

TEPCO SLUMPS TO 8-YEAR LOW AFTER 'QUESTIONABLE' SHARE-SALE PLAN

Tokyo Electric Power Co., Asia's largest electricity generator, fell to the lowest in almost eight years amid investor concern that its first equity offering in three decades will dilute shareholder value.

The stock fell 3.3% to close at 2,036 yen in Tokyo, the lowest since Dec. 9, 2002. The benchmark Topix Index lost about 2.1%. The company known as Tepco has declined 12.4% in a week. The operator of the world's biggest nuclear power station plans to raise as much as 555 billion yen (\$6.6 billion) by issuing 254.15 million shares in Japan and overseas, Tepco said in a filing yesterday. The proceeds will be used to build atomic generators and fund a liquefied natural gas venture.

"It's questionable whether they really need it right now," said Hideo Arimura, who helps oversee \$2.2 billion at Mizuho Asset Management Co. in Tokyo, including Tepco shares. "If their stock price gets a lot cheaper, we would consider increasing our holdings. I wouldn't say I find their shares especially attractive." Tepco is building a reactor in northern Japan to cut carbon-dioxide emissions and has an accord to invest in a nuclear plant in the U.S. to counter slowing sales growth at home as population shrinks. The offering will be the first by the utility since 1981 and it has relied on debt-financing for projects, spokesman Masayuki Kishino said yesterday.

'BEST OPTION'

- The utility's debt is rated AA by Standard & Poor's and Aa2 by Moody's Investors Service, the third-highest credit rankings issued by the two rating companies. Tepco's total debt was more than four times the size of its common equity in the quarter ended June 30, according to data compiled by Bloomberg.
- "In considering various methods, we have decided that raising funds through a capital increase is the best option to achieve our 10-year growth strategy while maintaining financial health," Daisuke Hirose, spokesman for Tepco, said by telephone from Tokyo today. He declined to comment on investor concerns about dilution of shareholder value.
- Tepco plans to sell 176.8 million shares in Japan and 44.2 million shares overseas and has a total over-allotment option of 33.15 million shares, according to the sale terms. The shares will be priced between Oct. 12 and Oct. 14.
- The company has 1.35 billion outstanding shares and a market value of \$33.4 billion, according to data compiled by Bloomberg.

'WHY NOW?'

- "This capital-raising plan doesn't make sense because the company has enough cash flow to meet its overseas investment target in the next decade," said Masanori Maruo, an analyst at Barclays Capital, who rates the stock "overweight/neutral," with a target price of 2,930 yen. "So, why now?"

- Of the proceeds, 220 billion yen will be allocated to the utility's project in Aomori Prefecture of northern Japan, Tepco said. The company will start work on a 1,385-megawatt nuclear plant in the village of Higashi-Dori in the prefecture, with commercial operation slated to begin by March 2017.
- Tokyo Electric expects to spend 285 billion yen on its overseas projects, including a liquefied natural gas project in Australia and a nuclear-plant project in Texas, according to the statement. The utility will spend 50 billion yen to construct a gas-fired, 500-megawatt generator in Kawasaki City near Tokyo.
- In May, the Japanese utility clinched a \$125 million deal to buy a 9.2% stake in the South Texas nuclear project from Nuclear Innovation North America LLC, a joint venture formed between Princeton, New Jersey-based NRG Energy Inc. and Toshiba Corp. Tepco also agreed to pay \$30 million for an option to double its project stake.

EARNINGS OUTLOOK

- Tepco posted net income of 133.8 billion yen in the year ended March following back-to-back annual losses after a powerful earthquake struck northern Japan in July 2007, forcing the utility to shut its biggest nuclear power plant. In the current financial year, profit may be 65 billion yen, the company said June 30.
- "Considering Tepco's earnings in the past, investors wouldn't expect a good return even after the capital expansion," said Yoji Takeda, who helps manage about \$1.1 billion as the head of Asian equities at RBC Investment (Asia) Ltd. in Hong Kong. "It's still unclear how and for what the company wants to use the huge amount of money they will get from the share sale."

Source: (Bloomberg/30 September 2010)