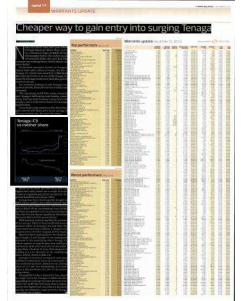


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Cheaper way to gain entry into surging Tenaga

BY ESTHER LEE

News of a tariff hike next year lifted Tenaga Nasional Bhd's share price to a historical high of RM11.30 last Wednesday before the utility stock retreated to RM11 the next day. The counter was trading below RM10 before the news broke.

Structured warrants issued on Tenaga's shares have also rallied strongly. On Dec 3, Tenaga-C5, which was issued by CIMB Bank Bhd, shot up 94.59% to 36 sen while Tenaga-C6, issued by Kenanga Investment Bank Bhd, gained 37.93% to 20 sen.

For investors looking to ride Tenaga's improved outlook, these derivatives would come in handy.

The upcoming tariff hike eases concerns over Tenaga's ballooning cost burden, something that has kept investors away from the counter, and is expected to boost its earnings significantly.

According to Asia Analytica Sdn Bhd, Tenaga's revenue will likely grow by an average of 10% per annum over the next two years.

Much of the tariff increase will cover the higher fuel costs, which are a result of an increase in regulated gas prices and pricier imported liquefied natural gas (LNG).

Tenaga has been burning LNG bought at RM41.68 per mmbtu (one million British ther-

mal units) since May this year. Nevertheless, only a third of the incremental cost of LNG has been recognised in its income statement. The rest of it was borne equally by Petroliam Nasional Bhd and the government.

With analysts concurring that the increase of 0.9 sen per kWh in base tariff will have a positive effect on Tenaga's bottom line, the structured warrants could be a cheaper way to gain entry into the surging utility stock.

Based on their closing prices last Wednesday, Tenaga-C5 and Tenaga-C6 are trading at a discount to the underlying share. Tenaga-C5, which expires on Aug 29 next year and has a conversion ratio of six warrants to one underlying share, closed at 35.5 sen. This means it is trading at a 1.5% discount to the underlying share, which closed at RM11.30.

Tenaga-C6 matures on June 30 next year and has a conversion ratio of 12 warrants to one underlying share. Based on its closing price of 15.5 sen last Wednesday, it is trading at a low premium of 0.53% to the underlying share.

HwangDBS Vickers Research has raised its target price for Tenaga to RM11.40 after upgrading its earnings forecast because it believes the tariff hike will more than compensate for the higher fuel cost. Alliance Research has also increased its target price for Tenaga, from RM11.86 to RM13. E

Tenaga-C5 vs mother share

