

3QFY11 RESULTS UPDATE

28 July 2011

# Tenaga Nasional Berhad

Price : RM6.10

Market Capitalization : RM33,268.3 mln

Market : Main Market

Sector : Trading / Services

Recommendation : Hold

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

## Tenaga: 3QFY11 results

FYE Aug (RM mln)	Quarter-on-Quarter			Year-on-Year		Year to date		
	May 11	Feb 11	% chg	May 10	% chg	9MFY11	9MFY10	% chg
Turnover	7,768.1	7,503.5	3.5%	7,723.3	0.6%	22,998.0	22,450.7	2.4%
EBITDA	515.6	1,584.4	-67.5%	1,797.2	-71.3%	4,300.2	6,332.7	-32.1%
Operating profit	(519.8)	582.6	nm	904.5	nm	1,316.2	3,466.3	-62.0%
Foreign translation gains	60.0	152.4		569.1		107.6	668.1	
Interest cost	(147.1)	(63.5)		(209.7)		(370.6)	(652.2)	
Pre-tax profit	(601.4)	722.3	nm	1,286.8	nm	1,118.5	3,522.4	-68.2%
Tax	142.9	(90.8)		(177.5)		(230.6)	(713.9)	
MI	18.3	(1.2)		(2.2)		15.1	5.2	
Net profit	(440.2)	630.3	nm	1,107.1	nm	903.0	2,813.7	-67.9%
EPS (sen) - basic	(8.1)	14.3		25.5		16.6	51.8	
EBITDA margin	6.6%	21.1%		23.3%		18.7%	28.2%	
Op profit margin	nm	7.8%		11.7%		5.7%	15.4%	
Pre-tax margin	nm	9.6%		16.7%		4.9%	15.7%	
Net profit margin	nm	8.4%		14.3%		3.9%	12.5%	
Net assets (RM)	5.32							

## 3QFY11 Results Review

- Tenaga Nasional Bhd (TNB) swung into the red in 3QFY11 after reporting a net loss of RM440.2 mln as earnings suffered from increased generation costs. Excluding foreign translation gains, core net loss was RM500.2 mln, dragging 9MFY11 core net profit below our expectation at RM795.4 mln. This accounted for only 31% of our projection. The last time TNB that reported a loss-making quarter was in 1QFY09.
- While 3QFY11 revenue came within expectations, opex ballooned by 19.1% q-o-q to RM8.4 bln mainly due to higher fuel costs arising from lower gas volume allocated by Petronas, resulting in the increased consumption of oil, distillate and coal, which are more expensive than gas.
- Consequent to the gas plants maintenance by Petronas, gas supply to Tenaga in 3QFY11 was reduced to approximately 900 mmscfd during the shutdown period from the usual volume of 1,250 mmscfd. As such, Tenaga had no choice but to substitute it with the more expensive oil, distillate and coal. This resulted in an additional RM1.3 bln in fuel costs in 3QFY11 compared to 2QFY11, compressing EBITDA margin to 6.6% from 21.1%.
- Meanwhile, 9MFY11 revenue rose 2.4% y-o-y to RM23.0 bln in tandem with the 2.5% growth in electricity demand. We note that the 2.5% y-o-y increase in units sold is much lower compared to the 9.4% y-o-y growth in 9MFY10. On segmental breakdown, industrial registered a marginal 1.6% expansion in units sold vs. 11.6% in 9MFY10; commercial sector posted a 4.3% growth in 9MFY11 vs. 7.9% in 9MFY10; while the domestic group grew 2.5% vs. 9.5% in 9MFY10.
- Adding to the muted demand growth is the escalating opex attributed to rising fuel costs. TNB's 9MFY11 average coal price jumped to USD103/mt from USD85.10/mt a year ago. At the same time, coal consumption too rose 5.3% y-o-y to 13.9 mln mt. Coupled with the higher usage of oil and distillate in 3QFY11 due to gas curtailment, 9MFY11 EBITDA and operating profit fell 32.1% and 62.0% y-o-y to RM4.3 bln and RM1.3 bln respectively. Consequently, EBITDA and operating profit margin too, shrunk to 18.7% (from 28.2%) and 5.7% (from 15.4%) respectively.

- Balance sheet-wise, TNB's NTA/share declined to RM5.32 in 3QFY11 from RM5.43 in 2QFY11; while net gearing is at 0.45x as at end-May 2011.
- TNB's prospects going forward remain highly uncertain. On the positive side, we still expect TNB to be profitable in FY11. 4QFY11 results should be better than 3QFY11 as there is less planned shutdown by Petronas in the fourth quarter. Additionally, TNB has proposed to the Government to share the high oil and distillate cost incurred with IPPs and Petronas (due to the gas curtailment issue) and this may potentially result in potential write-backs in FY12. Meanwhile, the 2% increase in base tariff effective 1 June 2011 should also help boost the Group's topline in 4QFY11.
- On the other end, TNB's outlook continues to be plagued by rising fuel costs. Although a cost pass-through mechanism has been established on 30 May 2011 that allows for adjustment in tariff in tandem with the fluctuation in fuel cost, the review is done every six months and the quantum is still subject to the Government's approval. And with the general election looming, it is uncertain if the pass-through would be sufficient to cover the increase in fuel cost. Another concern we have is the slowing electricity demand growth. While the weakness in 3QFY11 may stem from subdued industrial activities due to the earthquake in Japan in March 2011, the pace has yet to recover and management now guides a lower growth of 2%-2.5% in FY11 compared to 4%-5% previously.
- After taking into consideration these various factors, we have revised our FY11 net profit estimate downward by 60% to RM988.9 mln. Similarly, we also slash our FY12 net profit projection by 19% to RM2.2 bln from RM2.7 bln previously.

## Recommendation

Given the uncertainties enveloping the utility giant's outlook, we remain neutral on TNB at this juncture and hence, maintain our **Hold** call on the stock. Nevertheless, we lower our DCF-derived fair value marginally to **RM6.40** (from RM6.60) following the downward revision in our earnings projection.

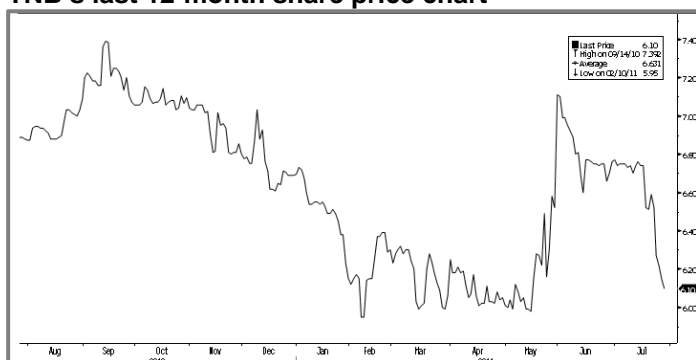
### Per Share Data

FYE Aug	FY09	FY10	FY11f
Book Value (RM)	4.80	5.29	5.60
Cash Flow (RM)	0.83	1.31	0.85
Earnings (sen)	16.9	58.8	18.1
Net Dividend (sen)	10.7	15.6	6.0
Payout Ratio	63.0%	26.5%	30.0%
PER (x)	36.0	10.4	33.6
P/Cash Flow (x)	7.4	4.6	7.2
P/Book Value (x)	1.3	1.2	1.1
Net Dividend Yield	1.7%	2.6%	1.0%
ROE	3.5%	11.1%	3.2%
Net Gearing (x)	0.6	0.4	0.4

### P&L Summary (RM mil)

FYE Aug (RM mln)	FY09	FY10	FY11f	FY12f
Revenue	28,785.6	30,320.1	31,684.5	33,490.5
EBITDA	7,260.4	8,132.9	5,703.2	7,133.5
Depreciation	(3,561.5)	(3,950.2)	(3,643.7)	(3,416.0)
Net Int Exp	(949.7)	(861.2)	(826.8)	(876.4)
Pre-tax Profit	1,543.1	4,022.1	1,277.8	2,887.0
Eff. Tax Rate	44.7%	20.5%	23.0%	23.0%
Net Profit	917.9	3,201.9	988.9	2,228.0
EBITDA Margin (%)	25.2%	26.8%	18.0%	21.3%
Pre-tax Margin (%)	5.4%	13.3%	4.0%	8.6%
Net Margin (%)	3.2%	10.6%	3.1%	6.7%

### TNB's last 12-month share price chart



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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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