

03 September 2018 | 2QFY18 Results Review

Tenaga Nasional

Impairment for GAMA, underlying earnings in-line

- Core 1H18 earnings in-line, 30sen dividends declared
- Impairment for Gama, no cashflow impact
- Capex looks to have peaked, room for higher dividends
- Re-affirm BUY at higher TP of RM16.90

Earnings in-line. Tenaga reported 2Q18 core earnings of RM1.8b, bringing 1H18 core earnings to RM3.8b This is within expectations accounting for 52% and 53% of our and consensus' FY18F. Given a change to FYE Dec reporting, no year-on-year comparison was available. An interim dividend of 30.27sen/share was declared. At 51% payout, this is at the higher end of Tenaga's policy of 30%-60%.

Solid demand. Demand sale was strong in 2Q18 (+7.2%qoq, +3%yoy) and is likely to continue into 3Q18 having seen the industry hitting new peak demand in June (18,010MW) and again, in August (18,338MW). 2Q18 demand growth was across the board - domestic (+10%qoq), industrial (+5.6%qoq) and commercial (+7.5%qoq). Average tariff increased 0.5%qoq to 39.76sen/kwh; the excess earnings from higher-than-IBR reference tariff of 39.45sen/kwh will have to be returned year-end but is a negligible amount at this point.

But higher cost eats into margins. Although Tenaga's revenue was up 2%qoq, EBITDA fell 16%qoq as margins were hit by: (1) Impairment for GAMA Enerji of RM206m, and (2) Provision for doubtful debt and delinquent accounts of RM170m. Excluding these, margins would still have been impacted by higher fuel cost (+2.7%qoq on per unit basis), and general expenses (See Exhibit 3). The latter is more seasonal in nature and generally picks up through the year while higher fuel cost should be reflected in 1H19 ICPT adjustments to compensate Tenaga.

Impairment for Gama Enerji. A RM206m impairment for the Tenaga's carrying value of Gama was taken given sharp depreciation of the Turkish Lira (TRY) – valuations marked at USD:TRY of ~TRY4.6 (end-June rates). The TRY has depreciated further since then to USD:TRY6.55, which might suggest further impairment. These are merely accounting adjustments with no cashflow impact. Post-impairment, carrying value of Gama stood at RM600m-RM700m. Carrying value of Gama stood at RM961m at Dec17.

Maintain BUY
Revised Target Price: RM16.90
(from RM16.30)

RETURN STATS	
Price (30 Aug 2018)	RM15.68
Target Price	RM16.90
Expected Share Price Return	+7.8%
Expected Dividend Yield	+4.6%
Expected Total Return	+12.4%

STOCK INFO	
KLCI	1,819.66
Bursa / Bloomberg	5347/TNB MK
Board / Sector	Main
Syariah Compliant	Yes
Issued shares (mil)	5678.18
Market cap. (RM'm)	89,033.87
Price over NA	1.51
52-wk price Range	RM13.5 - RM16.3
Beta (against KLCI)	0.82
3-mth Avg Daily Vol	9.2m
3-mth Avg Daily Value	RM135m
Major Shareholders (%)	
Khazanah Nasional	28.1%
EPF	12.8%
Skim ASB	8.7%

INVESTMENT STATISTICS

FYE Dec **	FY15	FY16	16MFY17*	FY18F	FY19F
Revenue (RM'm)	43,286.8	44,531.5	63,244.0	50,573.5	53,266.0
EBIT (RM'm)	7,695.3	9,072.0	12,512.6	9,160.5	9,539.5
Pre-tax Profit (RM'm)	7,133.7	8,456.8	10,945.1	8,290.5	8,672.5
Core net profit (RM'm)	5,978.9	7,757.6	10,128.8	7,373.8	6,544.9
FD EPS (sen)	105.9	137.5	179.5	130.7	116.0
EPS growth (%)	27.7	29.7	30.6	(27.2)	(11.2)
PER (x)	14.8	11.4	8.7	12.0	13.5
Net Dividend (sen)	29.0	32.0	82.4	71.9	63.8
Net Dividend Yield (%)	1.8	2.0	5.3	4.6	4.1
Payout ratio	26.7%	24.5%	48.1%	55.0%	55.0%

* 16-month period due to change in financial year end from Aug to Dec

** FYE Aug prior to FY17

Source: Company, MIDF

Forex loss. Associates registered a loss of RM93m in 1H18 with the bulk coming from Gama - driven mainly by forex losses as the bulk of Gama's debt are USD debt. The weaker TRY now against end-June levels suggests further forex losses might be recognised. Gama is examining options to refinance some of its USD loan for more favourable terms. Overall associate contribution to bottomline is small at just 2%.

Underlying fundamentals look good though. Currency volatility factors aside, underlying fundamentals in the Turkey power sector looks good: (1) Decreasing reserve margins bodes well for merchant market pricing, (2) Consumption is outgrowing new capacity additions. Gama has been posting positive EBITDA in at least the past 5 quarters (See Exhibit 1).

EXHIBIT 1: TENAGA'S OVERSEAS INVESTMENTS

EBITDA (USDm)	1Q17	2Q17	3Q17	4Q17	1Q18
Gama Enerji (30% stake)	32.9	36.4	39.1	31.6	29.5
GMR Energy (30% stake)	NA	17.6	17.7	4.7	61.7
Vortex Solar (RMm) (50% stake)	NA	NA	NA	16.2	16.1

Source: Company, MIDF

Capex looks to have peaked. Tenaga's capex in FY16/17 stood at RM11b/RM12b, whilst this year's 1H18 capex stood at RM5.3b; comprising RM2b for generation capex and the rest (RM3b) for T&D recurring capex. Tenaga spends ~RM7b capex on T&D annually. With minimal new generation projects in the pipeline (and given the new Govt's indication of already high reserve capacity), we think Tenaga's capex (generation capex) is already past peak - most of the existing projects have progressed well as of 2Q18 (1) Jimah East 92% completed, (2) Sepang Solar (83%), and (3) SPG (41%). This suggests room for further growth in dividend payout.

Recommendation. We re-affirm our BUY call on Tenaga at a higher TP of RM16.90 (from RM16.30) as we rollover our valuations to FY19F. Key catalysts: (1) Solid dividend yields of 4.6% (+ve spread against 10yr MGS of 4.04%) while valuations are cheap at 12x FY18F earnings, a substantial discount to the market's 16x-17x, (2) Peaking capex suggests possible further improvement in dividend payout, and (3) Possible monetisation of backbone fibre asset via a partner.

EXHIBIT 2: TENAGA 2Q18 RESULT

Financial Year End 31 Dec (RMm)	1Q18	2Q18	QoQ	1H18
Revenue	12,274.0	12,497.9	1.8%	24,771.9
EBITDA	4,221.7	3,567.4	-15.5%	7,789.0
Depreciation	(1,532.0)	(1,553.0)	1.4%	(3,084.9)
EBIT	2,689.7	2,014.4	-25.1%	4,704.1
Net interest expense	(280.4)	(333.3)	18.9%	(562.8)
Forex translation gain/(loss)	89.0	(169.6)	NA	(80.6)
Associates & JVs	(77.0)	(2.1)	-97.3%	(79.1)
FV of financial instruments	(50.9)	13.8		(37.1)
Pretax profit (before forex translation)	2,275.5	1,693.5	-25.6%	4,019.9
Tax	(298.6)	(255.5)	-14.4%	(554.1)
Minority Interest	(2.9)	31.1	NA	28.2
Reported net profit	2,068.8	1,237.3	-40.2%	3,357.0
Core net profit	1,937.6	1,782.9	-8.0%	3,813.6
Reported EPS (sen)	36.4	21.8	-40.2%	59.1
Core EPS (sen)	34.1	31.4	-8.0%	67.2
DPS (sen)	-	30.27	NA	30.27
EBITDA margin	34.4%	28.5%		31.4%
EBIT margin	21.9%	16.1%		19.0%
Pretax margin (pre-forex translation)	18.5%	13.6%		16.2%
Tax rate	-13.1%	-15.1%		-13.8%
Core net profit margin	15.8%	14.3%		15.4%

Source: Company, MIDF

EXHIBIT 3: TENAGA 2Q18 RESULT BREAKDOWN

Unit Revenue/Cost Analysis	1Q18	2Q18	QoQ
Average tariff achieved for TNB sale (sen/kWh)	39.57	39.76	0.5%
Demand sales volume (GWh)	27,070	29,005	7.2%
Unit Revenue (RM/kWh)	0.3957	0.3976	0.5%
Unit Cost (RM/kWh) - Total cost	0.361	0.368	2.1%
Unit Cost (RM/kWh) - IPP & TNB Fuels	0.190	0.195	2.7%
Unit Cost (RM/kWh) - Repair & maintenance	0.016	0.016	0.4%
Unit Cost (RM/kWh) - General expenses	0.017	0.019	8.9%
Unit Cost (RM/kWh) - Staff cost	0.035	0.030	-13.0%
Gross Electricity Sale Revenue (RMm):	11,281.4	12,103.3	7.3%
TNB	10,712.5	11,531.0	7.6%
EGAT	1.3	0.4	-69.2%
SESB	543.5	469.8	-13.6%
LPL	13.8	81.9	493.5%
Tenaga Wind Ventures	10.3	20.2	96.1%

Source: Company, MIDF

EXHIBIT 4: TENAGA 2Q18 GENERATION MIX

Generation Mix (Includes IPPs)	1Q18 (%)	2Q18 (%)	Variance (%) YoY
Gas & LNG	40.1	38.7	(3.5)
Coal	53.5	57.8	3.4
Distillate	0.1	0.1	0.0
Oil	0.3	0.1	(0.3)
Hydro	6.0	3.4	0.5
Fuel Cost Composition	1Q18 (%)	2Q18 (%)	Variance (%) YoY
Gas & LNG	47.0	45.3	(6.8)
Coal	51.7	54.2	7.4
Distillate	0.8	0.4	0.1
Oil	0.6	0.1	(0.7)

Source: Company, MIDF

EXHIBIT 5: TENAGA 2Q18 COST ANALYSIS

Cost Analysis (RMm)	1Q18	2Q18	QoQ
IPP purchase cost	3,664.6	3,889.6	6.1%
- Capacity payment	1,009.1	974.2	-3.5%
- Energy payment	2,655.5	2,915.4	9.8%
Fuel costs	2,482.3	2,736.2	10.2%
Repair & Maintenance	433.3	466.1	7.6%
Staff cost	939.1	875.7	-6.8%
TNB General Expenses	469.9	548.4	16.7%
Subsi. COS & Opex	245.6	614.4	150.2%
Depreciation & Amortisation	1,532.0	1,553.0	1.4%
Total	9,766.8	10,683.4	9.4%

Source: Company, MIDF

EXHIBIT 6: 2Q18 DEMAND GROWTH

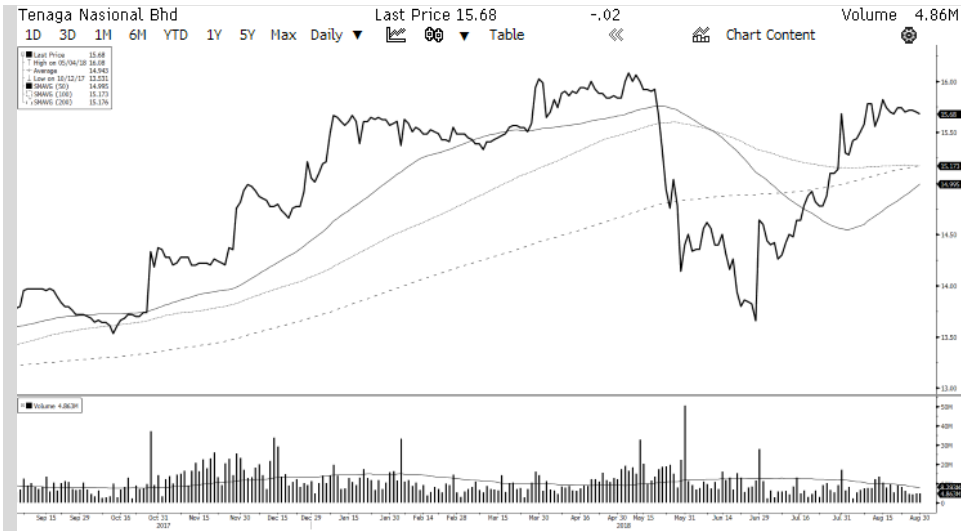


Source: Company, MIDF

Income Statement	FY15	FY16	16MFY17	FY18F	FY19F
Revenue	43,286.8	44,531.5	63,244.0	50,573.5	53,266.0
Operating expenses	(35,591.5)	(35,459.5)	(50,731.4)	(41,413.0)	(43,726.6)
EBIT	7,695.3	9,072.0	12,512.6	9,160.5	9,539.5
Net interest expense	(662.7)	(740.3)	(1,660.9)	(972.7)	(969.7)
Associates	101.1	93.3	91.3	102.7	102.7
PBT	7,133.7	8,456.8	10,945.1	8,290.5	8,672.5
Taxation	(1,072.8)	(746.0)	(1,605.1)	(870.5)	(2,081.4)
Minority Interest	(57.5)	(46.8)	(3.7)	46.2	46.2
Net profit	6,118.4	7,367.6	9,659.7	7,373.8	6,544.9
Core net profit	5,978.9	7,757.6	10,128.8	7,373.8	6,544.9
Consensus net profit	6,118	7,268	N/A	7,200	7,236
Balance Sheet	FY15	FY16	16MFY17	FY18F	FY19F
Non-current assets	98,340.0	106,146.9	114,491.7	108,493.1	111,776.9
PPE	90,300.3	91,437.8	93,089.0	97,600.2	100,884.0
Investments in associate	634.7	1,699.3	2,937.8	2,726.0	2,726.0
Others	7,405.0	13,009.8	18,464.9	8,166.9	8,166.9
Current assets	18,795.0	26,755.3	27,520.7	30,400.0	30,341.3
Inventories	843.8	950.2	1,009.4	1,048.6	1,104.5
Receivables	8,639.4	5,929.0	6,298.4	6,927.9	7,296.7
Others	402.3	9,024.7	2,934.7	3,680.9	3,680.9
Cash & equivalent	8,909.5	10,851.4	17,278.1	18,742.5	18,259.1
TOTAL ASSETS	117,135.0	132,902.2	142,012.4	138,893.1	142,118.2
Share capital	5,643.6	5,643.6	11,124.9	11,124.9	11,124.9
Minority Interest	258.9	258.9	473.4	258.9	258.9
Reserves	41,564.4	46,697.2	45,986.5	47,201.6	50,146.8
TOTAL EQUITY	47,466.9	52,599.7	57,584.8	58,585.4	61,530.6
Non-current liabilities	54,075.9	64,218.5	69,101.1	63,742.3	63,640.3
Long-term borrowings	22,713.1	22,945.5	37,038.4	32,379.4	32,277.4
Deferred tax liabilities	7,054.1	7,054.1	7,054.1	7,054.1	7,054.1
Others	24,308.7	34,218.9	25,008.6	24,308.8	24,308.8
Current liabilities	15,592.2	16,084.0	15,326.5	16,565.4	16,947.3
Short-term borrowings	1,985.8	1,985.8	1,808.1	1,985.8	1,985.8
Payables	10,411.5	6,010.3	6,342.3	6,711.7	7,093.6
Others	3,194.9	8,087.9	7,176.1	7,867.9	7,867.9
TOTAL LIABILITIES	69,668.1	80,302.5	84,427.6	80,307.7	80,587.6

Cash Flow Statement	FY15	FY16	16MFY17	FY18F	FY19F
Operating activities					
PBT	7,133.7	8,456.8	10,945.1	8,290.5	8,672.5
Depreciation & Amortization	5,294.2	5,722.2	6,105.0	5,349.3	5,576.7
Chgs in working capital	3,901.6	(164.5)	(96.6)	(299.2)	(42.8)
Interest expense	(662.7)	(740.3)	(1,660.9)	(972.7)	(969.7)
Tax paid	(810.8)	(746.0)	(1,605.1)	(870.5)	(2,081.4)
Others	(3,416.6)	764.3	(1,129.0)	926.5	923.5
CF from Operations	11,439.4	13,292.5	12,558.5	12,423.9	12,078.9
Investing activities					
Capex	(10,363.7)	(11,142.8)	(12,336.8)	(10,000.0)	(9,000.0)
Others	(2,462.6)	(7,253.1)	(348.3)	139.5	139.5
CF from Investments	(12,826.3)	(18,395.9)	(12,685.1)	(9,860.5)	(8,860.5)
Financing activities					
Dividends paid	(1,636.7)	(1,637.7)	(2,205.9)	(4,055.6)	(3,599.7)
Net proceeds in borrowings	(1,775.2)	9,063.4	4,473.6	9,199.1	(102.1)
Others	(839.8)	(886.7)	(1,041.0)	(2,240.6)	-
CF from Financing	(4,251.7)	6,539.0	1,226.7	2,902.9	(3,701.8)
Net changes in cash	(5,638.6)	1,435.6	1,100.1	5,466.3	(483.4)
Beginning cash	7,871.5	1,982.1	3,411.5	4,512.9	9,979.2
Overdrafts, Deposits & Forex	0.2	(6.2)	1.3	-	-
Ending cash	2,233.1	3,411.5	4,512.9	9,979.2	9,495.7
Ratios	FY15	FY16	16MFY17	FY18F	FY19F
Revenue growth	1.2%	2.9%	42.0%	-20.0%	5.3%
EBITDA growth	3.9%	13.9%	25.8%	-22.1%	4.2%
Net profit growth	27.7%	29.7%	30.6%	-27.2%	-11.2%
EBITDA margin	30.0%	29.7%	30.1%	28.7%	28.4%
PATAMI margin	13.8%	17.4%	16.0%	14.6%	12.3%
ROE	12.6%	14.7%	17.6%	12.6%	10.6%
ROA	5.1%	5.8%	7.1%	5.3%	4.6%
Net gearing	33%	27%	37%	27%	26%
Book value/share (RM)	8.41	9.32	10.20	10.38	10.90
PBV (x)	1.9	1.7	1.5	1.5	1.4
EV/EBITDA (x)	8.4	7.6	6.9	7.2	6.9
FCF yield (%)	1.2	2.4	0.1	1.4	1.8
Gross gearing (%)	52%	47%	67%	59%	56%

DAILY PRICE CHART



Source: Bloomberg, MIDFR

Hafriz Hezry
hafriz.hezry@midf.com.my
03-2173 8392

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.