

PP14767/09/2012(030761)

Market Access

Tenaga Nasional Berhad

“Interest in Edra’s Assets”

Latest Development

- **Acquiring 1MDB’s Edra.** It was reported Tenaga Nasional Bhd (TNB) has submitted indicative non-binding proposals to acquire Edra Global Energy Bhd’s (the utility asset arm of 1MDB) five domestic and eight international power assets. Without any price indications, TNB emphasizes the interest for acquisition remains in the initial stage of assessment and needs more time to look into it.
- **No secret.** The announcement by TNB has confirmed rumours circulating previously that TNB is keen on Edra’s asset in domestic and international turf. However, we note that TNB is not the only party eyeing Edra’s asset as party like YTL Power, Malakoff and international players such as Aljomaih Group and Qatar Investment Authority are also eyeing Edra’s asset
- **No price mentioned.** The proposal appears a mere indication of TNB’s interest on Edra’s asset and TNB assures the potential transaction will need highest due diligence including fair and independent opinions from 3rd party advisers, and approvals from non-interested minority shareholders of TNB. However, we strongly feel that the final price will be closely monitored by the market given 1MDB had paid a hefty premium to acquire its power plants from Genting Bhd and Powertek Energy.
- **Not the right timing.** Timing wise we feel that TNB interest on Edra’s asset is not the best given its share price has tanked when TNB first made interest to acquire Edra’s Track 3B in Jimah. Similar situation may happen should TNB delay the decision to acquire all Edra’s

Thursday, July 23, 2015

BUY (TP: RM15.20)

Current Price (RM)	RM12.30
New Fair Value (RM)	RM15.20
Previous Fair Value (RM)	RM15.20
Previous Recommend.	BUY
Upside To Fair Value	23%
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)	69,416	
YTD Chg In Share Price	-10.8%	
Beta (x)	1.0	
52-week Hi/Lo (RM)	RM16.96	RM11.94
3M Average Volume (shrs)	9.54mn	
Estimated Free Float	38.79%	

Major Shareholders

Khazanah	29.6%
EPF	15.9%
ASB	8.8%

assets. Additionally, we feel that, TNB may take longer time to assess the fair price given Edra's acquisition cost of RM12 billion to acquire 13 power plants locally and internationally.

- **Cheer to TNB reserve margin.** We are positive on the acquisition should TNB manage to get the fair price as this will lift TNB's installed capacity from 42% currently to 69% in Peninsular Malaysia and this in line with TNB's growth strategy to ensure steady electricity supply. On financial side, we view that TNB will not have any big hurdles to secure Edra's asset given TNB ability to acquire Track 3B worth RM10 billion recently .
- **Impact to bottom line.** We leave our forecast unchanged at this stage because the details of the announcement are too scarce and hence, leave our forecast unchanged in FY15 and FY16 respectively. Nevertheless, TNB's FY15 earnings are expected to grow 7%, but projected to fall by 0.9% in FY16. Driver to earnings to come from 1) steady electricity demand in line with positive GDP growth of 5% 2) completion of coal generated plants in 3) lower fuel costs especially on coal, oil & distillates.
- **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	2.31	0.1	0.2	18.9	16.1	1.0	0.9	3.2	3.00	Buy
TNB	Aug	12.30	1.2	1.2	12.7	12.2	1.8	1.6	14.1	15.20	Buy
Gas Malaysia	Dec	2.55	0.1	0.1	25.0	20.6	3.3	3.2	17.0	2.89	Hold
Petronas Gas	Dec	21.78	0.9	0.9	25.0	24.3	4.0	3.7	21.4	23.20	Hold
Petronas Chemical	Dec	6.58	0.3	0.4	15.1	13.4	1.7	1.6	15.0	5.80	Hold
Malakoff	Dec	1.76	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: Edra Global Power Assets

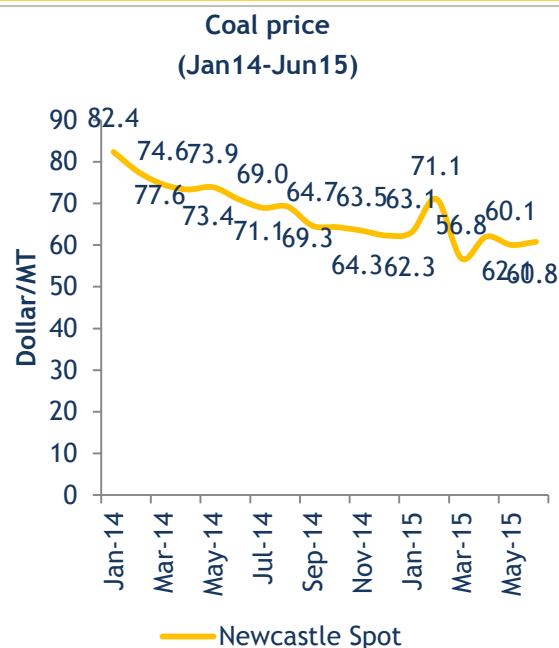
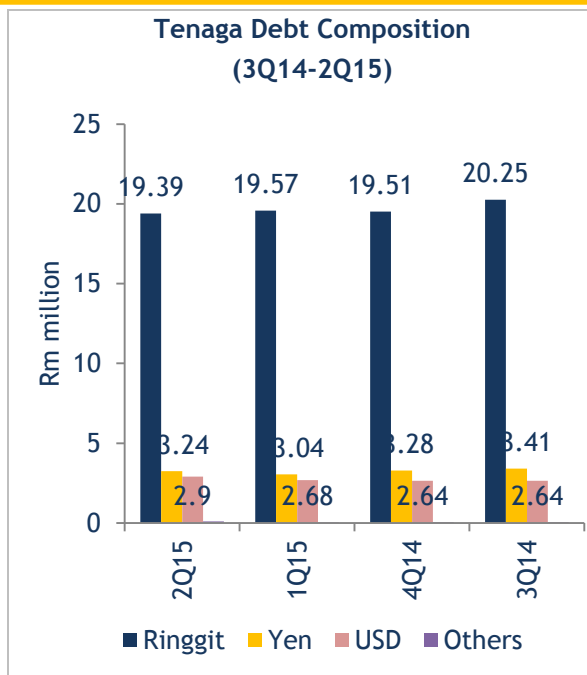
Plant	Country	Effective Capacity (MW)
Kuala Langat	Malaysia	540
Jimah	Malaysia	1,050
Powertek	Malaysia	440
Pahlawan	Malaysia	330
Panglima	Malaysia	720
Port Said	Egypt	683
Suez Gulf	Egypt	683
Sidi Krir	Egypt	375
Meghnaghat	Bangladesh	248
Haripur	Bangladesh	198
NEPC	Bangladesh	30
Fauji Kabirwala	Pakistan	36
Taweelah B	Abu Dhabi	200

Source: Various

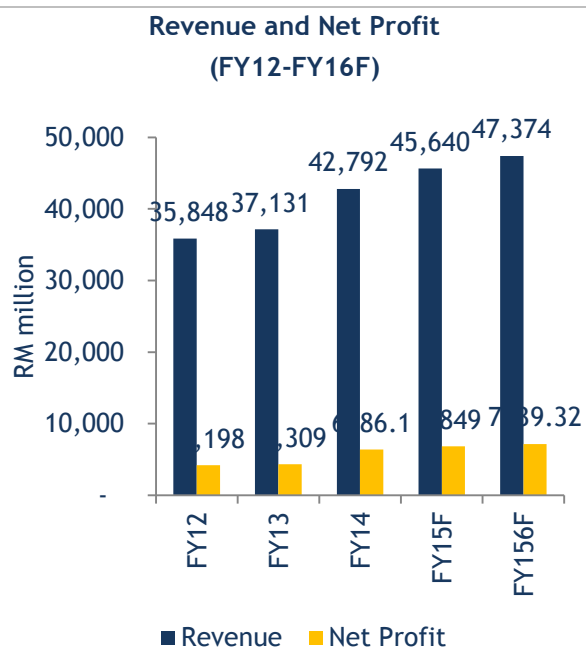
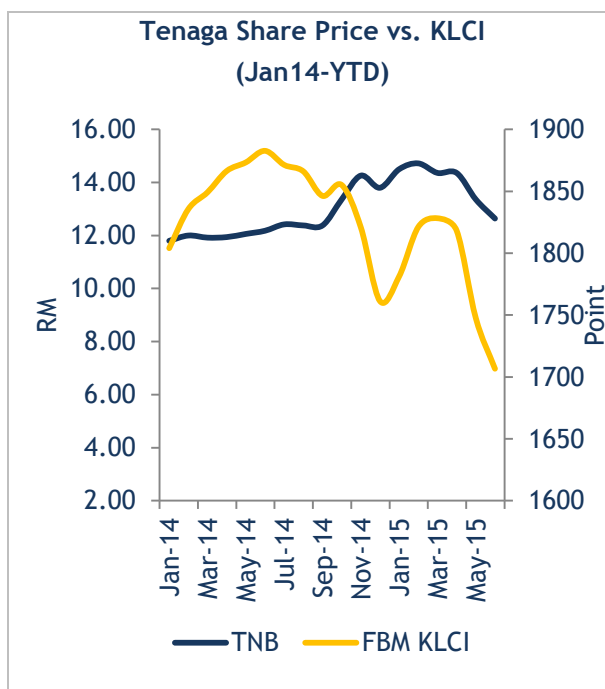
Table 3: Financial Forecast

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: Bloomberg, 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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