

29 March 2016

# Tenaga Nasional Berhad

Price : RM14.00

Market Capitalization : RM79,010.6 mln

Market : Main Market

Sector : Trading / Services

Recommendation : BUY

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

## Recent Developments

- **Higher price tag for GAMA Enerji.** TNB announced on 23 March 2016 it is raising its purchase consideration for GAMA Enerji from USD243 mln to USD255 mln to retain additional assets as a project of GAMA Enerji.
- To recap, GAMA Enerji is a Turkish power company involved in generation, distribution and sales of power, as well as water conveyance and treatment projects. It has stakes in power plants which have a total electricity capacity of 2,109 MW, as well as water conveyance capacity of 100 mln cubic meters. Its power plants include hydroelectric, wind power and combined cycle gas power plants.
- TNB expects the proposed acquisition to be completed by April 2016 subject to the fulfilment of all condition precedents related to the exercise. We reiterate our optimism on the transaction given that this is a strategic buy into the growing market of Turkey. It would be beneficial in the long term and in line with TNB's objective to diversify its earnings. In the immediate term however, we do not expect material impact on TNB's earnings.

## Recap of 1QFY16 Results

### Tenaga: 1QFY16 results

FYE Aug (RM mln)	Quarter-on-Quarter			Year-on-Year	
	1QFY16	4QFY15	% chg	1QFY15	% chg
Turnover	10,676.8	11,744.0	-9.1%	11,027.1	-3.2%
Operating profit	2,397.7	2,218.9	8.1%	2,744.8	-12.6%
Foreign translation gains	(58.5)	(733.5)		45.9	
Net Interest cost	(198.9)	(91.5)		(202.8)	
Pre-tax profit	2,163.3	1,412.5	53.2%	2,620.8	-17.5%
Tax	(201.1)	(602.9)		(269.8)	
Net profit after MI	1,976.0	820.9	140.7%	2,351.9	-16.0%
EPS (sen) - basic	35.0	14.6		41.7	
Op profit margin	22.5%	18.9%		24.9%	
Pre-tax margin	20.3%	12.0%		23.8%	
Net profit margin	18.5%	7.0%		21.3%	
Net assets (RM)	8.71				

- At first glance, TNB reported 1QFY16 turnover and net profit reduction of 3.2% and 16.0% y-o-y respectively. The lower revenue was mainly due to non-recognition of Imbalance Cost Pass-Through (ICPT) over-recovery in 1QFY15. To recap, the ICPT recognition had only commenced from 3QFY15 onwards. Meanwhile, the 1QFY15 net profit included forex gain of RM45.9 mln vs. forex loss of RM58.5 mln in 1QFY16.
- To better reflect the Group's operating performance, we have adjusted for the items above as well as the reinvestment allowance, and this resulted in Tenaga's adjusted 1QFY16 core net profit to be 5.5% higher y-o-y at RM1.63 bln as compared to RM1.55 bln a year ago. The higher core net profit was attributed to the 3.2% growth in Peninsular's electricity demand, further boosted by lower fuel costs.

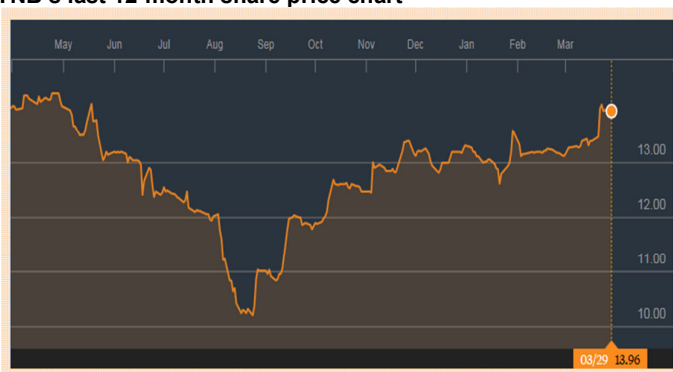
- TNB registered 6.4% y-o-y reduction in fuel costs due to lower LNG price and LNG consumption. Coal consumption for the quarter under review increased 8.9% y-o-y to 6.1 mt, with the coal price averaged at RM254.1/mt (1QFY15: RM230.2/mt).
- With the Group's reinvestment allowance benefit, it incurred much lower effective tax in 1QFY16, which was 9.3% only, vs. the statutory rate of 24%.
- At this juncture, we maintain our FY16 and FY17 core earnings (excluding foreign translation gain/loss and reinvestment allowance) estimates for TNB at RM6.9 bln and RM7.0 bln respectively. Given the current challenging economic environment, we anticipate slow growth in electricity sales. On a brighter note, the ICPT mechanism would enable the Group to better manage its cost structure and improve earnings stability, supported by low coal prices.
- No dividend was declared for the quarter under review.

## Recommendation

We maintain our **Buy** recommendation on TNB with a DCF-derived fair value of **RM15.45** (unchanged). Its prospective valuation at FY16 PER of 11.3x remains attractive vis-à-vis its average historical PER of 15x. Apart from the attractive valuation, we like TNB for its improved earnings stability under the ICPT mechanism, rising coal generation mix, and low coal price environment which would support earnings going forward. Moderating factors include prolonged weak Ringgit and lower-than-expected electricity demand growth.

Per Share Data				P&L Summary				
FYE Aug	FY14	FY15	FY16e	FYE Aug (RM mln)	FY14	FY15	FY16e	FY17f
Book Value (RM)	7.66	8.45	9.39	Revenue	42,792.4	43,286.8	44,715.3	46,280.3
Cash Flow (RM)	2.01	2.02	2.22	Operating profit	7,181.0	8,627.6	8,902.8	9,302.3
Earnings (sen)	114.6	108.4	123.6	Net Int Exp	(617.9)	(662.7)	(682.6)	(703.1)
Net Dividend (sen)	29.0	29.0	30.0	Pre-tax Profit	7,114.7	7,133.7	8,305.2	8,684.3
Payout Ratio	25.3%	26.7%	0.0%	Eff. Tax Rate	9.7%	15.0%	16.0%	19.0%
PER (x)	12.2	12.9	11.3	Net Profit	6,467.0	6,118.4	6,976.4	7,034.3
P/Cash Flow (x)	7.0	6.9	6.3	Operating Margin (%)	16.8%	19.9%	19.9%	20.1%
P/Book Value (x)	1.8	1.7	1.5	Pre-tax Margin (%)	16.6%	16.5%	18.6%	18.8%
Net Dividend Yield	2.1%	2.1%	2.1%	Net Margin (%)	15.1%	14.1%	15.6%	15.2%
ROE	15.0%	12.8%	13.2%					
Net Gearing (x)	0.4	0.5	0.5					

### 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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