Moody's: TNB's ratings unaffected

SINGAPORE — Tenaga Nasional Bhd's (TNB) A3 rating reflects the application of Moody's rating methodology for government-related issuers (GRIs), which combines (1) TNB's standalone credit quality, or baseline credit assessment (BCA) of bas6; and (ii) a two-notch uplift based on Moody's joint default analysis approach.

This approach assumes a very high likelihood of support from the Malaysian government in a stress situation.

The stable outlook reflects Moody's expectation that TNB will maintain its dominant position in Malaysia's power sector and that there will be no material adverse changes in the regulatory environment in the near to medium-term.

Tenaga's rating could be upgraded if Malaysia's sovereign rating is upgraded, primarily reflecting TNB's strategic importance and our expectation for high level of support in case of need.

The BCA could be raised if the government displays a track record of raising tariffs to allow Tenaga to recover variable costs through the imbalance cost pass-through adjustments, such that retained cash flow/debt exceeds 28%, and interest coverage stays above 9x on a consistent basis.

"Given our expectation of high government support, TNB's rating is resilient to a weakening in its financial fundamentals. Moody's would consider lowering the BCA if TNB's underlying credit strength weakens which can be due to: (1) a substantial deterioration in its operating performance; (2) regulatory changes which negatively affect its financial performance, such as if the incentive-based regulation mechanism fails to pass-through changes in variable costs; or (3) aggressive debt-funded acquisitions.

"Key credit metrics that would trigger a lowering of the BCA include adjusted retained cash flow/debt of less than 17% and/or interest coverage of less than 6x on a consistent basis," said Moody's.

On the other hand, a partial sale of the government's majority ownership could prompt a review of TNB's rating, especially if the sale indicates that the company's importance to the government has decreased; because such a development would affect the level of government support incorporated in TNB's final A3 rating and stable outlook.