

PP14767/09/2012(030761)

Tenaga Nasional Berhad

“Peak Demand Recorded”

Results Review

- Actual vs. expectations.** Tenaga Nasional Bhd (TNB) 6M16 net profit of RM3.27 billion (-27% y-o-y) came in line with ours and consensus forecast, accounting 46% and 47% of both divides full year net profit forecast. Nonetheless, the lower earnings performance was derailed by 1) higher operating expenses of RM17.25 billion (+5% y-o-y) 2) higher forex translation loss of RM241 million (+5% y-o-y) due to depreciating Ringgit against the US Dollar and Japanese Yen.
- Topline vs. Bottomline.** 6M16 revenue fell to RM21.17 billion despite the surged in electricity sales by 4.2% y-o-y due to the recognition of Imbalance Cost Pass-Through (ICPT) over-recovery amounting to RM1.4 billion versus non-recognition of ICPT adjustment in the previous corresponding period. EBITDA margin fell by 570bps to 31.4% on slower revenue, however if we strip the ICPT adjustment, TNB’s EBITDA margin touched 33% vs. 37.1% in 6M15. Additionally, 6M16’s adjusted earnings (excluding forex, reinvestment allowance and ICPT adjustment) came in at RM3.07 billion (+7.7% y-o-y).
- Dividend.** TNB declared interim dividend of 10 sen, amounting to 43% payout ratio.
- Generation mix.** For 6M16, overall fuel costs surged by 1.6% y-o-y to RM7.5 billion due to the increase in usage of gas and coal by 7.7% y-o-y and 15.3% y-o-y respectively. TNB had increased the consumption of piped gas which priced higher at RM17.20/mmbtu vs. RM15.20/mmbtu. Coal usage jumped to 11.7 MT vs. 10.9MT due to the commissioning of Manjung 4 with coal cost priced at USD57.7MT vs. USD68.4MT in 6M15.

Thursday, April 28, 2016

HOLD (TP: RM14.90)

Current Price (RM)	RM14.40
New Fair Value (RM)	RM14.90
Previous Fair Value (RM)	RM14.90
Previous Recommend.	BUY
Upside To Fair Value	3.4%
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)	81,268	
YTD Chg In Share Price	8.11%	
Beta (x)	1.0	
52-week Hi/Lo (RM)	RM14.80	RM10.26
3M Average Volume (shrs)	10,516mn	
Estimated Free Float	38.79%	

Major Shareholders

Khazanah	29.6%
EPF	7.6%
ASB	8.5%

- **Peaked electricity usage recorded.** TNB recorded all-time high electricity demand on 20 April 2016 of 17,788 MW, surpassing previous high of 16,901 MW on 11 June 2015 due to strong heat climate in Peninsular Malaysia. Despite guiding moderate electricity growth, we are not surprise should electricity demand surpasses gross domestic product (GDP) guidance of 4%-5% growth.
- **Updates on taxation.** No progress at this stage as management only shared that the grant for stay application which prevents the Inland Revenue Board from pursuing the collection of the disputed sum and second, a hearing where Tenaga will substantiate arguments for its qualification for the Reinvestment Allowance status. Nevertheless, no tax provision has been made regardless the outcome of the court review.
- **Outlook.** We are of the view that TNB's escalating operating expenses (opex) may hurt its EBITDA margin, especially on staff cost expenses which management guided will continue to rise by RM44 million every quarter. Nevertheless, the lower fuel cost especially coal price may well offset the rising opex and this will safeguard TNB margin. However, the danger is on further weaknesses of Ringgit against USD and JPY that will push-up TNB's forex translation loss and TNB purchasing cost, especially coal which is denominated in USD.
- **Change to forecast.** No change to our forecast as 6M16 earnings came in 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 may 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 RM14.90 and the stock is a **HOLD**. Re-rating catalyst on the stock could emanate from 1) acquiring new power plant that will benefit 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
			FY16	FY17	FY16	FY17	FY16	FY17			
MMC Corp	Dec	2.14	0.1	0.2	15.0	13.6	0.6	0.6	19.9	2.90	Buy
TNB	Aug	14.40	1.2	1.3	11.2	10.7	1.5	1.3	12.1	14.90	Hold
Gas Malaysia	Dec	2.28	0.1	0.1	22.3	20.8	3.2	2.9	10.7	2.89	Buy
Petronas Gas	Dec	22.10	0.9	0.9	23.6	23.2	3.8	3.7	18.1	23.20	Hold
Petronas Chemical	Dec	6.74	0.4	0.4	18.9	17.3	2.2	2.0	11.7	6.80	Hold
Malakoff	Dec	1.70	0.1	0.1	14.5	14.2	1.4	1.3	9.3	2.00	Buy
YTL Power	Dec	1.50	0.1	0.1	12.8	11.6	0.9	1.0	8.1	NA	NA
Average			0.5	0.6	18.2	17.1	2.3	2.1	12.8		

Source: Bursa Malaysia

Table 2: Fuel Cost Consumed and Units Generated

Fuel Type	Fuel Cost				Unit Generated			
	1H16	1H15	RM mn	y-o-y chg	1H16	1H15	RM mn	y-o-y chg
Gas	3,876.5	3,515.6	270.9	7.7	26,427.0	26,115.5	311.5	1.2
LNG	570.3	993.1	-422.8	-42.6	28,431.5	25,588.2	2,843.5	11.1
Coal	3,084.1	2,674.2	409.9	15.3	37.0	151.7	-114.7	-75.6
Distillates	24.5	116.4	-91.9	-79.0	122.3	208.0	-85.7	-41.2
Oil	53.6	100.9	-47.3	-46.9	2,335.6	2,803.7	-468.1	-16.7
Total	7,519.0	7,400.2	118.6	1.6	57,353.4	54,867.1	2,486.3	4.5

Source: Bursa Malaysia

Table 3: Operating Expenses Breakdown

Item (RM million)	6M16	6M15	Variance (%)	% of total
Capacity payment	1,994.4	1,993.9	0.5	11.6%
Energy payment	4,054.5	4,256.4	-201.9	23.5%
IPP	6,048.9	6,250.3	-201.4	35.3%
Fuel cost	4,294.2	3,904.0	390.2	24.9%
Repair & maintenance	897.4	837.6	59.8	5.2%
Staff	1,925.7	1,792.2	133.5	11.2%
General expenses	800.4	816.4	-16	4.6%
Others	542.0	359.5	182.5	3.1%
Depreciation&amortozation	2,737.9	2,497.1	240.8	15.9%
Total operating expenses	17,246.5	16,457.1	789.4	

Source: Bursa Malaysia

Table 4: Financial Summary

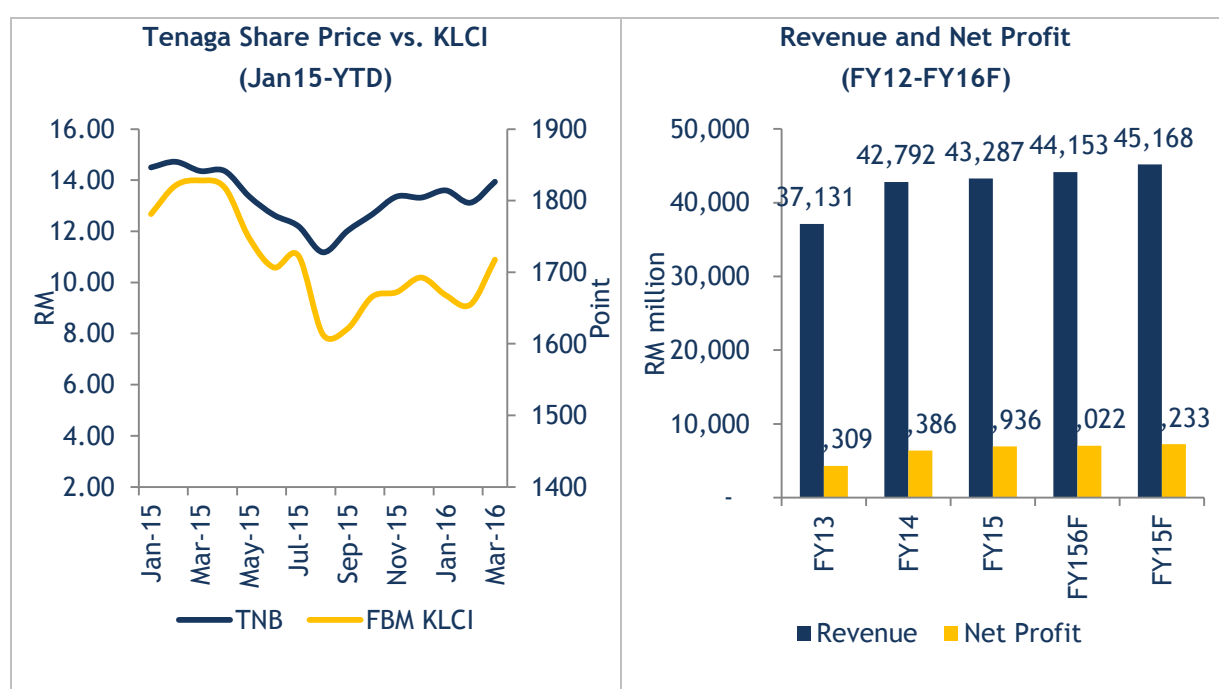
YE: Dec (RM million)	2Q16	1Q16	2Q15	y-o-y chg	q-o-q chg	6M16	6M15	y-o-y chg
Revenue	10,489	10,677	10,610	-1%	-2%	21,166	21,637	-2%
Operating expenses	-8,828	-8,418	-8,038	10%	5%	17,248	-16,457	5%
Other income	181	139	203	-11%	30%	320	340	-6%
Operating Profit	1,842	2,398	2,775	-34%	-23%	4,239	5,520	-23%
Forex results	-188.5	-52.4	-286	-34%	260%	-241	-230	5%
Results of associates/JV	26	17	1	1786%	56%	43	24	79%
Profit before finance	1,680	2,362	2,491	-33%	-29%	4,041	5,315	-24%
Finance result	-180	-199	-126	43%	-9%	-379	-329	15%
PBT	1,499	2,163	2,366	-37%	-31%	3,662	4,986	-27%
Taxation	-184	-201	-232	-20%	-8%	-386	-502	-23%
PAT	1,315	1,962	2,134	-38%	-33%	3,276	4,485	-27%
EPS	23.4	35.0	38.2	-39%	-33%	58	80	-27%
EBITDA margin	35%	35%	31%			33%	37%	
PBT margin	14%	20%	22%			17%	23%	
PAT margin	13%	18%	20%			15%	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



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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