

Tenaga Nasional Berhad

Price : RM12.10

Market Capitalization : RM68,287.7 mln

Market : Main Market

Sector : Trading / Services

Recommendation : BUY

Bursa / Bloomberg Code: 5347 / TNB MK
Stock is Shariah-compliant

Tenaga: 3QFY15 results

| FYE Aug (RM mln) | Quarter-on-Quarter | | | Year-on-Year | | Year to date | | |
|---------------------------|--------------------|----------|--------|--------------|--------|--------------|----------|-------|
| | 3QFY15 | 2QFY15 | % chg | 3QFY14 | % chg | 9MFY15 | 9MFY14 | % chg |
| Turnover | 9,905.7 | 10,610.0 | -6.6% | 11,499.9 | -13.9% | 31,542.8 | 31,069.0 | 1.5% |
| Operating profit | 888.5 | 2,775.4 | -68.0% | 1,883.2 | -52.8% | 6,408.7 | 4,903.0 | 30.7% |
| Foreign translation gains | 171.6 | (303.3) | | 158.5 | | (85.8) | 292.2 | |
| Net Interest cost | (242.7) | (125.8) | | (182.5) | | (571.2) | (464.7) | |
| Pre-tax profit | 734.9 | 2,365.4 | -68.9% | 1,870.1 | -60.7% | 5,721.2 | 4,804.9 | 19.1% |
| Tax | 31.7 | (231.8) | | (231.0) | | (469.9) | 299.9 | |
| Net profit after MI | 789.4 | 2,156.1 | -63.4% | 1,626.9 | -51.5% | 5,297.5 | 5,111.1 | 3.6% |
| EPS (sen) - basic | 14.0 | 38.2 | | 28.8 | | | | |
| Op profit margin | 9.0% | 26.2% | | 16.4% | | 20.3% | 15.8% | |
| Pre-tax margin | 7.4% | 22.3% | | 16.3% | | 18.1% | 15.5% | |
| Net profit margin | 8.0% | 20.3% | | 14.1% | | 16.8% | 16.5% | |
| Net assets (RM) | 8.28 | | | | | | | |

3QFY15 Results

- On the surface, TNB registered a 13.9% and 60.7% decline y-o-y in its 3QFY15 revenue and PBT respectively, but upon closer scrutiny, the decline was largely superficial as this was caused by the recognition of the over-recovery of the Imbalance Cost Past Through (ICPT) from January 2014 to May 2015 in 3QFY15 which amounted to RM1.82 bln. According to management, any over- or under-recovery of ICPT sum shall be offset against its revenue to better reflect the nature of its operations.
- Meanwhile, 9MFY15 revenue showed a 1.5% and 19.1% improvement y-o-y to RM31.54 bln and RM5.72 bln respectively. Core net profit excluding foreign translation gain of RM5.38 bln exceeded our expectation, reaching 87% of our estimate.
- Operationally, TNB enjoyed a 12.1% reduction in fuel cost in 9MFY15 as the Group burnt more coal and used less LNY and gas. It generated 46.1% of electricity using coal, up from 37.8% a year ago, while the use of LNG and gas went down from 56.1% to 48.8% during the same period. The decline in fuel cost was further boosted by lower price of coal. Coal price decreased by 12% y-o-y in USD terms, and by a lesser 6.0% in RM terms after factoring in the local currency depreciation.
- We note that 9MFY15 effective tax rate was only 8.2%, which is much lower than the 25% statutory rate. The attractive tax rate credit was chiefly due to utilization of reinvestment allowance incentive that the Group enjoys.
- In view of the encouraging results, we upgrade our FY15 and FY16 earnings projections by 1.8%-2.3% to RM6.34 bln and RM6.56 bln respectively. The Group's prospects remain positive with modest electricity growth expected, which in turn is supported by a favourable fuel cost structure. With the impact of ICPT now reflected on a quarterly basis in its results, there is also improved earnings stability and less uncertainty. Moderating factors, however, include the prevailing weak Ringgit that would partially offset the advantage from the lower coal price, as well as the challenging macroeconomic outlook that could impact demand for electricity.
- No interim dividend was declared for the quarter under review.

- Share price of TNB remains under pressure amid the weak investor sentiment, plus the lack of details with regards to the Group's interest in 1MDB assets. Management continues to reiterate that any acquisition exercise undertaken would be driven by commercial reasons and is value-accretive to its stakeholders.

Recommendation

We maintain our **Buy** recommendation on TNB with a DCF-derived fair value of **RM15.45** (from RM15.07) following our earnings revision. Our fair value implies a FY15 PER of 13.3x which is largely in line with the broader equity market valuation. We like TNB's outlook for reasons mentioned above, but we note that immediate prospect of its share price could remain under pressure due to poor sentiments and uncertainties surrounding possible acquisition of 1MDB assets.

| Per Share Data | | | | P&L Summary | | | | |
|--------------------|-------|-------|-------|----------------------|----------|----------|----------|----------|
| FYE Aug | FY13 | FY14 | FY15e | FYE Aug (RM mln) | FY13 | FY14 | FY15e | FY16f |
| Book Value (RM) | 6.67 | 7.66 | 8.48 | Revenue | 37,130.7 | 42,792.4 | 44,932.0 | 46,504.6 |
| Cash Flow (RM) | 1.76 | 2.01 | 2.04 | Operating profit | 5,906.9 | 7,181.0 | 8,582.0 | 8,873.1 |
| Earnings (sen) | 96.1 | 114.6 | 112.3 | Net Int Exp | (669.0) | (617.9) | (741.5) | (756.3) |
| Net Dividend (sen) | 25.0 | 29.0 | 30.0 | Pre-tax Profit | 5,925.1 | 7,114.7 | 7,923.6 | 8,199.9 |
| Payout Ratio | 26.3% | 25.3% | 26.7% | Eff. Tax Rate | 9.2% | 9.7% | 20.0% | 20.0% |
| PER (x) | 12.6 | 10.6 | 10.8 | Net Profit | 5,356.2 | 6,467.0 | 6,338.9 | 6,559.9 |
| P/Cash Flow (x) | 6.9 | 6.0 | 5.9 | Operating Margin (%) | 15.9% | 16.8% | 19.1% | 19.1% |
| P/Book Value (x) | 1.8 | 1.6 | 1.4 | Pre-tax Margin (%) | 16.0% | 16.6% | 17.6% | 17.6% |
| Net Dividend Yield | 2.1% | 2.4% | 2.5% | Net Margin (%) | 14.4% | 15.1% | 14.1% | 14.1% |
| ROE | 14.4% | 15.0% | 13.2% | | | | | |
| Net Gearing (x) | 0.4 | 0.4 | 0.4 | | | | | |

TNB's last 12-month share price chart



Source: Bloomberg

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RATING GUIDE

| | |
|------|--|
| BUY | Price appreciation expected to exceed 10% within the next 12 months |
| SELL | Price depreciation expected to exceed 10% within the next 12 months |
| HOLD | Price movement expected to be between -10% and +10% over the next 12 months from current level |

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