

PP14767/09/2012(030761)

Tuesday, July 14, 2015

Tenaga Nasional Berhad

“A Look into Debt”

Latest Development

- Debt position.** Tenaga Nasional Bhd (TNB) core business of electricity generation is able to generate strong cash flows of above RM7 billion per annum amid TNB earmarking a sum of RM5 billion-RM6 billion for capex annually. Nonetheless, capacity expansion development of new plant namely Track 3B plant is expected to pressurise TNB’s annual capex as Track 3B plant needs RM11.2 billion in total cost. Additional capex for Track 3B plant is expected to be financed through debt issuance e.g. sukuk amounting up to RM10 billion. As at 2Q15, TNB net gearing position was at 61% (RM28.6 billion) vs. 55% (RM24 billion) in FY14 and TNB is regularly putting effort to reduce its debt level especially its foreign debt holding.
- Debt composition.** TNB net debt position stood at RM28.6 billion as at 2Q15 with the majority of the debt (75.7%) in Ringgit denomination. USD and Japan Yen accounted approximately 11.3% (RM2.9 billion) and 12.7% (RM3.24 billion) respectively. Going forward, with a planned capex of about RM5 billion-RM6 billion FY15-FY16 TNB’s net gearing level is expected to get elevated to above 60% which we deem satisfactory given its capex intensive business. Based on our analysis, its net debt level is expected to reach RM26 billion by the end FY15, translating into net gearing of 55%. That aside, the prolonged weakness of Ringgit against USD will contribute to higher forex losses which is likely to hit the group’s 3Q15 result. Of note, Ringgit has depreciated as much as 3% for the past 5 months and touched its weakest level of RM3.80 per Dollar.
- Notes issuance history.** For the past 3 years, TNB has issued 1 note of sukuk ijarah amounting of RM3.65 billion to finance the development of Manjung power

BUY (TP: RM15.20)

Current Price (RM)	RM12.46
New Fair Value (RM)	RM15.20
Previous Fair Value (RM)	RM15.20
Previous Recommend.	BUY
Upside To Fair Value	21%
Dividend Yield (FY15)	2.0%

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	-9.6%	
Beta (x)	1.0	
52-week Hi/Lo (RM)	RM16.96	RM11.94
3M Average Volume (shrs)	13.0mn	
Estimated Free Float	38.79%	

Major Shareholders

Khazanah	29.6%
EPF	15.4%
ASB	8.7%

plant. The sukuk issuance has pressurised TNB's debt to equity to above 50% threshold from 45% level, while knocking its cash reserve to below RM4 billion from RM6 billion. Over the years, TNB managed to reduce its debt exposure especially in foreign denomination to below 50% threshold after opting for domestic borrowing to reduce the risk of Ringgit fluctuation. Moving forward, with Project 3B plant development is fully secured, TNB is planning to issue another sukuk amounting up to RM10 billion to finance the plant development. As mentioned previously, its current capex of RM5 billion-RM6 billion may not be able to cover the total cost of the new capacity expansion and hence, justifying the new debt raising exercise

- Effect on gearing.** Based on our sensitivity analysis, based on 80:20 debt equity financing for the Track 3B's sukuk issuance, TNB balance sheet may be stretched with net gearing rising to 68% vs. 62% currently. At 68% gearing level, we find the level is manageable as it is within TNB's net gearing level from FY08-FY11. Interest coverage is projected to be healthy at levels of more than 3x in line with historical parameters. However, we of the view TNB's sukuk issuance may face several hit bumps on the back of rising borrowing cost due to weakening Ringgit, however, in the current environment of dropping bond yield, the sukuk issuance is deemed attractive. That said, TNB 30% dividend payment will stay intact despite its share price tanking recently.
- Outlook.** Based on our analysis, TNB's balance sheet is still at manageable level despite the prospect of weakening Ringgit against USD that may potentially raise TNB borrowing cost. At this stage, we believe TNB's sukuk issuance is to be raised in Ringgit denomination to avoid untoward pressure on finance cost. That said, we believe TNB sukuk will not be short of any interest from local investors as witnessed in 1H2015. Additionally, coal is expected to remain at current level of USD60/MT due to sluggish global commodity market on the back of US' interest rate adjustment that contribute to prolong weakness across global commodity prices, coal included. For TNB, the weakening of coal price has always a boon as this will lead to substantial cost savings. Based on our sensitivity analysis, for every USD10/MT drop in the average coal price will translate into 10% savings in TNB's fuel costs as witnessed in 2Q14. Then, when coal cost USD77/MT TNB had incurred fuel cost of RM8.15 billion vs. when coal price of USD66/MT where TNB had incurred fuel cost of RM7.4 billion.
- Change to forecast.** We leave our forecast unchanged in FY15 as we expect TNB to kick start its sukuk issuance in FY16. However, we have lowered our FY16 earnings by 5% to incur the potential 5%-6% finance cost from the Track 3B's sukuk issuance. That said, TNB's FY15 earnings are expected to grow 7%, but projected to fell by 0.9% in FY16.
- Valuation and recommendation.** We reiterate our **BUY** call on TNB despite broader market knee jerk reaction over 1MDB negative news flow. Operational metric wise, TNB is in comfortable position due to protracted weakness of coal price which should be able to offset against the volatility of Ringgit. TNB is valued at RM15.20 and rerating catalyst on the stock could emanate from 1) acquiring new power plant that will benefit on 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
			FY15	FY16	FY15	FY16	FY16	FY16			
MMC Corp	Dec	2.38	0.1	0.2	18.9	16.1	1.0	0.9	3.2	3.00	Buy
TNB	Aug	12.44	1.2	1.2	12.7	12.2	1.8	1.6	14.1	15.20	Buy
Gas Malaysia	Dec	2.53	0.1	0.1	25.0	20.6	3.3	3.2	17.0	2.89	Hold
Petronas Gas	Dec	21.32	0.9	0.9	25.0	24.3	4.0	3.7	21.4	23.20	Hold
Petronas Chemical	Dec	6.35	0.3	0.4	15.1	13.4	1.7	1.6	15.0	5.80	Hold
Malakoff	Dec	1.79	NA	NA	NA	NA	NA	NA	8.68	2.30	Buy
YTL Power	Dec	1.55	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: TNB Power Plant

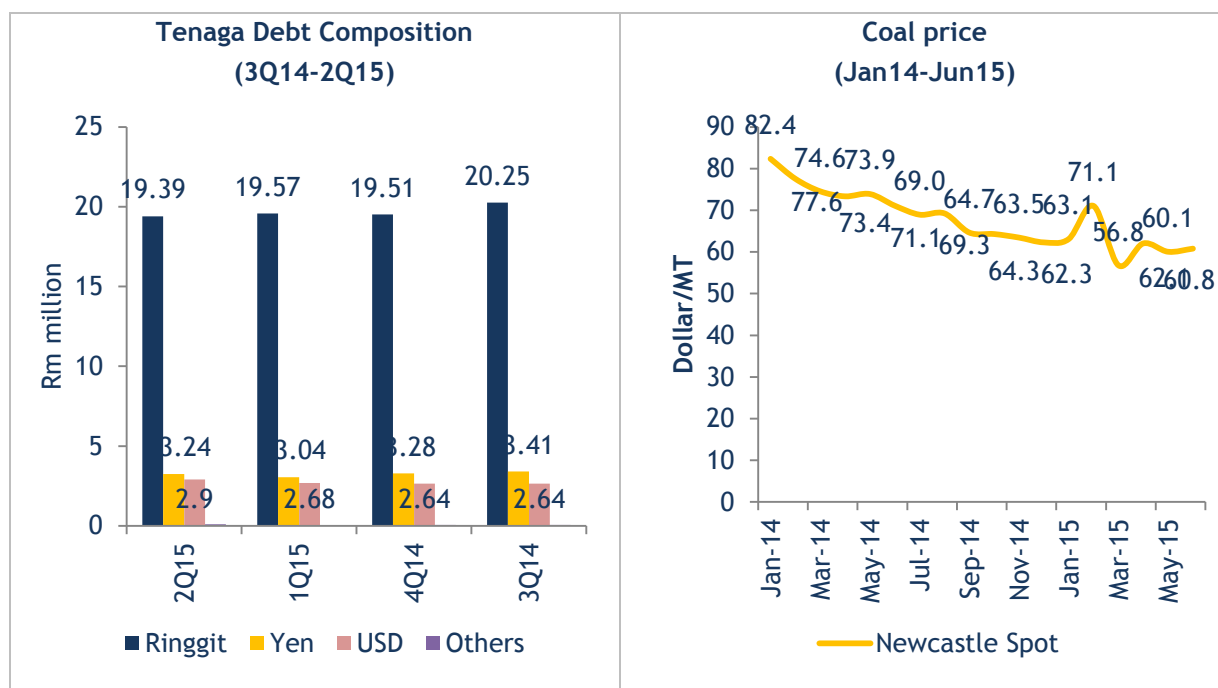
Plant	Company	Capacity (MW)	Type
Connaught Bridge Power Station	TNB	832	Combined cycle
Serdang	TNB	625	Gas Turbines
Sultan Iskandar, Pasir Gudang	TNB	729	Combined cycle
Sultan Ismail, Paka	TNB	1,139	Combined cycle
Tuanku Jaafar, Port Dickson	TNB	1,500	Combined cycle
Gelugor	TNB	758	Combined cycle
Sungai Perak Hydro Scheme	TNB	1,249	Hydro
Terengganu Hydro Scheme	TNB	400	Hydro
Cameron Hydro Scheme	TNB	262	Hydro
Cameron Highlands and Batang Padang Rehab	TNB	260	Hydro
Sabah	SESB	431	Thermal
Manjung	TNB	2,070	Coal
Sub-Total		10,255	
Jimah Track 3B	TNB	2,000	Coal
Total		12,255	

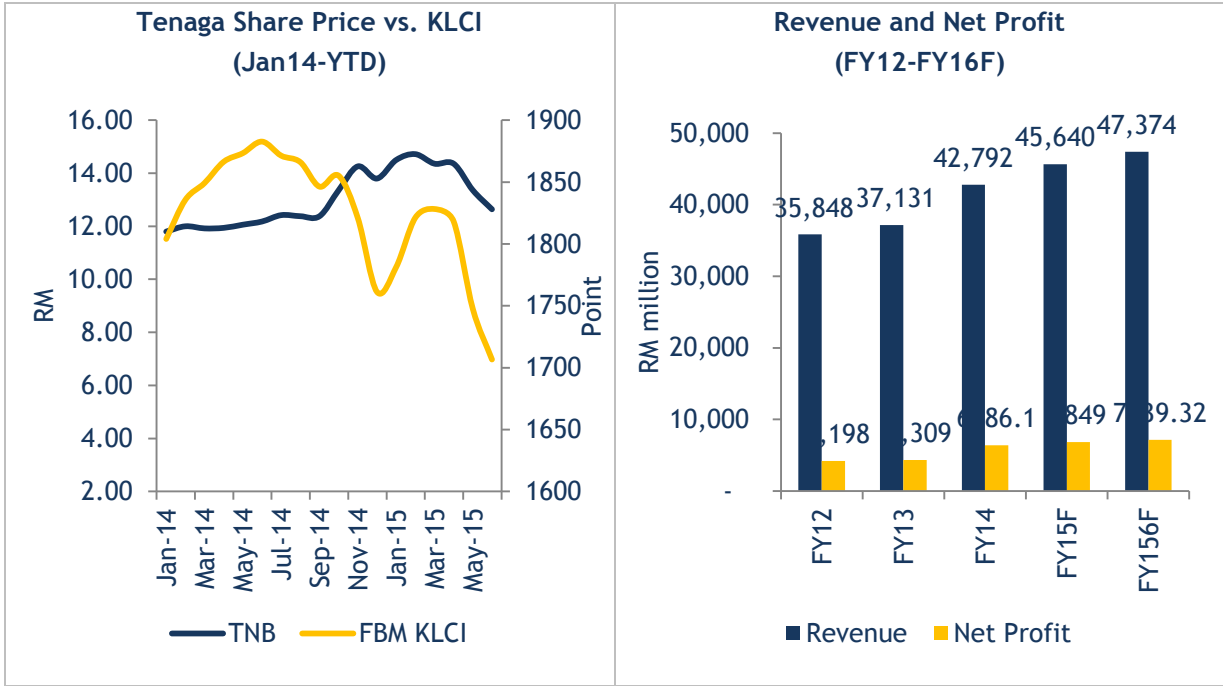
Source: TNB

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	-919
Result of associates	27	75	103	102	106
Exceptional items	0	1,683	0	-	0
PBT	5,537	5,534	7,114	8,099	8,068
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	6,789
EPS	58.1	82.8	114	112	111
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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