

PP14767/09/2012(030761)

Tenaga Nasional Berhad

“ICPT Saves the Day”

Results Review

- Actual vs. expectations.** Tenaga Nasional Bhd (TNB) 3M16 net profit of RM1.96 billion (-17% y-o-y) came in line with ours and consensus forecast, accounting 28% and 29% of both divides full year net profit forecast. The lower earnings performance were derailed by forex translation loss of RM58.5 million (-227% y-o-y) as well as over recovery of fuel cost of RM681 million in 3M16. Note that TNB has changed the reporting of its financials to incur the base level earnings to reflect the costs saving pass to consumer.
- Topline vs. Bottomline.** 3M16 revenue fell to RM10.6 billion (-3.2% y-o-y) hampered by over recovery of fuel cost of RM681 million. Nevertheless, TNB’s core revenue from electricity sold surged to RM11.2 billion (+3.9% y-o-y) aided by 3.2% y-o-y growth in electricity usage. EBITDA margin fell by 130bps to 35% on slower revenue, however it was offset by improvement in opex by 1.2% y-o-y, aided by slower IPP costs and fuel costs by 4.6% y-o-y and 1.1% y-o-y respectively.
- Dividend.** No dividend declared in this quarter.
- Fuel cost analysis.** TNB’s (including IPPs) fuel cost in 3M16 decelerated to RM3.78 billion (-6.4% y-o-y) driven by lower price of LNG and gas at RM31/mmbtu, leading to savings of RM370 million y-o-y. However, units generated from LNG and gas were dropping by 2.3% y-o-y as TNB utilized more coal generated power plants. Nevertheless, the cheap coal price in the market was not benefiting TNB as weak Ringgit seems to be hurting TNB’s purchasing cost. Coal cost rose by 22% y-o-y to RM1.58 billion with a few coal-fired plants back from their outages.

Friday, January 29, 2016

BUY (TP: RM14.60)

Current Price (RM)	RM13.20
New Fair Value (RM)	RM14.60
Previous Fair Value (RM)	RM14.60
Previous Recommend.	BUY
Upside To Fair Value	11%
Dividend Yield (FY16)	1.9%

Stock Code

Bloomberg	TNB MK
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Stock & Market Data

Listing	MAIN MARKET	
Sector	Power	
Shariah Compliance	Yes	
Issued Shares (mn)	5,643.6	
Market Cap (RM mn)	74,495	
YTD Chg In Share Price	-0.9%	
Beta (x)	1.12	
52-week Hi/Lo (RM)	RM16.96	RM10.26
3M Average Volume (shrs)	10,516mn	
Estimated Free Float	38.79%	

Major Shareholders

Khazanah	29.6%
EPF	7.6%
ASB	8.5%

- **Electricity growth remains subdued.** Overall, we are not surprised with slower electricity growth in FY16 as management has guided the sluggish environment. Electricity growth in Peninsular Malaysia was laggard after growing at only 3.2% y-o-y in 3M16 vs. 3.3% in 3M15 in line with Malaysia's GDP that is set to trend lower between 4%-4.5%.
- **Updates on taxation.** Interestingly, management shared that the current environment of lower taxation is likely to continue for the whole FY16 -FY17 as TNB is enjoying reinvestment allowance of RM700 million, bringing average effective tax rate to 12.4% for the respective years.
- **Coal consumption to rise.** Coal consumption is expected to rise at 28MT in FY16 with the commencement of Malakoff's Tanjung Bin T4 which consumes larger additional portion and the return of several coal generated power plants from outages. Coal price continued to be favourable for TNB with average of coal price in 3M16 of USD59/MT vs. USD66/MT in FY15.
- **Outlook.** We view that the implementation of IBR (Incentive Based Regulation) and FCPT (Fuel Cost Pass Through) are earnings positive to TNB as it reflects the effectiveness of handling assets as well as reflecting the fluctuation in generation costs. Judging from the current fuel prices, we expect the over-recovery trend to continue into the near term. In addition, with a few coal-fired plants back from their outages in 3Q15 coupled with the Janamanjung Unit 4 Plant already commenced on 14 April 2015, coal generation mix should likely increase in the future which should help to bring down fuel cost further. We remain positive on the ICPT mechanism which ensures earnings certainty as the fuel cost risk is fully pass-through on a six-month laggard basis. Thus, future earnings will depend mainly on its operational efficiency.
- **Change to forecast.** No change to our forecast as 3M16 earnings came within our expectations. TNB's FY16 and FY17 earnings are expected to grow by 1.2% y-o-y and 3.0% y-o-y respectively. Drivers to earnings to come from 1) steady electricity demand in line with positive GDP growth of 5% 2) completion of coal generated plants in 3) lower fuel costs especially on coal, oil & distillates.
- **Valuation and recommendation.** TNB is valued at RM14.60 and the stock is a **BUY**. Re-rating catalyst on the stock could emanate from 1) acquiring new power plant that will benefit on its capacity building up 2) higher tariff charged to consumer announce by government, if any 3) further M&A activity.

Table 1: Peers Comparison

Company	Y/E Ended	Price (RM)	EPS (RM)		P/E (x)		P/B (x)		ROE (%)	TP	Call
			FY15	FY16	FY15	FY16	FY16	FY16			
MMC Corp	Dec	1.77	0.1	0.2	18.9	16.1	1.0	0.9	3.2	2.80	Buy
TNB	Aug	13.20	1.2	1.2	12.7	12.2	1.8	1.6	14.1	14.60	Buy
Gas Malaysia	Dec	2.32	0.1	0.1	25.0	20.6	3.3	3.2	17.0	2.89	Buy
Petronas Gas	Dec	22.18	0.9	0.9	25.0	24.3	4.0	3.7	21.4	23.20	Hold
Petronas Chemical	Dec	7.01	0.3	0.4	15.1	13.4	1.7	1.6	15.0	6.85	Hold
Malakoff	Dec	1.60	NA	NA	NA	NA	NA	NA	8.68	2.30	Buy
YTL Power	Dec	1.44	0.1	0.1	11.2	11.8	1.1	1.0	12.1	NA	NA
Average			0.5	0.6	19.4	17.3	2.3	2.2	13.8		

Source: Bursa Malaysia

Table 2: Fuel Cost Consumed (TNB only)

Fuel Type (RM million)	3M16	3M15	Variance (%)	% of Total
Gas&LNG	2,177	2,546	-15.0%	57.6%
Coal	1,578	1,301	22%	41.7%
Distillates	4.6	95.3	-95.2%	0.1%
Oil	11.4	97.4	-88.3%	0.3%
Hydro	0	0	0	0
Total	3,780	4,041	-6.4%	100%

Source: Bursa Malaysia

Table 3: Operating Expenses Breakdown

Item (RM million)	3M16	3M15	Variance (%)	% of total
IPP	2,991.4	3,136.8	4.6%	35.5%
Fuel cost	2,211.9	2,236.3	1.1%	26.3%
Repair & maintenance	380.9	382.2	0.3%	4.5%
Staff	916.3	823.8	-11.2%	10.9%
General expenses	309.1	416.4	25.8	15.2%
Others	268.4	166.3	-61.4%	3.7%
Depreciation&amortozation	1340.4	1,257.4	-6.6%	16.9%
Total operating expenses	8,418.4	8,419.2	0	100%
Capacity payment	975.9	1,021.5	4.5%	
Energy payment	2015.5	2,115.3	4.7%	

Source: Bursa Malaysia

Table 4: Financial Summary

YE: Aug 31 (RM million)	1Q16	4Q15	1Q15	q-o-q	y-o-y	3M16	3M15	y-o-y
Revenue	10,677	11,744	11,027	-3%	-9%	10,677	11,027	-3%
Operating expenses	-8,418	-9,756	-8,419	0%	-14%	-8,418	-8,419	0%
Other income	139	231	137	2%	-40%	139	137	2%
Operating Profit	2,398	2,219	2,745	-13%	8%	2,398	2,745	-13%
Forex results	-52.4	-759.4	56	-194%	-93%	-52	56	-194%
Results of associates/JV	17	45	23	-26%	-62%	17	23	-26%
Profit before finance	2,362	1,504	2,824	-16%	57%	2,362	2,824	-16%
Finance result	-199	-92	-203	-2%	117%	-199	-203	-2%
PBT	2,163	1,413	2,621	-17%	53%	2,163	2,621	-17%
Taxation	-201	-603	-270	-25%	-67%	-201	-270	-25%
PAT	1,962	810	2,351	-17%	142%	1,962	2,351	-17%
EPS	35.0	14.6	41.7	-16%	141%	35	42	-16%
EBITDA margin	35%	32%	36%			35%	36%	
PBT margin	20%	12%	24%			20%	24%	
PAT margin	18%	7%	21%			18%	21%	

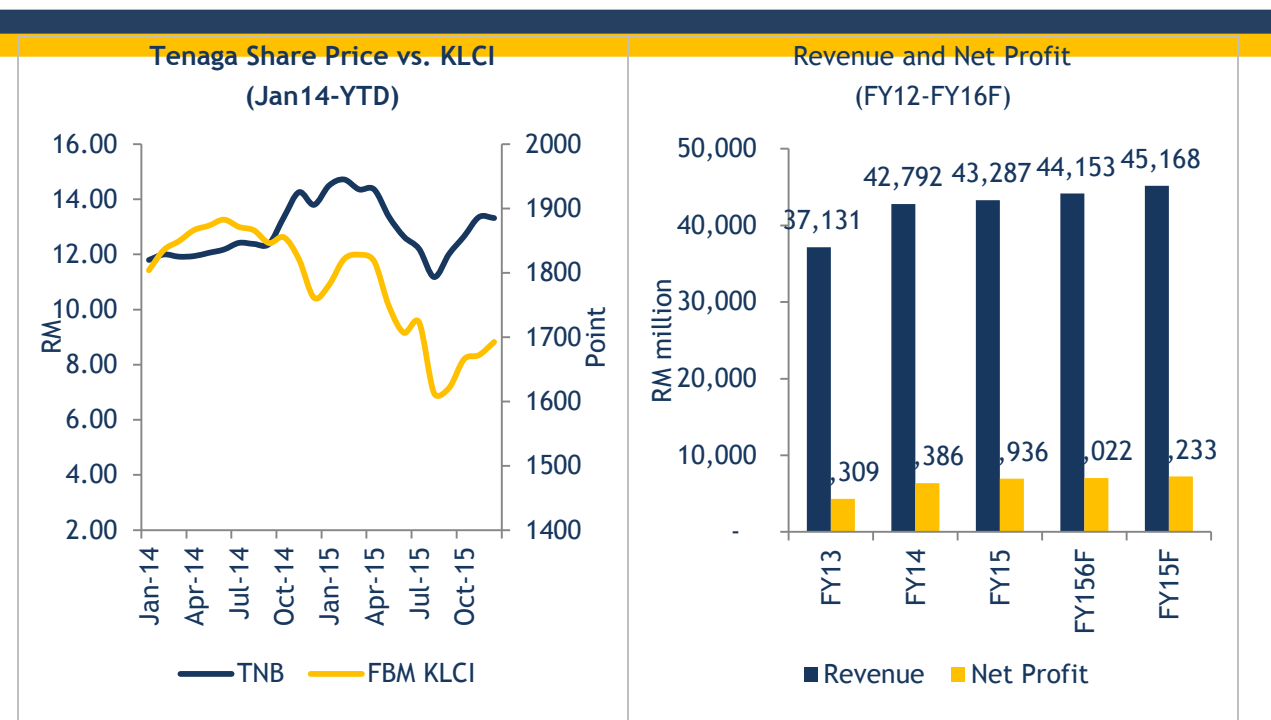
Source: Bursa Malaysia

Table 5: Financial Forecast

YE: Dec (RM million)	FY13	FY14	FY15	FY16F	FY17F
Revenue	37,131	42,792	43,287	44,153	45,168
Cost of sales	-32,517	-37,555	-30,189	-30,884	-31,810
Gross Profit	4,614	5,237	13,098	13,269	13,358
Other cost	623	654	824	214	217
Operating Profit	5,237	5,891	13,922	13,483	13,575
Operating EBITDA	9,776	10,764	13,922	14,743	15,333
Depreciation	-4,540	-4,873	-5,294	-5,548	-5,853
Operating EBIT	5,236	5,891	8,628	9,195	9,479
Net income from investment	85	103	101	96	100
Interest income	225	257	282	255	265
Interest expense	-894	-875	-945	-930	-970
Exceptional income	1,273	1,739	0	0	0
PBT	5,925	7,115	8,066	8,616	8,874
Taxation	-542	-688	-1,073	-1,551	-1,597
Minorities	-27	40	-58	-43	-44
PAT	5,356	6,467	6,936	7,022	7,233
EBITDA margin	26%	25%	32%	33%	34%
PBT margin	16%	17%	19%	20%	20%
PAT margin	14%	15%	16%	16%	16%
EPS (RM)	0.72	0.84	0.108	0.109	0.11
P/E (x)	9.08	10.8	10.94	10.71	10.5
P/B (x)	1.31	1.62	1.53	1.36	1.24
ROA	5.68	6.14	6.6	6.8	7
ROE	14.76	15.98	16.3	16.8	17.4
BVPS	6.68	7.66	8.28	9.28	10.2

Source: Bursa Malaysia, M&A Securities

Results Review - Tenaga Nasional Bhd



Source: Bursa Malaysia, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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