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Asian stocks retreat, dollar extends gains

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PETALING JAYA: Analysts are positive on Tenaga Nasional Bhd (TNB) becoming the controlling shareholder of power plant project Track 4A as it will serve as the best available choice, in order to ensure power security over the longer term.

To recap, Track 4A was awarded to TNB, SIPP Energy and YTL Power International Bhd on a direct negotiation basis in May 2014. YTL Power and TNB, however, withdrew from the project in June 2014 and October 2015 respectively.

After more than a year TNB pulled out from being a partner with SIPP Energy for the development of Track 4A, TNB on Wednesday announced the acquisition of a 51% stake in Southern Power Generation Sdn Bhd (SPG) for RM51.

SPG was incorporated for the development of Track 4A 2x720MW combined cycle gas turbine (CCGT) power plant project.

Track 4A is now expected to achieve scheduled commercial operation date on July 1, 2020 (delayed from initial target of mid-2018).

"The estimated project cost is circa RM4.7 billion, translating into RM3,310 per megawatt (MW), which is 18.2% more expensive than RM2,800 per MW for 1,071MW CCGT Prai Power plant," HLIB Research said, adding that it expects the debt:equity financing ratio to be 80:20.

After consolidating the acquisition into TNB's balance sheet, it expects TNB's net gearing ratio to increase from 38.6% to 46.4%, which is still within a healthy position.

Currently, details on the tariff are yet to be disclosed. Based on previous reports, the levelised tariff is 37sen per kWh for Track 4A (based on reference rate of RM3.80 per US dollar), which is 5.6% lower than 39.19 sen per kW that was initially proposed by SIPP and TNB in 2015.

However, HLIB Research said it is still 6.6% higher than 34.7 sen per kWh rate for 1,071MW CCGT Prai Power (under TNB) back in 2012.

"Judging from the 18.2% higher construction cost (versus Prai Power) and only 6.6% higher tariff (versus Prai Power), we expect the IRR for Track 4A to be relatively low (even below TNB threshold), similar to previous takeover of Track 3B (from 1MDB) back in 2015," it said.

HLIB Research maintained its "buy" call with unchanged target price of RM17.

"We remain positive on TNB's long term growth and strong cash flow. Shareholders stand to receive higher dividend yields of up to 5% (versus historical 2%-3%) based on the updated dividend payout policy (30%-50% of net income)," it said.

Meanwhile, PublicInvest Research said it believes there will be no impact on TNB's FY17-FY19 earnings as the COD for the project will be on July 1, 2020 instead of June 1, 2018 planned earlier.

"Hence, we maintain our earnings estimates and "outperform" call on TNB with unchanged target price of RM16.16. At the current level, TNB's share price is trading at undemanding FY17-FY19F average price-earning ratio of 11 times,' it said.