

PP14767/09/2012(030761)

Tenaga Nasional Berhad

“Weaker due to Rebates and Forex”

Results Review

- Actual vs. expectations.** Tenaga Nasional Bhd (TNB) 12M15 net profit of RM6.06 billion (-5% y-o-y) came below from ours and consensus forecast, accounting 88% and 93% of both divides full year net profit forecast respectively. The weaker earnings were hampered by higher forex translation and transaction losses of RM932 millon (-308% y-o-y) and over recovery fuel cost of RM1.85 billion for January until August. However, if we add back over recovery fuel cost of RM1.9 billion (pre-tax amount), TNB posted 12M15 net profit of RM7.9 billion. Note that TNB has changed the reporting of financial to incur the base level earnings (to reflect the costs saving pass to consumer).
- Topline vs. Bottomline.** 12M15 revenue rose to RM43.2 billion (+1% y-o-y) fuelled by higher electricity sold of RM43.4 billion (+8.1% y-o-y), especially electricity sold in Peninsular Malaysia of RM41.2 billion (+8.4% y-o-y). However, the impact of over-recovery fuel cost of RM1.85 billion is treated as deduction in the topline as as the tariff rebates given will negatively impact revenue. EBITDA margin improved by 400bps to 32.2% driven by lower operating cost, especially on generating cost.
- Dividend.** TNB declared 19 cent in 4Q15, bringing FY15 dividend to 29 cent in FY15, translating into 73% payout of free cash flow.
- Fuel cost analysis.** TNB’s fuel cost in 9M15 trended lower by 9.6% y-o-y to RM16.2 billion, driven mainly by higher usage of coal that lifted electricity generating from coal plants by 13.8% y-o-y. Higher cost of fuel, mainly gas and LNG usage, continued to trend lower by 7.1% y-o-y and 23.9% y-o-y.

Friday, October 30, 2015

BUY (TP: RM14.60)

Current Price (RM)	RM12.66
New Fair Value (RM)	RM14.60
Previous Fair Value (RM)	RM15.20
Previous Recommend.	BUY
Upside To Fair Value	15%
Dividend Yield (FY16)	1.9%

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)	71,673	
YTD Chg In Share Price	-7.97%	
Beta (x)	1.21	
52-week Hi/Lo (RM)	RM16.96	RM10.26
3M Average Volume (shrs)	10,516mn	
Estimated Free Float	38.79%	

Major Shareholders

Khazanah	29.6%
EPF	16.5%
ASB	8.6%

- **Electricity growth remains subdued.** Overall, electricity growth in Peninsular Malaysia was laggard at only 2.2% y-o-y in FY15 vs. 2.5% y-o-y in FY14. Given the Malaysia's GDP is set to trend lower between 4%-5%, management believes the electricity growth in FY16 will trail FY15's electricity usage.
- **Updates on new project.** Jimah East project is still at funding level which Tenaga is looking to raise RM10 billion at subsidiary level to finance the project. No timeline was given, however we believe it should be resolved in December 2015. On Edra's asset, no clue was shared except the unconditional offered recently is still in the midst of due diligence process.
- **Coal consumption to rise.** Coal consumption is expected to rise at 28MT in FY16 with the commencement of Malakoff's Tanjung Bin T4 which consumes larger additional portion. Coal price continued to be favourable for TNB with the average of coal price recorded in FY15 of USD66/MT vs. USD75.4/MT in FY14.
- **Outlook.** Fuel cost is still expected to be lower given the still-weak coal price and lesser consumption of expensive LNG as the coal plants are back in action. Given this, the on-going tariff rebate should be sustained. This was further proven by increasing mix generation towards coal based, hence the current weakness of coal price could potentially benefit TNB fuel cost. Hence, over recovery of the fuel cost in the future is inevitable.
- **Change to forecast.** We introduce our FY16 and FY17 earnings to incur the new adjustment in reportings. TNB's FY16 and FY17 earnings are expected to grow by 1.2% y-o-y and 3.0% y-o-y respectively. Drivers 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 reduce our TP on TNB to RM14.60 as we roll our valuation into FY16, however we maintained our **BUY** call. 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. Rating catalyst on the stock could emanate from 1) acquiring new power plant that will benefit its capacity building 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	2.66	0.1	0.2	18.9	16.1	1.0	0.9	3.2	3.00	Buy
TNB	Aug	12.66	1.2	1.2	12.7	12.2	1.8	1.6	14.1	14.60	Buy
Gas Malaysia	Dec	2.35	0.1	0.1	25.0	20.6	3.3	3.2	17.0	2.89	Buy
Petronas Gas	Dec	23.00	0.9	0.9	25.0	24.3	4.0	3.7	21.4	23.20	Hold
Petronas Chemical	Dec	6.27	0.3	0.4	15.1	13.4	1.7	1.6	15.0	5.80	Hold
Malakoff	Dec	1.74	NA	NA	NA	NA	NA	NA	8.68	2.30	Buy
YTL Power	Dec	1.52	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: Bursa Malaysia

Table 2: Fuel Cost Consumed (TNB only)

Fuel Type (RM million)	12M15	12M14	Variance (%)	% of Total
Gas&LNG	10,040	11,817	-15.0%	63%
Coal	5,508	4,841	13.8%	35%
Distillates	189	732	-74.1%	1.6%
Oil	172	602	-71.4%	1.1%
Hydro	0	0	0	0
Total	16,272	17,994	-9.6%	100%

Source: Bursa Malaysia

Table 3: Operating Expenses Breakdown

Item (RM million)	12M15	12M14	Variance (%)	% of total
IPP	12,905	13,252	2.6	37.7%
Fuel cost	8,931	10,288	13.2	23.7%
Repair & maintenance	2,048	1,813	-13.0	5.1%
Staff	3,602	3,576	-0.7	10.9%
General expenses	1,783	1,629	-9.4	15.2%
Others	918	833	-10.2	4.4%
Depreciation&amortozation	5,294	4,872	-8.7	3%
Total operating expenses	35,483	36,265	2.2	100%
Capacity payment	4012	3,799	-5.6	
Energy payment	8,893	9,453	5.9	

Source: Bursa Malaysi

Table 4: Financial Summary

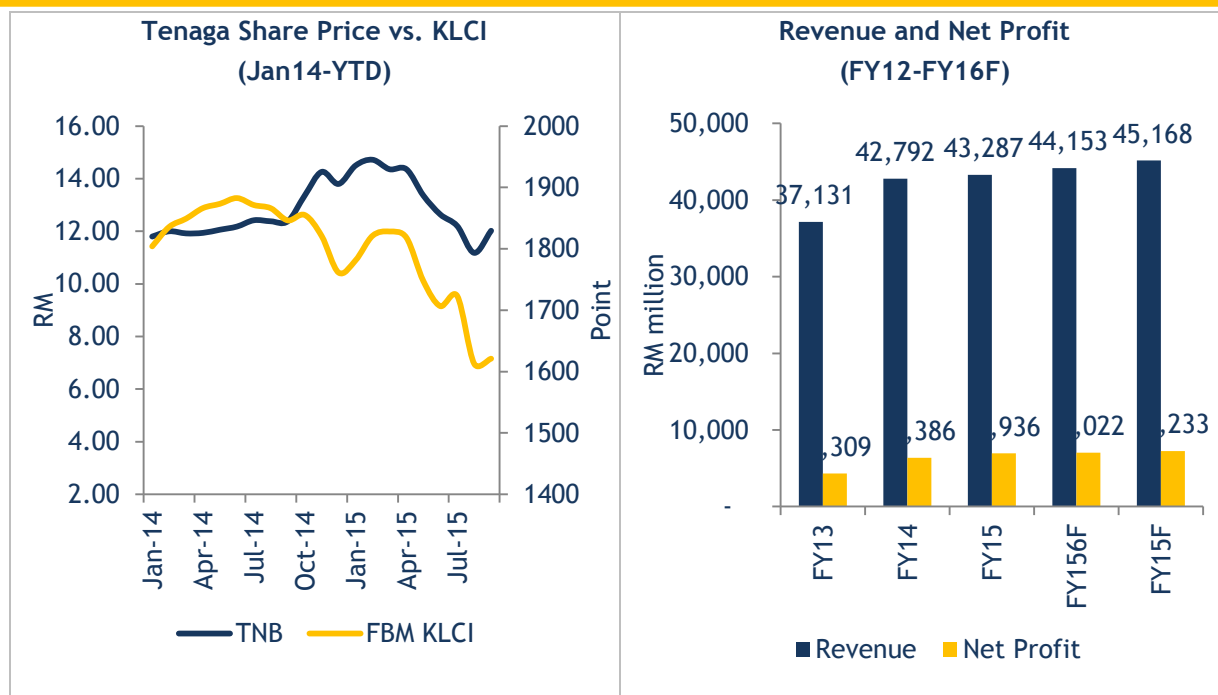
YE: Aug 31 (RM million)	4Q15	3Q15	4Q14	q-o-q	y-o-y	12M15	12M14	y-o-y
Revenue	11,744	9,906	11,723	0%	19%	43,287	42,792	1%
Operating expenses	-9,756	-9,270	-9,750	0%	5%	-35,483	-36,265	-2%
Other income	231	253	304	-24%	-9%	824	654	26%
Operating Profit	2,219	889	2,278	-3%	150%	8,628	7,181	20%
Forex results	-759.4	57	154	-592%	-1439%	-932	449	-308%
Results of associates/JV	45	32	31	45%	37%	101	103	-2%
Profit before finance	1,504	978	2,463	-39%	54%	7,796	7,733	1%
Finance result	-92	-243	-153	-40%	-62%	-663	-618	7%
PBT	1,413	735	2,310	-39%	92%	7,134	7,115	0%
Taxation	-603	32	-988	-39%	-2002%	-1,073	-688	56%
PAT	810	767	1,322	-39%	6%	6,061	6,427	-6%
EPS	14.6	14.0	24.0	-39%	4%	108	115	-5%
EBITDA margin	32%	36%	28%			32%	28%	
PBT margin	12%	7%	20%			16%	17%	
PAT margin	7%	8%	11%			14%	15%	

Source: Bursa Malaysia

Table 5: Financial Forecast

YE: Dec (RM million)	FY13	FY14	FY15F	FY16F	FY17F
Revenue	37,131	42,792	43,287	44,153	45,168
Cost of sales	-32,517	-37,555	-30,189	-30,884	-31,810
Gross Profit	4,614	5,237	13,098	13,269	13,358
Other cost	623	654	824	214	217
Operating Profit	5,237	5,891	13,922	13,483	13,575
Operating EBITDA	9,776	10,764	13,922	14,743	15,333
Depreciation	-4,540	-4,873	-5,294	-5,548	-5,853
Operating EBIT	5,236	5,891	8,628	9,195	9,479
Net income from investment	85	103	101	96	100
Interest income	225	257	282	255	265
Interest expense	-894	-875	-945	-930	-970
Exceptional income	1,273	1,739	0	0	0
PBT	5,925	7,115	8,066	8,616	8,874
Taxation	-542	-688	-1,073	-1,551	-1,597
Minorities	-27	40	-58	-43	-44
PAT	5,356	6,467	6,936	7,022	7,233
EBITDA margin	26%	25%	32%	33%	34%
PBT margin	16%	17%	19%	20%	20%
PAT margin	14%	15%	16%	16%	16%
EPS (RM)	0.72	0.84	0.108	0.109	0.11
P/E (x)	9.08	10.8	10.94	10.71	10.5
P/B (x)	1.31	1.62	1.53	1.36	1.24
ROA	5.68	6.14	6.6	6.8	7
ROE	14.76	15.98	16.3	16.8	17.4
BVPS	6.68	7.66	8.28	9.28	10.2

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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