

PP14767/09/2012(030761)

Market Access

Tenaga Nasional Berhad

“Tariff to Stay”

Latest Development

- No tariff hike.** As expected, the tariff rebates given to users from 1st March 2015 to 30th June 2015 is here to stay until December 2015 thanks to Imbalance Cost Past Through (ICPT) mechanism. This ‘no hike’ in rates is applied to all class of consumers (i.e. residential, industrial and commercial) in Peninsular Malaysia, Sabah and Sarawak.
- Favourable fuel cost.** The continuation of 2.25 sen/kWh rebates came as no surprise given TNB already guiding favourable power generation mix and continued low coal prices of USD60/MT. Of note, the decision to lengthy the rebates spell is a result of over recovery fuel cost amounting to RM1.08 billion for the period of Jan-June 2015 which is to be passed back to users in the form of rebates.
- More rebates coming.** We feel that the government should sustain the current ICPT mechanism as users especially in Peninsular Malaysia could expect further savings in their tariff especially with the completion of 2,100 MW’s Janamanjung Unit 4. Additionally, TNB has now secured the Lekir Bulk Terminal from Integrax as a main transportation sources for coal supply. This would potentially lower TNB coal cost further.
- Impact to TNB.** We already priced in the potential rebates (emanating from ICPT) and hence, TNB is likely to report higher expenses (rebates treat as expenses). At this juncture, the accompanying weakening in EBITDA margin is inevitable. However, we believe with improving fuel mix utilisation due to commencement coal generation power plant of Janamanjung and Tanjung Bin will nullify the impact of the rebates.

Monday, June 29, 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/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%

Based on our calculation from coal generation per unit, for every 1ppt increase in coal's contribution to total generation, we estimate a 2.7% net profit accretion in FY15. We have already priced-in this factor.

- **Coal hovering at stable price.** The weak commodity market has impacted the coal market as the latter ended 2014 at USD62/MT or 29% lower against the year best of USD87/MT. For FY15, coal price tanked further to USD60/MT which proved a boon to TNB as TNB has increased its coal consumption in its power plants to take advantage of the lower coal price. Coal generation power plants proportion has been increased to 47% in 2Q15 vs. 35% in 2Q14 as TNB reduced the exposure on the expensive oil and distillates.
- **Impact to bottom line.** No impact to the bottom line at this stage as we project TNB's rising capacity payment will be nullified by the benign coal price of USD60/MT. Along with lower oil price, TNB will further benefit from the fuel cost if they decides to skew this generation mix towards oil and distillates and hence, reducing the usage of gas and LNG which are currently marketed at market price.
- **Change to forecast.** No change to our forecast as we already priced-in the coal consumption usage at 40% in FY15 and the contribution from the completion of Janamanjung. TNB's FY15 earnings are expected to grow 7% assisted by 1) steady electricity demand in line with positive GDP growth of 5% 2) completion of coal generated plants in 2Q15 3) lower fuel costs especially on coal, oil & distillates
- **Valuation and recommendation.** We value TNB at RM15.20 and the stock is a **BUY**. 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 5%.

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: Fuel Cost Consumed

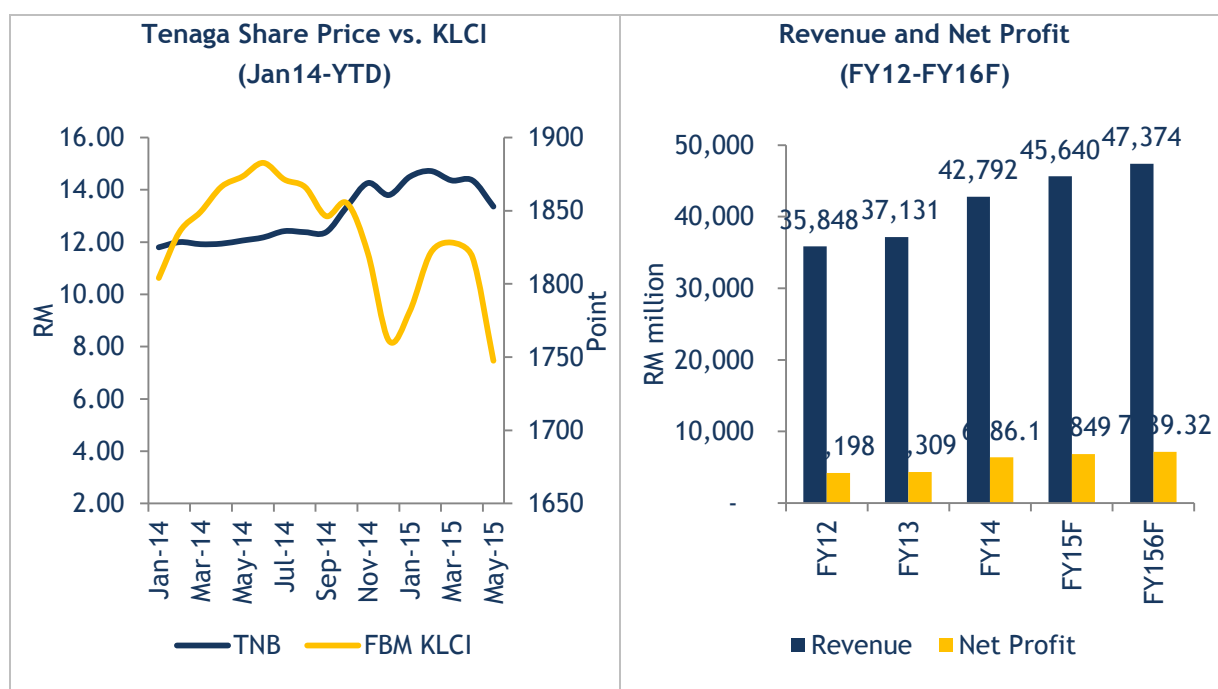
Fuel Type (RM million)	6M15	6M14	Variance (%)	% of Total
Gas&LNG	4,508	5,455	-17%	67%
Coal	2,674	2,277	17%	28%
Distillates	116	187	-38%	2%
Oil	100	229	-56%	3%
Hydro	0	0	0	0%
Total	7,400	8,150	-9.2%	100%

Source: TNB

Table 3: Financial Forecast

YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	35,848	37,132	42,792	45,640	47,374
EBITDA	9,385	9,057	12,053	14,200	14,484
Depreciation	-4,268	-4,570	-4,873	-5,653	-5,602
EBIT	5,117	4,487	7,181	8,547	8,882
Net Interest	-823	-711	-169	-550	-569
Result of associates	27	75	103	102	106
Exceptional items	0	1,683	0	-	0
PBT	5,537	5,534	7,114	8,099	8,418
Taxation	-1,331	-1,225	-688	-1,210	-1,239
Minority interest	-9	0	-40	-40	-40
PAT	4,198	4,309	6,386	6,849	7,139
EPS	58.1	82.8	114.59	112	12.1
EBITDA Margin	26.2%	24.4%	28.2%	31.1%	30.6%
PBT Margin	15.4%	14.9%	16.6%	17.7%	17.8%
PAT Margin	11.7%	11.6%	14.9%	15.0%	15.1%
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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