

4QFY11 RESULTS UPDATE

4 November 2011

Tenaga Nasional Berhad

Price : RM5.98

Market Capitalization : RM33,630.8 mln

Market : Main Market

Sector : Trading / Services

Recommendation : Hold

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

Tenaga: 4QFY11 results

FYE Aug (RM mln)	Quarter-on-Quarter			Year-on-Year		Year to date		
	Aug 11	May 11	% chg	Aug 10	% chg	FY11	FY10	% chg
Turnover	9,120.2	7,768.1	17.4%	8,070.2	13.0%	32,206.9	30,317.4	6.2%
EBITDA	808.3	515.6	56.8%	1,800.2	-55.1%	5,197.2	8,130.2	-36.1%
Operating profit	(248.8)	(519.8)	52.1%	917.2	-127.1%	1,156.1	4,180.0	-72.3%
Foreign translation gains	(334.6)	60.0		(35.5)		(227.0)	632.6	
Interest cost	(138.1)	(147.1)		(209.0)		(508.7)	(861.2)	
Pre-tax profit	(660.5)	(601.4)	-9.8%	700.7	-194.3%	546.7	4,019.4	-86.4%
Tax	228.7	142.9		(144.9)		(40.2)	(823.2)	
Net profit	(431.8)	(458.5)	5.8%	555.8	-177.7%	499.5	3,200.8	-84.4%
EPS (sen) - basic	(8.3)	(8.1)		10.2		9.2	58.9	
EBITDA margin	8.9%	6.6%		22.3%		16.1%	26.8%	
Op profit margin	nm	nm		11.4%		3.6%	13.8%	
Pre-tax margin	nm	nm		8.7%		1.7%	13.3%	
Net profit margin	nm	nm		6.9%		1.6%	10.6%	
Net assets (RM)	5.53							

4QFY11 Results Review

- Tenaga Nasional Bhd (TNB) turned in a net profit of RM499.5 mln for FY11, which was down 84.4% y-o-y, as prolonged gas curtailment issues continued to drag profitability down. Core net profit (excluding foreign translation gains) at RM726.5 mln was below expectations when compared to our projections of RM917.9 mln.
- 4QFY11 revenue rose 13.0% y-o-y due to higher electricity units sold and effect from the tariff hike (since 1 June 2011). Nevertheless, the increase in revenue was offset by the 55.1% y-o-y fall in EBITDA to RM808.3 mln as shortage of gas supply continued to weigh down TNB's performance, which resulted in the Group having to burn more oil and distillate that are five times more expensive than gas. This was in addition to coping with the persistent high coal price, which averaged at USD117.3/mt in 4QFY11 (vs. USD97.2/mt in 4QFY10).
- For the full year, the 19.1% y-o-y increase in opex (largely arose from higher fuel costs and energy payments to IPPs) overshadowed the 6.2% y-o-y rise in revenue. Consequently, EBITDA margin fell, for the first time in recent years, to sub-20% level at 16.1%. According to management, the gas curtailment issues had resulted in TNB incurring an additional RM2.1 bln in fuel cost in 2HFY11, translating into an average additional monthly burden of approximately RM350 mln. TNB indicated that it has submitted a proposal to Government to seek compensation from Petronas for the additional fuel cost incurred. If this materializes, there would be write-backs in FY12 for the reimbursement given to Tenaga.
- To recap, gas supply from Petronas was disrupted in FY11 following a series of scheduled plant shutdown for maintenance, as well as cessation of supply from Petronas' Bekuk plant following a fire that broke out in December 2010. From the required volume of 1,250 mmscfd, the average daily gas supply fell below 1,000 mmscfd in 2HFY11, forcing Tenaga to substitute it with the more expensive oil, distillate and coal.

- We opine that TNB's prospects in the near term to remain challenging. While gas supply from the Petronas' Bekuk plant has since been restored from October 2011, total volume of gas supply remains an issue as it is still below the required volume of 1,250 mmscfd. In fact, the power sector was to be allocated 1,350 mmscfd of gas supply in 2012 but this is doubtful currently given the present situation. We expect the tight spot to ease toward 2HFY12 when the LNG re-gasification plant in Malacca commences operations.
- Still, we believe TNB's performance would be better in FY12 as we expect higher average gas supply given the fewer scheduled plant maintenance by Petronas as well as new upcoming supply from the LNG plant. Against this backdrop, we retain our existing FY12 net profit estimate of RM2.2 bln on the back of RM33.5 bln revenue. We also introduce our FY13 net profit projection of RM2.4 bln.
- Given the weak financial performance, there was no dividend declared for the quarter under review.

Recommendation

We continue to maintain our **Hold** call on Tenaga at this juncture with an unchanged DCF-derived fair value of **RM6.40**. Our neutral view reflects our belief that while much of the negative news have already been priced in, there is lack of clear earnings growth catalysts at this juncture in the absence of a full cost pass-through mechanism, coupled with the uncertain macroeconomic environment that may impact our domestic demand for electricity.

Per Share Data

FYE Aug	FY10	FY11	FY11
Book Value (RM)	5.29	5.53	5.81
Cash Flow (RM)	1.31	0.83	1.15
Earnings (sen)	58.8	9.2	40.6
Net Dividend (sen)	15.6	3.4	13.0
Payout Ratio	26.5%	36.9%	30.0%
PER (x)	10.2	65.3	14.7
P/Cash Flow (x)	4.5	7.2	5.2
P/Book Value (x)	1.1	1.1	1.0
Net Dividend Yield	2.6%	0.6%	2.2%
ROE	11.1%	1.7%	0.0%
Net Gearing (x)	0.4	0.5	0.4

P&L Summary

FYE Aug (RM m ln)	FY10	FY11	FY12f	FY13f
Revenue	30,320.1	32,206.9	33,490.5	35,433.0
EBITDA	8,132.9	5,197.2	7,568.9	8,220.4
Depreciation	(3,950.2)	(4,041.1)	(4,085.8)	(4,393.7)
Net Int Exp	(861.2)	(508.7)	(661.3)	(714.2)
Pre-tax Profit	4,022.1	546.7	2,867.7	3,158.5
Eff. Tax Rate	20.5%	7.4%	23.0%	23.0%
Net Profit	3,201.9	499.5	2,213.1	2,432.0
EBITDA Margin (%)	26.8%	16.1%	22.6%	23.2%
Pre-tax Margin (%)	13.3%	1.7%	8.6%	8.9%
Net Margin (%)	10.6%	1.6%	6.6%	6.9%

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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