

Headline	Temporary US dollar strength a bane for TNB		
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Temporary US dollar strength a bane for TNB

Tenaga Nasional Bhd
(Nov 10, RM14.28)

Maintain buy recommendation with an unchanged target price of RM16.80: The yen weakened yesterday while the US dollar strengthened mildly against the ringgit after the conclusion of the US elections. Our in-house economic team's view is for this situation to be temporary. TNB has exposure to these foreign currencies via fuel purchases, mainly in terms of operational exposure and foreign currency debt exposure.

Fuel purchases make up almost half of TNB's total cost with about 39% of these comprising coal purchases which are denominated in US dollars. The temporary strength of the US dollar is negative for TNB in the sense that it increases effective ringgit cost for coal purchases. The benefits or risks from fuel price or currency (related to fuel purchases) fluctuations are, however, passed on to consumers via the ICPT (im-balance cost pass-through) mechanism (via adjustments to tariffs), which is done on a six-month retrospective basis.

About 17% of TNB's total debt of RM34 billion comprise foreign currency and the bulk of this is made up of US dollar and yen borrowings, which are in almost equal amounts. Technically, TNB might be impacted by the strength of the US dollar but benefits from the weakness of the yen.

But we take comfort in the fact

Tenaga Nasional Bhd

FYE AUG (RM MIL)	2014	2015	2016	2017F	2018F
Revenue	42,792.4	43,286.8	44,531.5	47,891.8	50,457.1
Ebit	7,629.9	7,695.3	9,072.0	8,636.9	9,044.1
Pre-tax profit	7,114.7	7,133.7	8,456.8	8,043.2	8,443.3
Core net profit	4,682.5	5,978.9	7,757.6	7,152.5	6,708.5
FD EPS (sen)	83.0	105.9	137.5	126.7	118.9
EPS growth (%)	(13.7)	27.7	29.7	(7.8)	(6.2)
PER (x)	17.2	13.5	10.4	11.3	12.0
Net dividend (sen)	29.0	29.0	32.0	57.0	53.5
Net dividend yield (%)	2.0	2.0	2.2	4.0	3.7

Source: Company, MIDFR



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that the majority of the borrowings are long-term in nature (96% of total debt are long-term); the impact from the currency fluctuations (which are expected to be

temporary) will not be immediately realised. In the near- to mid-term, currency fluctuations will only result in market-to-market impact. — MIDF Research, Nov 10