

PP14767/09/2012(030761)

Wednesday, June 24, 2015

Tenaga Nasional Berhad

“It’s in TNB Hands”

Latest Development

- The news finally.** It was reported that Tenaga Nasional Bhd (TNB) has received a letter of invitation from the Energy Commission (EC) to submit its proposal pertaining to the takeover of 1MDB’s 70% stake in the Jimah’s 2000 MW coal-fired power plant known as Track 3B pursuant to the nod given by cabinet for TNB to take over 1MDB’s stake last week.
- Mitsui retained its stake.** We also understand the offer letter stated the acceptance of EC and government to accept TNB participation as the lead developer in the project in the consortium with Mitsui Co. Ltd also part of it. We feel that TNB is capable to undertake the project on standalone basis judging from its strong cash of RM4 billion as at 2Q15 and average finance cost of 4.9%. However, TNB has requested Mitsui participation as a developer and in particular with respect to the selection and appointment of engineering, procurement and construction contractor which also incorporates the principal equipment suppliers.
- Terms revealed.** Last week the market reacted negatively towards the EC statement. As a result, TNB share price tanked by 12%-14% due to the final terms although the full info was not released by EC. On Monday, EC released part of the term which consist the levelised tariff. The agreed tariff is 5.2% higher than original tariff of 25.33 sen while completion date be pushed back by 6 months to October 2018.
- What next?** Although the tariff was announced, however the project’s fortune still lies in TNB hands. At this juncture, we are uncertain the new tariff are able to cover any shortfall from the potential delay of

BUY (TP: RM15.20)

Current Price (RM)	RM13.06
New Fair Value (RM)	RM15.20
Previous Fair Value (RM)	RM15.20
Previous Recommend.	HOLD
Upside To Fair Value	16.3%
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)	73,705	
YTD Chg In Share Price	-5.4%	
Beta (x)	1.15	
52-week Hi/Lo (RM)	RM16.96	RM11.78
3M Average Volume (shrs)	13.0mn	
Estimated Free Float	38.79%	

Major Shareholders

Khazanah	29.6%
EPF	15.4%
ASB	8.7%

currency movement and expenditure on additional infrastructure. However, we feel that TNB's low financing cost should cover the deficiency.

- **Waiting more clarification.** At this point, we are neutral on the takeover as various terms still vague. We feel that EC should clear the air by clarifying more on the uncertain terms such as upfront payment and payment to 1MDB also on the completion date. Should these terms are clear, the negativity towards TNB share price could improve.
- **Complexity to take over the project.** To recap, in Feb 2014, the EC named 1MDB and its partner Mitsui Co Ltd as the preferred bidder for Project 3B, and subsequently in June 2014 awarded the 70:30 consortium the contract to build a RM11b 2,000MW ultra super critical coal-fired power plant in Jimah, Negeri Sembilan. The plant was supposed to be ready in Nov 2018, and the second unit in May 2019. However, it was later reported that the project could be delayed as it has yet to solve the financing issues.
- **Outlook.** We foresee that TNB has the upper hand in the Track project 3B as the government is not able to delay the project anymore given its significance to the country electricity generation. We feel that the new tariff could offer olive branch to TNB to revive Track 3B back, however, due to undisclosed IRR, we leave our comment blanks at this point.
- **Change to forecast.** No change to our forecast at this juncture as 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 for FY15 and FY16 respectively.
- **Valuation and recommendation.** We value TNB at RM15.20 and the stock is at **BUY** 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

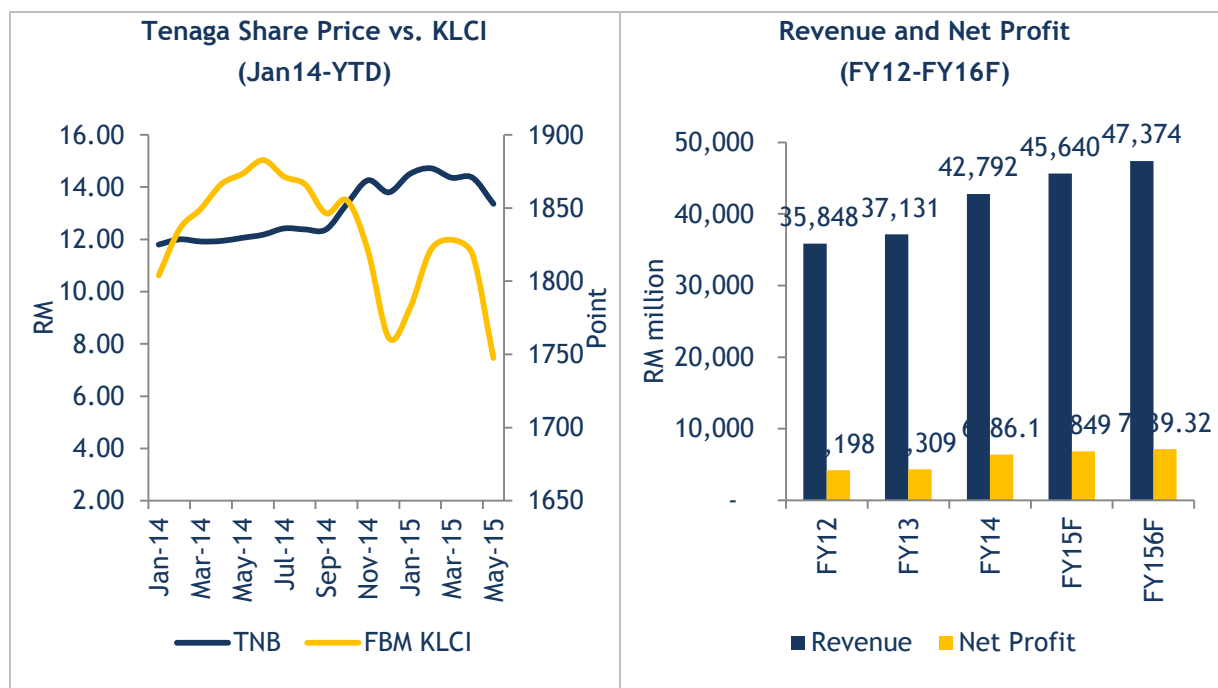
Company	Y/E Ended	Price (RM)	EPS (RM)		P/E (x)		P/B (x)		ROE (%)	TP	Call
			FY15	FY16	FY15	FY16	FY16	FY16			
MMC Corp	Dec	2.46	0.1	0.2	18.9	16.1	1.0	0.9	3.2	3.00	Buy
TNB	Aug	13.06	1.2	1.2	12.7	12.2	1.8	1.6	14.1	15.20	Buy
Gas Malaysia	Dec	2.56	0.1	0.1	25.0	20.6	3.3	3.2	17.0	2.89	Hold
Petronas Gas	Dec	21.54	0.9	0.9	25.0	24.3	4.0	3.7	21.4	23.20	Hold
Petronas Chemical	Dec	6.10	0.3	0.4	15.1	13.4	1.7	1.6	15.0	5.80	Hold
Malakoff	Dec	1.80	NA	NA	NA	NA	NA	NA	8.68	2.30	Buy
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&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&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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