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Pengerang deal will boost TNB's reserve capacity

PETALING JAYA: Tenaga Nasional Bhd's (TNB) latest power purchase agreement (PPA) with Pengerang Power Sdn Bhd will improve its reserve capacity, said MIDF Research.

"The new capacity that will come on-stream from 2017 is estimated to add 2.5% to current installed capacity and should improve reserve capacity from the current 27% (and 29% by year end). The addition of the 400MW in 2017 is estimated to improve reserve capacity to about 31% next year," it said in its report last Friday.

Last week, TNB announced that it has signed a 21-year PPA with Pengerang Power, a wholly-owned subsidiary of Petroliaam Nasional Bhd (Petronas), for the purchase of a collective 600MW from the latter's gas-powered generation plant.

Under the PPA, 400MW will be supplied from June 2017 while the remaining 200MW will commence from January 2019.

"The Pengerang Cogeneration plant will entail a total capacity of about 1.8GW, of which the 400MW to be supplied to TNB is part of the first (of four) co-generation units. The remaining capacity of 1.2GW generated by the plant is meant to power the Pengerang Integrated Complex and is scheduled to be fully commissioned by 2019," said MIDF Research.

The Pengerang plant will also provide a continuous supply of steam of up to 1,480 tonnes per hour for plants within the complex.

Construction of the plant was awarded to a consortium comprising Siemens AG, Siemens Malaysia and MMC Engineering Sdn Bhd back in May 2014, along with a long-term maintenance and services contract.

MIDF Research has maintained its forecasts and reaffirmed its "buy" call on TNB at an unchanged target price of RM16.80 per share.

"We like TNB for its strong earnings visibility post-ICPT implementation; dividend catalyst on the back of FCF yield of about 7% over FY16F/17F, a relatively under-gearred balance sheet at 0.35 times and the upcoming capital optimisation exercise; while its overseas expansion provides scope for stronger growth in the mid-term," it said.