

PP14767/09/2012(030761)

Tenaga Nasional Berhad

“Issuing Notes for Track 3B”

Latest Development

- Plan to issue sukuk.** It was reported in the media that Tenaga Nasional Bhd (TNB) will be looking to raise as much as RM10 billion to finance the development of Track 3B in Jimah, Negeri Sembilan. The plan came after TNB received a letter of invitation from the Energy Commission (EC) to submit its proposal pertaining to its takeover of 1MDB’s 70% stake in the Jimah’s 2000 MW coal-fired power plant.
- EC did not disclose the sale price.** At this juncture, the 70% stake acquisition from 1MDB’s Jimah plant remains unclear as Energy Commission (EC) is keeping mum on the sale price, but we believe the stake could be valued as high as RM11 billion.
- Details of the sukuk.** Based on limited available information, TNB is planning to issue up to RM10 billion in Islamic Medium Term Notes (MTN) to fund the development of Track 3B Power Plant in Jimah, Negeri Sembilan. TNB is looking at single issue bond but the series maturity, coupon and yield of the MTN remain murky at this point.
- Our view.** The MTN issuance came as no surprise given that TNB capex is fully loaded with 4 on-going projects in hands. Of note, TNB committed to spend RM23.3 billion capex between FY14-FY17, translating into an average of RM6 billion capex annually. Thus, should TNB accepts the offer from EC to revive Track 3B, we are not surprise with the issuance of MTN given the average RM6 billion capex annually is unable to cover the overall cost of Track 3B’s plant.

Friday, June 26, 2015

BUY (TP: RM15.20)

Current Price (RM)	RM12.56
New Fair Value (RM)	RM15.20
Previous Fair Value (RM)	RM15.20
Previous Recommend.	BUY
Upside To Fair Value	21%
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/Low (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%

- **Effect to gearing.** As at 2Q15, TNB's gearing stood comfortably at 0.55x. With the potential RM10 billion MTN issuance, we foresee TNB's gearing could possibly lift to only 0.76x. Nonetheless, TNB's 30% dividend policy will not be affected with the surge in gearing due to the completion of several major projects in hands such as Janamanjung Unit 4 and Hulu Terengganu Hydro.
- **Weakening of USD against MYR.** We foresee the weakening of Ringgit against USD by 3% for the first 5 months in 2015 will not bring material impact on TNB borrowing as USD borrowing only forms 11.3% of its total debt as at 2Q15 compared to borrowing in Ringgit and Yen by 75.7% and 12.7% respectively. TNB debt rebalancing effort since the last few years has been credited for this good shield against currency movement.
- **Outlook.** We are neutral on the new debt deal by TNB until and unless 1) It is firmed that TNB won the 70% stake in Jimah plant 2) TNB reveals the debt's detail, i.e. value, coupon, yield. Nevertheless, we are positive with the move by TNB to acquire Track 3B as this will avoid further interruption to country electricity generation by CY2018. That said, we believe the higher levelised tariff will be able to compensate TNB investment on Track 3B project.
- **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 **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

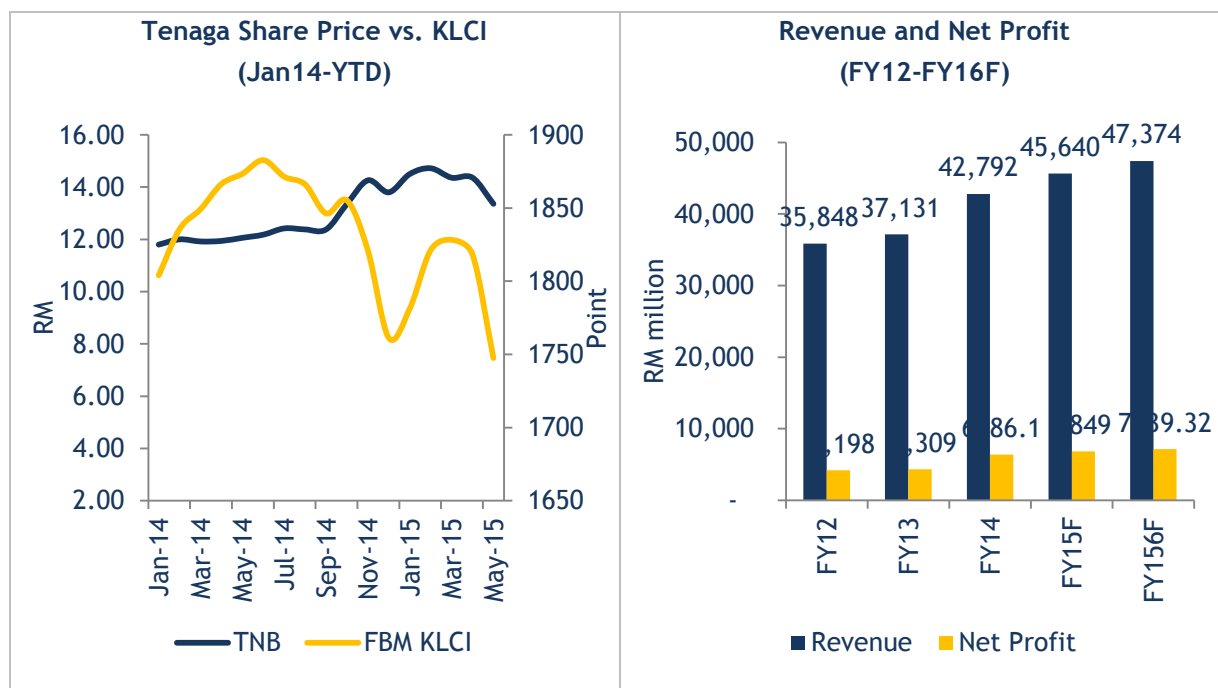
Company	Y/E Ended	Price (RM)	EPS (RM)		P/E (x)		P/B (x)		ROE (%)	TP	Call
			FY15	FY16	FY15	FY16	FY16	FY16			
MMC Corp	Dec	2.46	0.1	0.2	18.9	16.1	1.0	0.9	3.2	3.00	Buy
TNB	Aug	12.56	1.2	1.2	12.7	12.2	1.8	1.6	14.1	15.20	Buy
Gas Malaysia	Dec	2.50	0.1	0.1	25.0	20.6	3.3	3.2	17.0	2.89	Hold
Petronas Gas	Dec	21.50	0.9	0.9	25.0	24.3	4.0	3.7	21.4	23.20	Hold
Petronas Chemical	Dec	6.29	0.3	0.4	15.1	13.4	1.7	1.6	15.0	5.80	Hold
Malakoff	Dec	1.78	NA	NA	NA	NA	NA	NA	8.68	2.30	Buy
YTL Power	Dec	1.56	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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