TENAGA NASIONAL

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PORTFOLIO
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RISING OPTIMISM: Bullish trend expected to spill over into early next year

A SHARP rally on index heavyweight Tenaga Nasional Bhd (TNB) after the government approved a 15 per cent tariff hike from January 1 was the catalyst triggering a spike in the benchmark FTSE Bursa Malaysia KLCI (FBM KLCI) to a record intraday high last week, offsetting the weaker external tone due to worries over an earlier tapering schedule by the United States Federal Reserve that is sparked by a slew of stronger-than-expected economic data.

The FBM KLCI advanced another 14.23 points, or 0.79 per cent, last week to a record high closing of 1,826.95, with TNB (+RM1.14) alone contributing 12.7 points to the index's gain.

Average daily traded volume and value were at 1.5 billion shares and RM1.8 billion, compared with 1.57 billion shares and RM1.89 billion, respectively, the previous week, as most blue chips and lower liners stayed in low-volume consolidation mode.

The announcement of electricity tariff increase was a short-term pain that everyone has to endure for the long-term well-being of our nation, as budget deficit has been a thorn in the flesh that could lead to a downgrade in our credit rating, if left unchecked. Now, it is the government's responsibility to ensure money saved is directed to income-generative ventures that could lift the well-being of citizens.

The move propelled a swift surge in the index to an all-time high of 1,840 following a rally in TNB's share price but the momentum did not last due to profit-taking interest.

Despite the pullback in share price, TNB holds potential with electricity demand expected to improve to three per cent in financial year (FY) 2015 from 2.4 per cent in FY2014, on the back of Economic Transformation Programme-related rollouts and improvement seen in external demand.

With base tariff increase expected to add another RM1 billion to its revenue and market price of coal is about seven per cent lower than what has been imputed in the new tariff, TNB's earnings should improve. Besides, as this first tariff increase post-election can be regarded as the initial step towards reforming the power sector, we can expect more market-based initiatives coming on stream next year.

These include open tender for generation capacity and the incentive-based regulation that allows TNB to earn a return on its regulated assets based on its average cost of capital.

While the savings will primarily accrue to Petronas in the form of lower subsidies being dished out, post-implementation of these measures, TNB should have better earnings visibility and control over its cash flows. For instance, as the gas supplied from domestic sources are still being priced at RM15.20 per mmbtu (some 64 per cent lower than the imported LNG price of RM41.68), the average tariff has to increase by another 23 per cent (8.66 sen/kWh) if domestic gas price is liberalised, too.

As for the FBM KLCI, anticipation is building up for the current momentum to be sustained as funds could do window-dressing as we approach the year-end. With Malaysia's economic growth prospects remaining intact with a hive of domestic activities and recovery in external demand, augmented by the strong exports growth of 9.6 per cent year-on-year in October and an improvement seen in the world's largest economy, optimism is building up for the current momentum to spill over into early next year as well.

Nonetheless, the better-than-expected US payroll numbers of 203,000 and the jobless rate that fell to a five-year low of seven per cent last month could resuscitate worries about quantitative easing (QE) cuts and act as immediate-term dampeners until the Fed meets on December 17-18.

The Thomson Reuters/University of Michigan preliminary December consumer sentiment index that rose to 82.5, the highest in five months, and the third quarter US GDP of 3.6 per cent that came in stronger than expected add to the uncertainty. Nonetheless, this column views that the Fed will refrain from any QE cuts in December and wait for more broad-based economic data before acting as the fourth quarter could be subjected to seasonality due to Christmas and New Year demand.

Technical Outlook

Trading range for the blue-chip benchmark index expanded to 28.45 points last week, compared with the 20.51 points range the previous week, caused by the sharp rally on TNB shares, which pushed the index to a fresh intra-day high of 1,840.

Blue chips sustained gains on Monday, led by Petronas Gas, Genting Bhd and PPB Group and boosted by steady China manufacturing growth momentum in November, which raised hopes for the region's economic recovery.

The FBM KLCI rose 5.43 points to settle at the day's high of 1,818.15, off an early low of 1,811.67, but losers beat gainers 474 to 284 on lacklustre trade, which totalled 1.26 billion shares worth RM1.39 billion.

The FBM KLCI rose to record highs the following day, boosted by a sharp rally on TNB shares after the government allowed a 15 per cent tariff hike next year, offsetting the softer regional tone due to concern the Fed will taper its stimulus programme soon. The index jumped to record high of 1,840.12 and slipped to a low of 1,821.66 before closing 6.14 points higher at 1,824.29, as losers beat gainers 445 to 325 on moderate trade totalling 1.24 billion shares worth RM2.1 billion.

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Kaladher Govindan
Market Outlook

The stock market slipped into profit-taking consolidation on Wednesday, as investors locked in gains after the index reached its record high on Tuesday, in tandem with most regional markets after being rattled by fears of US stimulus reduction.

The market extended consolidation on Friday, with investors mostly sidelined ahead of the release of the US jobs data for November for clues as to the likely timeline for the US Fed to begin tapering the stimulus programme. The index added 2.09 points to end at 1,826.95 on quiet trade.

The daily slow stochastic indicator for the FBM KLCI has hooked down again after signalling a sell early last week, but the weekly indicator's trigger line is poised to issue a buy signal on further strength. Meanwhile, the 14-day Relative Strength Index (RSI) indicator climbed to a more bullish reading of 68.05, while the 14-week RSI also recovered to a better reading of 63.13.

On trend indicators, the daily Moving Average Convergence Divergence (MACD)'s trigger line expanded higher after issuing a buy signal the previous week, but the weekly MACD indicator's signal line continues to level off. The 14-day Directional Movement Index (DMI) trend indicator's +DI and –DI lines continues to expand positively with the ADX line inclining towards 25, suggesting an emerging uptrend.

Conclusion

As expected, the FBM KLCI surged to record highs last week, supported by bullish technical indicators, but the softer trading momentum is a concern as profit-taking interest should increase to check gains, given the weak follow-through buying interest.

Nonetheless, save for the daily slow stochastics, which is hooking down to suggest profit-taking correction this week, all other indicators stayed positive to signal a further uptrend extension. Moreover, the rally last Friday on Wall Street following optimism the stronger-than-expected US jobs data indicate a stronger US economic recovery, should spill over to boost local sentiment.

Immediate resistance for the index stays at last Tuesday's record high of 1,840 points, but a convincing breakout backed by strong buying momentum could target 1,860.

On the downside, immediate support comes from the 30-day moving average now at 1,806 points, followed by the 50-day moving average at 1,797. The 100-day moving average at 1,782 will provide a stronger support buffer.

Chart-wise, sell on strength Alam Maritim, AZRB and DRB-HICOM, given the overbought momentum, with a view to buy back once prices retreat to more bargain levels.

Meanwhile, look to buy the dips in construction and oil & gas stocks such as Benalec, Eversendai, WCT Holdings, Tanjong Offshore and TH Heavy Engineering for recovery ahead.

The subject expressed above is based purely on technical analysis and opinions of the writer. It is not a solicitation to buy or sell.

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