

PP14767/09/2012(030761)

Thursday, May 14, 2015

Tenaga Nasional Berhad

“Resisting Negative Perception on Track 3B”

Latest Development

- **News circulated.** It was reported that Tenaga Nasional Bhd (TNB) has taken over the mandate to build the 2,000 MW coal-fired power plant known as Track 3B from 1Malaysia Development Bhd (1MDB) at Jimah, Negeri Sembilan with various newspaper reporting this.
- **1MDB short of funds to finance Track 3B.** Recalled that in March 2014 it was reported that 1MDB along with Mitsui Co Ltd have won the project from the Energy Commission (EC) which is scheduled to be commissioned in Oct 2018. The fabrication contract comes along with a concession period of 25 years. However, until now the consortium was still unable to finance the project that valued at RM11 billion even after 1MDB issued an Islamic bonds worth RM8.4 billion.
- **Re-evaluate the project** Apart from TNB, YTL Power International (YTL Power) was also involved in the bidding process before 1MDB secured the project. Now, given the stalling of the project and potentially re-opening the tender, we feel that should EC re-evaluate the project and make it a direct negotiation basis to avoid the prolonged delays that may potentially disrupt the electricity supply in 2018.
- **TNB interested to the project?** We feel that TNB is the likely candidate to take over the project as widely reported in the news, anchored mainly by TNB’s good track record in completing the Janamanjung plant and its strong financial ability with cash in hand of RM4 billion as at 2Q15. However, we understand that TNB has been avoiding making any firm statement on this as by doing so it may disrupt the re-evaluation process by EC.

HOLD (TP: RM15.20)

Current Price (RM)	RM13.82
New Fair Value (RM)	RM15.20
Previous Fair Value (RM)	RM15.20
Previous Recommend.	HOLD
Upside To Fair Value	9%
Dividend Yield (FY15)	2.1%

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)	77,994.7	
YTD Chg In Share Price	5.22%	
Beta (x)	1.12	
52-week Hi/Lo (RM)	RM16.96	RM11.64
3M Average Volume (shrs)	13.0mn	
Estimated Free Float	38.79%	

Major Shareholders

Khazanah	29.6%
EPF	14.7%
ASB	8.3%

- **Complexity to take over the project.** Though we feel TNB is the likely winner of the project, 1MDB may not let-off its grip on the project easily. It was reported 1MDB may be asking for a premium for its investment so far, perhaps in the range of RM300 million, before EC or TNB can reclaim the project. At this juncture, we understand TNB is not keen to pay the premium and additionally, TNB wants to renegotiate the terms with EC especially on the tariffs and capital costs pertaining to the plant.
- **Avoid public perception.** With 1MDB debt woes continuous, the timing of the Track 3B re-evaluation may bring another bad perception on 1MDB, thinking this is another bailout by government should TNB successfully secured the project. At this juncture, the details of the re-evaluation is too scarce, however, we foresee there are 2 options to revive the project, 1) EC re-route the project to TNB without paying compensation to 1MDB 2) TNB acquiring 30% stake in the consortium owns by Mitsui Co. Ltd. With a cash of RM4 billion as at 2Q15, TNB may opt to take the whole project altogether. But on conservative view, TNB may opt only acquire a 30% equity stake in the project given the internal rate of return (IRR) of the project is only at 6%, which is obviously below TNB required IRR.
- **Change to forecast.** No change to our forecast at this juncture because the details of the project are too scarce and the whole re-evaluation process still fluid and murky at this juncture. Hence, we leave our forecast unchanged in FY15 and FY16 respectively.
- **Valuation and recommendation.** We value TNB at RM15.20 and the stock is at **HOLD** call. TNB's share price will be driven by 1) the new mechanism namely FCPT and IBR 2) prolong weakness in coal price 3) steady electricity demand driven solid GDP growth this year of above 5.0%

Table 1: Peers Comparison

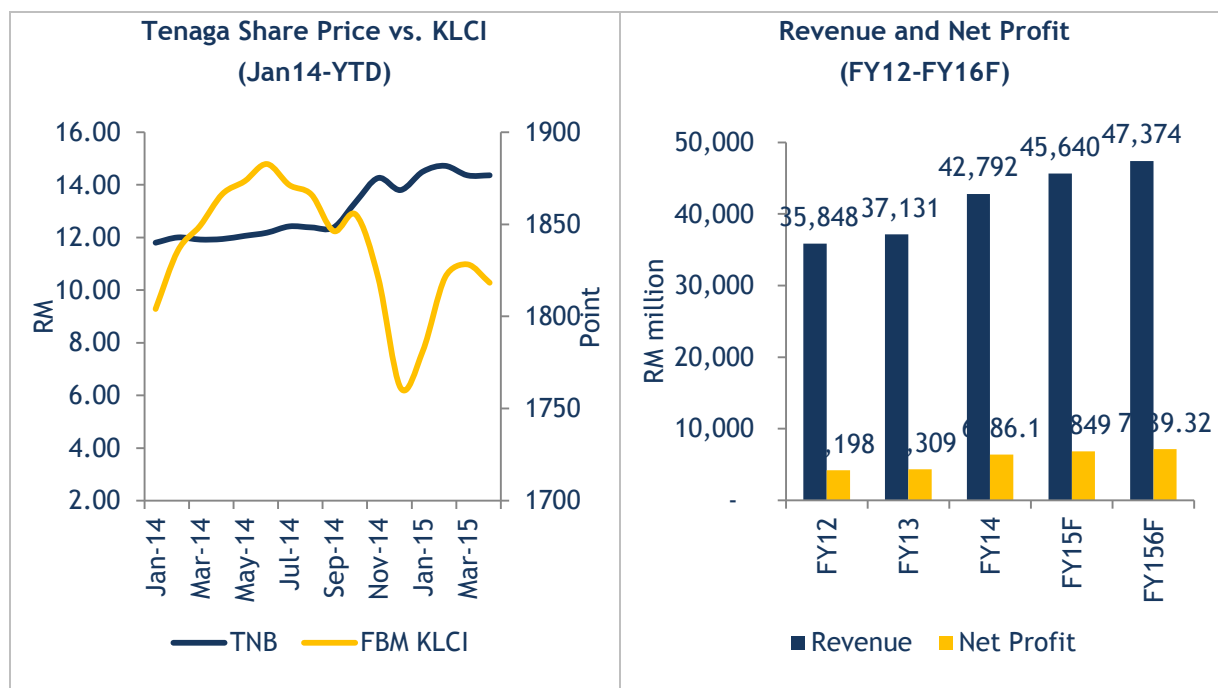
Company	Y/E Ended	Price (RM)	EPS (RM)		P/E (x)		P/B (x)		ROE (%)	FV	Call
			FY15	FY16	FY15	FY16	FY16	FY16			
MMC Corp	Dec	2.60	0.1	0.2	18.9	16.1	1.0	0.9	3.2	3.00	Buy
TNB	Aug	13.82	1.2	1.2	12.7	12.2	1.8	1.6	14.1	15.20	Hold
Gas Malaysia	Dec	2.67	0.1	0.1	25.0	20.6	3.3	3.2	17.0	2.89	Hold
Petronas Gas	Dec	22.2	0.9	0.9	25.0	24.3	4.0	3.7	21.4	23.20	Hold
Petronas Chemical	Dec	5.85	0.3	0.4	15.1	13.4	1.7	1.6	15.0	5.80	Hold
YTL Power	Dec	1.59	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: Bloomberg, M&amp;A Securities

Table 2: Financial Forecast

YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	35,848	37,132	42,792	46,640	48,412
EBITDA	9,385	9,057	12,053	13,204	13,600
Depreciation	-4,268	-4,570	-4,873	-5,100	-5,253
EBIT	5,117	4,487	7,181	8,104	8,347
Net Interest	-823	-711	-169	-910	-942
Result of associates	27	75	103	80	83
Exceptional items	0	1,683	0	-	0
PBT	5,537	5,534	7,114	7,274	7,488
Taxation	-1,331	-1,225	-688	-1,610	-1,731
Minority interest	-9	0	-40	-10	15
PAT	4,198	4,309	6,386	5,654	5,772
EPS	58.1	82.8	114.59	93.4	97.4
EBITDA Margin	26.2%	24.4%	28.2%	28.3%	28.1%
PBT Margin	15.4%	14.9%	16.6%	15.6%	15.5%
PAT Margin	11.7%	11.6%	14.9%	12.1%	11.9%
PER (x)	8.47	10.5	11.56	13.5	12.6
P/BV (x)	1.1	1.4	1.7	1.7	1.6

Source: Bursa Malaysia, M&amp;A Securities



Source: Bursa Malaysia, M&amp;A Securities

# M&A Securities

## STOCK RECOMMENDATIONS

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

## SECTOR RECOMMENDATIONS

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

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