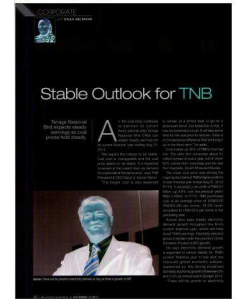


Headline	Stable Outlook for TNB		
MediaTitle	Malaysian Business		
Date	29 Nov 2013	Language	English
Circulation	25,000	Readership	50,000
Section	NEWS	Page No	30,31
ArticleSize	998 cm ²	Journalist	Dalila Abu Bakar
PR Value	RM 32,610		



CORPORATE



BY DALILA ABU BAKAR

Stable Outlook for TNB

Tenaga Nasional Bhd expects steady earnings as coal prices hold steady.

AS the coal price continues to maintain its current trend, national utility Tenaga Nasional Bhd (TNB) can expect steady earnings for its current financial year ending Aug 31, 2014.

"We expect the outlook to be stable. Fuel cost is manageable and the coal price seems to be stable. It is expected to remain at the current level, as demand for coal is still at the same level," says TNB President & CEO Datuk Ir. Azman Mohd.

"The freight cost is also expected

to remain at a similar level or go on a downward trend. Our projection is that, it has not bottomed out yet. It will take some time for the coal price to recover. There is no fundamental difference that will bring it up in the short term," he adds.

Coal makes up 45% of TNB's total fuel mix. The utility firm consumes about 21 million tonnes of coal a year, out of which 62% comes from Indonesia and the rest from Australia, South Africa and Russia.

The lower coal price was among the major factors behind TNB's higher profit for its last financial year ended Aug 31, 2013 (FY13). It recorded a net profit of RM4.61 billion, up 4.6% over the previous year's RM4.4 billion. In FY13, TNB purchased coal at an average price of US\$83.60 (RM263.09) per tonne, 19.3% lower compared to US\$103.6 per tonne in the preceding year.

Azman also sees steady electricity demand growth throughout the firm's current financial year, which will help boost TNB's earnings. Electricity demand grows in tandem with the country's Gross Domestic Product (GDP) growth.

He says electricity demand growth is expected to remain steady for TNB's current financial year in line with the improved global economic outlook, supported by the strong projected domestic economic growth of between 5% and 5.5% as announced in Budget 2014.

"There will be growth in electricity



Azman: There will be growth in electricity demand as long as there is growth in GDP

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TNB's headquarters in Jalan Bangsar, Kuala Lumpur

demand as long as there is growth in GDP," he adds.

In the medium term, TNB expects steady electricity demand growth in tandem with the projected economic growth by the commercial sectors. For its FY13, electricity demand growth in Peninsular Malaysia was 3.8%, slightly lower than the 4.3% for the previous year. The slower growth was in line with Bank Negara Malaysia's GDP forecast of 4.5% to 5% compared to 5.6% actual GDP for 2012.

TNB recorded its peak demand of 16,562 MW on May 13, 2013 and following this, quarter-on-quarter demand has increased by 5% from 24,751 GWh in the third quarter of its FY13 to about 26,000 GWh in the fourth quarter.

Azman also reaffirmed that the volume of gas supply has shown an improvement since the end of the third quarter of its FY13 after the commissioning of the Regasification Terminal in Melaka. However, he says TNB still burned some alternative fuels during the fourth quarter of FY13 to meet the higher demand.

The profit was also boosted by a foreign currency translation gain of RM493.6 million, which was driven by the strengthening of the ringgit against the yen, compared with a translation loss of RM230.8 million in the preceding year. For the 12-month period ended Aug 31, 2013, the ringgit strengthened against the yen by 15.6%.

"There is always volatility in the ringgit. We are taking this into account. We have policies dealing with forex volatility whereby we hedge 50% at least in the next three months," Azman says.

Revenue increased to RM37,130.7 million from RM35,848.4 million for FY12, reflecting 3.8% unit electricity demand growth in Peninsular Malaysia during FY13.

Kenanga Research believes that a tariff review is imminent for TNB given that the general election is over and the liquefied natural gas (LNG) for the Melaka Regasification Terminal is at market price.

"On the other hand, when a new set of fuel-cost pass-through mechanism is in place, TNB's earnings are expected

to stabilise. Its financial performance will depend mainly on its operational efficiency," says the research house.

According to CIMB Research, TNB hopes the implementation of the much-awaited Incentive Based Regulation and fuel-cost pass-through mechanism will take place in 2014.

"We gather that this is an either-or situation as TNB would need to raise its tariff, i.e. fuel-cost pass-through, to be able to cover the incremental cost of the LNG, which is priced at the current market levels; if not, the cost-sharing mechanism would have to continue," says CIMB Research.

It also says that TNB expects electricity demand to continue to grow slightly below GDP growth, implying growth of between 3.5% and 4.5% as the GDP for 2014 is expected to grow by 4.5-5.5%.

CIMB Research adds that despite the improvement in gas supply due to the commissioning of the regasification plant, TNB continued to burn oil and distillates to compensate for the higher electricity demand. **mb**