

CHAPTER 1

1. Introduction

The current economic and financial crisis is clearly testing the true capability of a firm to sustain its operation based on the fundamental foundations such as good business practise in corporate governance, financial strategy, corporate and business strategy.

It is imperative for the industries that are closely related to the growth of the country, will experience the most impact of this crisis especially in their financial performances. These industries are the infrastructure industry, property, telecommunication and power industry. With weak financial position, these companies are highly exposed to the risk of bankruptcy.

One of the badly affected industries is the power industry. The power industry in this country is build around the government controlled electrical utilities that run the three core businesses: generation, transmission and distribution of electricity throughout the country. With these utilities' capital expenditures as the main source of revenue, the power companies' operation depends heavily on the well being of these utilities.

In Malaysia, there are three main utilities: -

- Tenaga Nasional Berhad (TENAGA) - a privatised corporation that is responsible for the generation, transmission and distribution of electricity supply in Peninsular Malaysia. TENAGA is the biggest electrical utility in Malaysia with the Federal Government holding 70% of its equity.
- Sarawak Electricity Supply Corporation (SESCO) - a state-government owned utility responsible for the generation, transmission and distribution of electricity supply in Sarawak.

- Sabah Electricity Board (SEB) - a state-government owned utility responsible for the generation, transmission and distribution of electricity supply in Sabah

1.1 Scope and Objectives of the Study

This study focuses on the Malaysian incorporated power companies that are directly involve in Tenaga Nasional Berhad (TENAGA)'s business. Being the largest electrical utility in the country, TENAGA plays a role of growth engine to the electrical power industry in Malaysia, in particular Peninsular Malaysia.

The power companies in study, involve in the transmission and distribution business of TENAGA; undertaking the projects implemented by TENAGA. It is interesting to note that, the most compelling characteristic of these companies is that, their source of revenues are largely derived from TENAGA's projects. Majorities of the projects' contents are imported equipment, therefore, these companies are highly exposed and vulnerable to the current crisis of unstable exchange rate and high interest rate.

Before the crisis, the demand for electricity has been increasing steadily for the past ten years at the rate between 13 to 14 percent a year. With this high electricity demand, the number of projects undertaken by TENAGA to strengthen its transmission and distribution network has also increased. However, with the current crisis, TENAGA has drastically cut its capital spending. Recently, TENAGA announced that it is reducing its capital expenditure to US4.9 billion this year from US7 billion last year. The cut has greatly affected the performance of the power companies that rely their operation on TENAGA.

Therefore, the main objectives of this study are as follows.

1. To study the impact of the current economic and financial crisis on the power companies in terms of its financial and business operation, and
2. To formulate financial strategies for the power companies in managing the financial problems arising from this crisis.

1.2 Research Methodology

Secondary data from the various current journals, TENAGA annual report, Bank Negara Reports and public listed power companies' annual report are analysed to determine the extend of the crisis impacts on the financial position of the companies. Interviews with the general managers or the finance managers of the power companies were conducted to explore the measures taken by these companies in managing the financial problems. It should be noted that the information collected from the interviews is subjective and limited due to the confidentiality and unwillingness of the managers concerned.