaysia’s electricity generation in FY15.

Fitch expects the share of coal-fired generation to increase to around 55% by FY17. Coal-fired electricity costs about 25% less than piped natural gas-based generation, and around 70% less than generation through LNG. In FY15, Fitch estimated about 40% of Peninsular Malaysia’s electricity generation was via piped natural gas and 9% through LNG.

Fitch also pointed out TNB purchases about half of the electricity it sells from independent power producers under long-term power purchase agreements (PPAs).

The PPAs include substantial fixed-capacity payments of about 13% of TNB’s cash operating expenses.

TNB has reduced its purchasing commitments to some producers after it renegotiated the purchase agreements in lieu of extensions.

“TNB does not directly benefit from the savings as these are payable to the government for its tariff stabilisation fund, in our view. Fitch capitalises 30% of TNB’s fixed-capacity charge payments to independent power producers when calculating its leverage ratios.

“The amount capitalised broadly represents the unutilised proportion of the contracted capacity at the independent power producers,” it said.

Fitch assesses TNB’s financial profile to be stronger for its standalone rating of “BBB” in the absence of any material debt-funded acquisitions.

The rating agency expects TNB would be able to maintain funds flow from operations (FFO) adjusted net leverage below 2.5 times in the next two to three years (FY15: 1.9 times).

“However, an upgrade would be contingent on a record of consistently implementing the fuel cost pass-through mechanism, especially in an environment of rising fuel costs,” it added.