2QFY15 RESULTS UPDATE

12 June 2015

Tenaga Nasional Berhad

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

Price :	RM13.24
Market Capitalization :	RM74,721.4 mln
Market :	Main Market
Sector :	Trading / Services
Recommendation :	BUY

Tenaga: 2QFY15 results

FYE Aug		Quarter-on-Quarter		Year-on-Year		Year to date		
(RM mln)	2QFY15	1QFY15	%chg	2QFY14	%chg	1HFY15	1HFY14	%chg
Turnover	10,610.0	11,027.1	-3.8%	9,996.7	6.1%	21,637.1	19,569.1	10.6%
Operating profit	2,775.4	2,744.8	1.1%	1,502.3	84.7%	5,520.2	3,019.8	82.8%
Foreign translation gains	(303.3)	45.9		(119.0)		(257.4)	133.7	
Net Interest cost	(125.8)	(202.8)		(92.7)		(328.5)	(282.2)	
Pre-tax profit	2,365.4	2,620.8	-9.7%	1,318.2	79.4%	4,986.3	2,934.8	69.9%
Tax	(231.8)	(269.8)		415.1		(501.6)	530.9	
Net profit after MI	2,156.1	2,351.9	-8.3%	1,733.9	24.3%	4,508.1	3,484.2	29.4%
EPS (sen) - basic	38.2	41.7		30.7		79.9	61.7	
Op profit margin	26.2%	24.9%		15.0%		25.5%	15.4%	
Pre-tax margin	22.3%	23.8%		13.2%		23.0%	15.0%	
Net profit margin	20.3%	21.3%		17.3%		20.8%	17.8%	
Net assets (RM)	8.28							

2QFY15 Results

- TNB reported a PBT of RM2.37 bln in 2QFY15, lifting 1HFY15 pre-tax earnings 69.9% higher y-o-y to RM4.99 bln. The significant jump in earnings was primarily boosted by fuel cost over-recovery of RM1.5 bln, which is pending Government's confirmation and finalization. Excluding this and the forex loss, its core net profit was about RM3.3 bln.

- Operationally, there was also improvement on fuel cost mix that resulted in 1HFY15 opex declining 1.7% y-o-y. The use of gas and LNG (which are more expensive) was lower at 47.6% of overall fuel mix (vs. 56.2% in 1HFY14), while the use of coal (cheaper in cost) was higher at 46.6% vs. 37.5% a year ago. Apart from increase in tonnage used, it also helped that the price of coal has continued to trend downwards, averaging USD68.4/mt in 1HFY15 vs. USD77.5/mt in 1HFY14.

- The 10.6% y-o-y increase in topline, meanwhile, was due to higher sales of electricity units in Peninsular Malaysia and Sabah, coupled with the impact from tariff hike effective 1 January 2014.

- Going forward, TNB's fuel cost should remain largely manageable given the prevailing weak coal price, plus the expected continued rise in coal-fired power generation following the commissioning of Manjung 4 power plant in April 2015. On the flip side, the challenge would be the burden of higher interest expense due to its exposure to Yen- and USD-denominated debt. As at end-Feb 2015, it has some RM6 bln of foreign debts. At this juncture, our FY15 and FY16 core net profit estimates for TNB stand at RM6.2 bln and RM6.4 bln respectively.

- The board has declared a single tier 10 sen dividend for the quarter under review.

Recent Development

- Share price of TNB has recently come under pressure, falling some 12% since two months ago. The selling pressure intensified after speculations surfaced that TNB may acquire power plants from the troubled 1MDB. We reckon investors are worried that TNB could end up purchasing the assets from 1MDB at unfavourable prices, hurting the minority shareholders' interest.

However, TNB President and CEO Dato' Azman Mohd has since made a statement to say the Group would not pay a premium for the power assets.

- Prior to that, there are also talks that TNB is in discussion to take over the 2,000MW coal-fired power plant in Jimah, Negeri Sembilan, known as Project 3B, which was earlier awarded to 1MDB. We understand there has not been any decision yet by the Energy Commission on the issue and TNB management had also said it would have to review the commercial viability of the deal before deciding.

- Looking beyond the noises, we remain positive on TNB's operational outlook. The implementation of the cost pass-through mechanism means the Group's earnings would not be subject to the volatile fluctuation of commodity prices, and hence improving its earnings visibility. Lower coal price coupled with higher coal-fired generated power would keep cost in check, on the back of the expected decent growth in electricity demand. Moderating factors, however, include the weak Ringgit against USD and Yen that would push interest cost higher as well as partially offsetting the advantage from the lower coal price.

Recommendation

We maintain our **Buy** recommendation on TNB with an unchanged DCF-derived fair value of **RM15.07**. Our fair value implies a FY15 PER of 14x which is largely in line with the current 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 arising from the speculations surrounding possible bailout out of 1MDB as well as likely sell-down by foreign shareholders who are exiting emerging markets in view of the impending interest hike in the US.

Per Share Data

FYE Aug	FY13	FY14	FY15e
Book Value (RM)	6.67	7.66	8.46
Cash Flow (RM)	1.76	2.01	2.01
Earnings (sen)	96.1	114.6	109.8
Net Dividend (sen)	25.0	29.0	30.0
Payout Ratio	26.3%	25.3%	27.3%
PER (x)	13.8	11.6	12.1
P/Cash Flow (x)	7.5	6.6	6.6
P/Book Value (x)	2.0	1.7	1.6
Net Dividend Yield	1.9%	2.2%	2.3%
ROE	14.4%	15.0%	13.0%
Net Gearing (x)	0.4	0.4	0.4

P&L Summary

FYE Aug (RM mln)	FY13	FY14	FY15e	FY16f
Revenue	37,130.7	42,792.4	44,932.0	47,178.6
Operating profit	5,906.9	7,181.0	8,402.3	8,728.0
Net Int Exp	(669.0)	(617.9)	(741.5)	(756.3)
Pre-tax Profit	5,925.1	7,114.7	7,743.9	8,054.8
Eff. Tax Rate	9.2%	9.7%	20.0%	20.0%
Net Profit	5,356.2	6,467.0	6,195.1	6,443.9
Operating Margin (%)	15.9%	16.8%	18.7%	18.5%
Pre-tax Margin (%)	16.0%	16.6%	17.2%	17.1%
Net Margin (%)	14.4%	15.1%	13.8%	13.7%

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

DISCLAIMER

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