Analysts want higher disclosure

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TENAGA Nasional Bhd's (TNB) near 58% rise in net profit to RM2.11bil for its financial year ended Aug 31, 2001 - a new record - did not create much of a stir among the financial analysts community.

Some analysts were, however, irked by what has been described as poor disclosure by TNB's management especially relating to two key issues - the increase in provisions and a steep hike in receivables.

TNB came in with full-year financial results that slightly beat the consensus earnings estimate of 65.7 sen per share. TNB earned 67.8 sen per share.

"Apart from the surprising provision, earnings were basically in line with expectations," said an analyst with a foreign brokerage.

Analysts said the implied cut in capital expenditure for next year would be positive for the company as it would help rein in the group's gearing ratio which has been reduced to 171% from 191%.

The decision to defer the introduction of additional generating units in independent power producers (IPPs) would help control TNB's reserve margin, which currently stands at about 30%.

TNB will require less energy than earlier anticipated because of the effect of the global and Malaysian economic slowdown.

"Next year's demand growth will be less than this year but it would not be a contraction. Even during the 1997/98 economic crisis, demand for electricity still grew," said an analyst from a local stockbroking company.

TNB management did not tell analysts what growth in demand it was expecting as it was still crunching data, but some analysts suspected the number could be around 4% to 5%.

Analysts also said the decision to venture into Singapore and Thailand should "create some good" for the national power company but that would depend on what price TNB would pay for spreading its reach outside Malaysian shores.

Even though there were factors that could provide some positive impact on TNB, there were, however, a number of surprises.

Analysts were concerned that operating profit margins had come down to 32% of turnover, largely due to a large provision, the nature of which was not disclosed.

If the provision were not made, earnings would have been even higher.

Analysts said the second surprise was a large hike in receivables, rising by nearly RM1bil, and the nature of the increase in receivables was not explained properly.

"If the Malaysian economy deteriorates from last year, it is only normal to assume provisions will rise. It is like the banks. When the economy drops, non-performing loans rise and so will provisions," said the analyst with a foreign brokerage.

Such surprises did not sit well with analysts, who also were disappointed by the level of disclosure by TNB nowadays.

"The overall level of disclosure has not been as I had expected. In the past, materials given to analysts were thick and a lot of the numbers had been broken down for analysts," said the analyst.

The analyst said they require a detailed breakdown of TNB's financial performance and standing because a lot of their forecast models are based on numbers and items made available in the past.

"There is no consistency in how the numbers are disseminated and it is difficult to forecast individual costs," said another analyst, who added that a detailed breakdown and adequate disclosure during briefings, would assist them greatly in providing more detailed analyses of the company.