Forex losses hit hard at corporate earnings

Balance sheets of companies with foreign currency debt dragged down by ringgit’s decline

by ALEXANDER WINIFRED

MALAYSIA’S largest corporates are facing a gloomy future based on the third-quarter (3Q) results as foreign exchange (forex) losses on borrowings, the weak ringgit and slower economic growth are expected to continue to bite into their earnings.

The drop in the ringgit’s value saw six major listed companies — Petronas Gas Bhd, AirAsia Bhd and Air-Asia X Bhd, IOI Corp Bhd, IHH Healthcare Bhd and Tenaga Nasional Bhd (TNB) — posting more than RM2.6 billion in forex losses in their recent financial quarter, data compiled by The Malaysian Reserve (TMR) show.

AirAsia’s forex loss came in at RM35.98 million while IOI’s net loss of RM719 million for the recent quarter was mainly due to forex translation losses of RM854 million on its foreign debts.

TNB, one of the country’s largest firms based on market capitalisation, said for the 3Q ended Aug 31, 2015, its net profit declined 39.5% to RM820.9 million due to the forex translation loss of RM733.5 million.

“The decline of the ringgit has had an almost immediate effect on the balance sheets of companies with foreign currency debt,” Inter-Pacific Securities Sdn Bhd head of research Pong Teng Siew said.

And he does not expect a quick improvement even if the ringgit appreciates as the global economic growth remains uncertain.

Even if the ringgit normalises, export-centric businesses that did better purely due to the weaker ringgit will not see similar gains moving

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forward, the researcher said.

“World trade is slowing down. These (Malaysian) companies will not be able to trade as much as they did before,” Pong said. On Nov 9, the Organisation for Economic Co-operation and Development cut its global trade growth forecast for next year to 3.3% from its previous forecast of 3.6%.

Malaysia’s gross domestic product is expected to grow at the slowest rate among its Asean-5 peers (Indonesia, the Philippines, Singapore and Thailand) in 2016, data by the Malaysian Institute of Economic Research showed in October.

Besides the slower global economic growth, commodity prices are also not expected to experience a significant jump, thus pushing more local firms to do more to increase revenues.

The ringgit, which has dropped in value to more than 20% against the US dollar this year, is one of the worst performing currencies among emerging markets.

“The weakening of the ringgit against the greenback has been a ‘double-edged sword’ for some Malaysian companies,” Rajiv Biswas, Asia Pacific chief economist at IHS Global Insight, told TMR.

He said the lower ringgit
Forex losses hit hard at corporate earnings

Ringgit’s depreciation has also prompted more scrutiny by investors especially on firms with heavy foreign-denominated borrowings.

Conglomerate Sime Darby Bhd is trying to monetise its assets to pare down its burgeoning RM19.7 billion debt. Some 60% of its RM13.6 billion long-term borrowings are denominated in US dollars.

Sime Darby said last week it was also considering a rights issue to raise up to RM6 billion besides selling RM3 billion in Islamic bonds.

But observers said Sime Darby’s sukuk issuance is more of a debt-swap than paring down its debt and the firm faces challenges as palm oil prices are expected to remain largely muted for the next three years due to oversupply in the market.

“Plans should be made to implement cost optimisation measures to cope with the impact of the new status quo,” said Lee Tien Xiang, an analyst at FundSuperMart.com.

Without such measures, investors will see sustained ringgit weakness and lower growth factor into quarterly earnings and stock prices, Lee said.
<table>
<thead>
<tr>
<th>Company Name</th>
<th>Forex Loss</th>
<th>Net Loss/Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>IOI Corp Bhd</td>
<td>RM853.9m</td>
<td>-RM719m</td>
</tr>
<tr>
<td>Tenaga Nasional Bhd</td>
<td>RM733.5m</td>
<td>RM820.9m (-39.5%)</td>
</tr>
<tr>
<td>AirAsia Bhd</td>
<td>RM436m</td>
<td>-RM405.7m</td>
</tr>
<tr>
<td>AirAsia X Bhd</td>
<td>RM241.3m</td>
<td>-RM288.19m</td>
</tr>
<tr>
<td>IHH Healthcare Bhd</td>
<td>RM217.1m</td>
<td>RM118.49m (-19.34%)</td>
</tr>
<tr>
<td>Petronas Gas Bhd</td>
<td>RM167.5m</td>
<td>RM304.98m (-27.14%)</td>
</tr>
</tbody>
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TNB says for the 4Q ended Aug 31, 2015, its net profit declined 39.5% to RM820.9m due to the forex translation loss of RM733.5m