TNB ratings unchanged, S&P maintains grades on its bonds

PETALING JAYA: The credit ratings and outlook on Tenaga Nasional Bhd (TNB) remain unchanged despite the national utility company's failure to take over the power unit of 1Malaysia Development Bhd (1MDB), says Standard & Poor's Ratings Services (S&P).

The international credit rating agency, which had ratings of BBB+ and A/AAX, J and a stable outlook on TNB's bonds, said the latter's failed bid for 1MDB's power assets under Edra Global Energy Bhd had reduced the prospect of a weaker capital structure.

TNB's shares closed unchanged at RM13.58 yesterday.

"Our base-case expectations for TNB did not factor in the bid (for Edra's power assets)," S&P said in a statement yesterday, while highlighting that its ratings and outlook on TNB were not affected by the latter's failed bid to acquire the power assets of Edra.

"In our view, Edra's assets would have further strengthened TNB's competitive position, particularly in Malaysia.

"But the bid valuation and the funding strategy for the acquisition might have led to a weaker capital structure for TNB," it explained.

TNB lost its bid for Edra, which has five domestic and eight international power plants with a total generation capacity of some 5,500MW, to China General Nuclear Power Corp (CGN Group), after it was announced on Monday that the China state-owned company would buy the entire energy assets of Edra for RM9.83bil cash.

The deal, which is expected to be completed by February next year, would require CGN Group to assume Edra's relevant gross debt and cash based on a valuation date as at March 31, 2015.

Meanwhile, the details of TNB's bid for Edra have never been disclosed.

But according to S&P, the fact that TNB's bid did not emerge as the winning bid suggests that the company was seeking to balance its funding profile and leverage levels - and hence creditors' interests - with its expansion plans.

"This underpins our view that satisfactory governance measures are in place within TNB," S&P pointed out.

"TNB's dominant position as an integrated power provider in Malaysia underpins its business risk profile.

"At the same time, we expect the company's financial risk profile to be mostly unchanged despite an increase in capital expenditure, with the debt-to-Ebitda (earnings before interest, tax, depreciation and amortisation) ratio staying below four times through 2016," it added.

S&P further noted that its expectations also had assumed revisions in tariffs for any under- or over-recovery of fuel costs.
**Positive development:** A view of TNB headquarters in Kuala Lumpur. S&P said the company’s failed bid for 1MDB’s power assets under Edra had reduced the prospect of a weaker capital structure. — Reuters