Tnb-financial analysis essay

ASSIGN BUSTER

 INTRODUCTION OF CORPORATION PROFILE Tenaga Nasional Berhad (TNB) is the largest utility company in Malaysia. It is also the largest power company in Southest Asia with RM65 billion worth of assets serving over six million customers throughout Peninsular Malaysia and the eastern state of Sabah. Its core activities are generation, transmission and distribution of electricity. TNB is the only Malaysian energy company to rank among the top 50 energy companies in Asia in 2006 (based on the Platts's survey of the top 250 Global Energy Companies) while internationally it is ranked as 168th. TNB was formed in 1990 by the Electricity Supply Successor Company Act 1990, as the successor of the National Electricity Board of the States of Malaya (Lembaga Letrik Negara Tanah Melayu). It was listed on the Bursa Saham Securities Berhad in the year 1990.

TNB Group currently has a complete power supply system generating capacity of about 11, 200 MW. In Peninsular Malaysia, TNB contributes to 55 percent of the total industry capacity through six thermal stations and three major hydroelectric schemes. It also manages the transmission network i. e. National Grid which links TNB power stations and IPPs to the distribution network. The National Grid is linked via 132kV HVAC and 300 kV HVDC interconnection to Thailand and 230kV cables to Singapore.

TNB's distribution network is managed through a comprehensive distribution system; customer service centres and calls management centres. Through its subsidiaries, TNB is also involves in the manufacturing of transformer, high voltage switchgears and cables, provision of professional consultancy services, architectural, civil and electrical engineering works and services, repair and maintenance, research and development and project management services. TNB also offers higher education through its university – University Tenaga Malaysia (Uniten). The Group mission is " We Are Committed to Excellence in Our Products and Services" FINANCIAL ANALYSIS (1998 – 2007)The purpose of this chapter will cover the analysis of financial statement from year 1998 to 2007 of Tenaga Nasional Berhad (TNB) to help evaluate the operating performance and financial positions. Operating performance analysis focuses on how well the organization is matching revenues and expenses or expenditures while financial position analysis focuses on how well positioned the organization is to pay its bills.

The Group's principal activities are generating, transmitting, distributing, operating and selling electricity . Other activities include repairing, testing and maintaining power plants, providing engineering, procurement and construction services for power plants related products, assembling and manufacturing high voltage switchgears, coal mining and trading . Operations are carried out in Malaysia, Mauritius, Pakistan, India and Indonesia. Profitability Ratio And Sales Revenue Profitability ratio has increased tremendously from a negative 28% in 1998 to a positive 18% in 2007.

This shows how well TNB is performing by analyzing profit earned relative to sales, total assets and net worth. The Group recorded a 14. per cent growth in revenue to RM23, 320. 4 million in FY2007 from RM20, 384. 2 million in FY2006 and 110 per cent growth in revenue from RM11, 075. 6 million in FY1998.

This can be seen in a staggered rise and was driven by various factors such as the implementation of the new tariff structure which took effect in the middle of Y2006, foreign exchange translation gains and a 5. 3 per cent increase in electricity demand. This is also reflected by higher electricity sales which increased by RM2. 7 billion or 13. 6% and cost savings.

EBITDA increased to 37. 6 per cent compared to 35. per cent last year while net profit increased by 90. 9 per cent from RM2, 126. 9 million (Y2006) to RM4, 061. 1 (Y2007) million which is almost double the amount; and also a huge increase from a loss of RM3, 093.

9 in Y1998. TABLE 1: TNB PROFITABILITY RATIOS 1998 – 2007 Ratio/Year1998199920002001200220032004200520062007 NET PROFIT MARGIN-0. 280. 070. 100. 150.

060. 060. 050. 070. 100. 17 ROA-0.

070. 020. 030. 040. 020. 020.

010. 020. 030. 06 ROE-0. 240.

060. 090. 130. 050. 070.

050. 080. 110. 17 TABLE 2: TNB CHANGES IN SALES REVENUE 1998 – 2007 RM/Year1998199920002001200220032004200520062007Sales Revenue (RM' million)11075. 6011716. 1013220.

00 13, 951. 80 15375. 1016457. 8017712.

1018326. 4019707. 4022384. 00 FIGURE 1 FIGURE 2 FIGURE 3 FIGURE 4 Leverage Management Apart from registering its highest profit ever, the Group has for the past reduced its loan from RM27. 1 billion in Y2006 to RM23. 9 billion in Y2007.

For the past 3 years, a major restructuring of loan has been done. As we can see of RM32. 4 billion in Y2004 to RM23. 9 billion in Y2007, reflecting a RM8. 5 billion or 26.

2 per cent reduction. During the same period, TNB has managed to collect RM553 million from major delinquent debtors and also eduction in theft. Due to the various cost management initiatives undertaken by the Management, the Company has realised around RM2. 4 billion in terms of value creation since 2004.

TNB also saw increasing foreign investors' interest in its shares, when foreign shareholding reached 28. 4 per cent in May 2007; it's highest since the Company's privatisation. Given the continued strong financial outcomes, the Company is poised to undertake appropriate growth opportunities within its core business areas. TABLE 5: TNB LEVERAGE MANAGEMENT RATIO 1998 – 2007Ratio/Year1998199920002001200220032004200520062007 DEBT RATIO0. 70. 70.

70. 70. 70. 70.

70. 70. 70. 6 DEBT-TO-EQUITY2. 22.

41. 91. 72. 12.

22. 21. 861. 40. 78 FIGURE 5 FIGURE 6 Earnings Per Share During the year 2007, the Board announced a dividend policy for the purpose of providing stable and sustainable dividends to shareholders while maintaining an efficient capital structure and ensuring sufficient funding for future growth.

Under this policy, TNB will distribute 40-60 per cent of the Company's annual free cash flow as dividends. As such, the Board of Directors is recommending a final gross dividend of 16. sen per ordinary share less income tax of 26 per cent to shareholders of the Company. Together with the interim dividend of RM632 million, the total dividend declared for this Financial Year amounts to an estimated RM1, 154. 5 million. From track record Y1998 to Y2007, Y2007 has the highest payout.

This change of a negative EPS of 99. 8 sen in Y1998 to a turnaround positive 94. 9sen in Y2007 (an 81% increase compare to Y2006 of 52. 5sen). TABLE 6 : CHANGES IN EPS 1998 – 2007 Ratio/Year1998199920002001200220032004200520062007 EPS-99.

824. 942. 967. 830. 734.

126. 132. 052. 594.

9 FIGURE 7 Liquidity RatioThe current ratio can give a sense of the efficiency of a company's operating cycle or its ability to turn its product into cash. It

measures a company's ability to pay short-term obligations. Liquidity ratios measure the short-term ability of the entity to pay its maturing obligations and to meet unexpected needs for cash. As per the above calculation, current ratio and quick ration for TNB decrease from year 1998 to 2000 but increase from 2000 to 2007. The increase in both current and quick ratios from 2000 to 2007 indicates improvement in liquidity (Current ratio from 0. 5 times in 2000 increased to 1.

times in 2007; quick ration from 0. 4 times in 2000 to 1. 2 in 2007). The current ratio means for every dollar of current liabilities, in year 2007, TNB has $1. 50 of current assets compare to 1998 which has only $0.

80. While for quick ratio, TNB performed quite well too. Ratio increased from year 2000 to 2007. The peak was in year 2004 with the quick ratio of 1. 4.

The company is ' cash rich' and able to pay off short-term obligations without relying on the sale of inventories. TABLE 4: TNB LIQUIDITY RATIO 1998 – 2007 Ratio/Year1998199920002001200220032004200520062007 CURRENT RATIO0. 0. 70. 50. 70.

80. 91. 71. 21. 41.

5 QUICK RATIO0. 60. 50. 40. 60.

60. 51. 411. 11. 2 FIGURE 8 FIGURE9 Fixed Assets Turnover Assets management ratios measure how effectively TNB is managing its assets.

Fixed assets turnover ratio for the company is increasing from the year 1999 to 2007, from 0. 27 to 0. 41, 51% improvement over 9 years of business operation. Over the 9 years TNB's total assets turnover ratio increased from 0.

25 times in 1999 to 0. 34 times in 2007. This indicates that the company is generating sufficient volume of business given its total assets investment. Sales increased, some assets were sold, or a combination of these steps had been taken. TABLE 3: TNB ASSET MANAGEMENT RATIOS 1998 – 2007 Ratio/Year1998199920002001200220032004200520062007 FIXED-ASSET TURNOVER0.

280. 270. 290. 290. 300.

320. 330. 350. 370.

41 TOTAL ASSET TURNOVER0. 260. 250. 260.

260. 270. 270. 280. 300. 310.

34 FIGURE 10 FIGURE 11 Executive Summary In summary, it can be seen that Tenaga Nasional Berhad has increased its performance quite steadily for the past ten years. It has managed to improve its performance from losses to steady growth of earnings and profit. It has done by steadily increasing its tariff, earnings from foreign exchange translation gains and increase in electricity demand. Tenaga Nasional Berhad are also able to manage its debt by decreasing it quite considerably. The company managed to collect its debt from major delinquent debtors and also reduction in theft.

Though its total revenue increases, there is large escalation in total operating cost. This in turns has resulted into slight decrease of its profit margin. It has shift its operation towards fuel- fix in order to reduce the cost of coal usage and also maximizing its gas and hydro usage from its multi-fuel plants. The rising coal price has increase the total fuel cost.

However its foreign exchange gain and continued effort in cost management has increased its pre tax profit. TNB would need to resort to the capital market to finance its capital expenditure requirements due to increases in operating cost and requirement to enhance its electricity supply reliability. TNB also has plans to further increase its tariff in 2008 due to the increasing cost i. e. the increase in the selling price of independent power plant (IPP) where it purchases some of its energy requirement This has lead to a lot of debate in the government and also its consumer.

There are pressures for TNB to review its current contract with the various IPP to ensure that TNB will be able to fully benefit and earn a profit from its agreement with them. It remains to be seen if TNB will do so despite pressure from its consumer to not increase the tariff. In conclusion, TNB should be able to sustain its current growth and further increase if profit. However TNB must be mindful of its operational cost in order for it to sustain its profit. REFERENCE ? Tenaga Nasional Berhad Annual Reports 1999-2007 ? www. tnb.

com. my ? http://en. wikipedia. org/wiki/Tenaga_Nasional