Hot Wires and Cold Cash

Money problems hobble Tenaga's expansion

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SINCE IT WAS LISTED in 1992, Malaysia's Tenaga Nasional has had a string of embarrassing incidents that have earned the state-controlled power utility widespread public ire. Perhaps the worst occurred last August when an equipment fault at a power substation caused the national grid to shut down. The blackout lasted over 12 hours, closing factories and offices and snarling traffic in major cities. Prime Minister Mahathir Mohamad personally gave Tenaga's management a dressing down.

Weeks after the blackout, the government appointed Ahmad Tajuddin Ali as Tenaga's new chief executive. On his first day in office, Ahmad declared: "Regaining public confidence is my top priority." He plans to lift Tenaga's sagging morale by implementing an expansion program long delayed due to inadequate funds and poor management. Malaysia has more than enough generating capacity, thanks in part to private-sector investment in plants. But Tenaga's grid cannot comfortably handle all the electricity the country consumes. Solution: new power lines and higher-capacity substations and transmission equipment to avoid overloading and shutdowns.

By June, Tenaga aims to have laid 500-kilovolt transmission lines — nearly double the existing network's capacity — along the peninsula's western side, where Malaysia's major urban and industrial areas are. A similar project involving 500-kilovolt lines in the south of the peninsula was completed last month. But that is just the beginning. Peak nationwide electricity demand currently stands at 7,350 megawatts and is expected to climb 14% to 15% a year at least until 2000. That is an average annual increase of some 800 MW. So Tenaga plans to spend some $2 billion a year until 2000 on infrastructure. Some $2.8 billion has been earmarked for 146 substations.

All that spending will push up Tenaga's debt, now a staggering $4.5 billion. Net interest expenses — $205 million in 1996 — are expected to rise 36% this year unless a tariff increase reduces the company's borrowing needs. Last year, for the first time since it was privatized, the ratio of current assets to current liabilities fell below the minimum of 1.1 times in order to be eligible for loans from the Asia Development Bank. Short-term borrowings surged from just $320 million in 1995 to as much as $1.4 billion last year, well above Tenaga's cash revenues of $400 million, reports Hisham Hamdan, an analyst with Peregrine Research. At the same time, its self-financing ratio has dipped below the ADB requirement that 30% of capital spending be covered by its own funds. Hisham estimates that the company will have to borrow $1.2 billion a year for expansion. That would push its debt to 62% of equity, up from 48% in 1995.

A major reason for Tenaga's financial strains is its obligation to buy power from Malaysia's five private power plants at rates higher than its own generating cost. Last year net profits dropped 36% to $319 million — just when Tenaga needed funds for infrastructure, as capital spending in 1996 totaled $1.8 billion. With its financial woes, can Tenaga win its war on outages? The company is banking on a tariff increase. An 8.3% hike last March raised electricity charges to 8.7 cents per kilowatt-hour, against the 9 cents Tenaga had requested. Observers expect another increase this year.

Tenaga also has to win back investor confidence. After the August blackout, Moody's credit rating agency downgraded the utility from "stable" to "negative," while Standard & Poor's put it on a rating watch. That has hiked the cost of its borrowings. Tenaga can raise cheap money by selling shares. “But there must be a promise that its share price will perform before investors bite,” says Jason Chong, a Kuala Lumpur analyst with Merrill Lynch.

To show that it means business, Tenaga recently announced that it had reduced the outage index by nearly 70% over a 19-month period. The index measures how many minutes of power interruptions there are per consumer per year. It now averages about 300 — down from a high of 1,000 in mid-1995. Still, the current figure is far above Singapore’s 40-50 last year. Tenaga’s ultimate goal is zero. Can it be done? “There’s no way to obtain 100% efficiency,” says Chong. Tenaga is betting $2 billion a year that it can find a way. And Malaysian consumers and businesses are certainly hoping that it wins.