

01 March 2018 | 4M17 Results Review

Tenaga Nasional


Dividends for short financial period

- **Dividends declared for 4-month financial period to Dec17**
- **50% payout at higher end of 30%-60% policy**
- **"Bonus" regulated earnings not sustainable in RP2**
- **Maintain HOLD at unchanged TP at RM16.30**

Released 4mth financial result due to FYE change. Due to a change in year end to from Aug to Dec, Tenaga released a 4-month financial period ended Dec17 result. Tenaga reported earnings of RM2.4b on the back of revenue of RM15.8b (no comparable financial period is available). The result is a 1-month extension to the Nov17 quarter results released last month.

Dividends for short financial period. However, the highlight of yesterday's announcement is that Tenaga announced a dividend of 21.41sen/share for the 4-month financial period. This represents a 50% payout ratio, consistent with the payout for the previous FY17 (ended Aug) period and is at the higher end of Tenaga's 30%-60% payout ratio policy.

Enjoyed "bonus" earnings in RP1. Average rates achieved during the 4M-to-Dec17 period was 39.5sen/kwh against RP1's base rate of 38.53sen/kwh given a more favourable customer mix than RP1 forecast (See Exhibit 3); industrial consumers are charged lower tariffs while commercial and domestic segments are charged higher. As the proportion of higher priced commercial and residential segment volumes were higher than forecast, Tenaga enjoyed "bonus" earnings for the most part of RP1 (CY15-17). The "bonus" earnings explained above is unlikely to sustain into RP2 because the reference price in calculating Tenaga's revenues for RP2 is adjusted to the actual average tariff achieved at end RP1 which is 39.5sen instead of RP1's 38.5sen.

Inflated earnings not sustainable. As such, while average allowable returns are higher for RP2 as we had argued previously (by circa 11% on our estimates given a higher asset base), the "bonus" earnings which inflated Tenaga's profits in RP1 is unlikely to be sustained. Average RP1 allowable return was RM3.4b/annum (7.5% WACC, average asset base: RM46b) but actual regulated earnings achieved is estimated to have been around RM4.4b given the more favourable average rates. Given the absence of the "bonus" earnings in RP2 (partly offset by higher RP2 allowable return of an average RM3.8b, 7.3% WACC, average asset base: 53b), we estimate Tenaga's regulated earnings to be impacted by RM500-600m/annum or circa 7% per annum. 

Maintain NEUTRAL
Unchanged Target Price: RM16.30

RETURN STATS	
Price (28 Feb 2018)	RM15.70
Target Price	RM16.30
Expected Share Price Return	+3.8%
Expected Dividend Yield	+4.6%
Expected Total Return	+8.4%

STOCK INFO	
KLCI	1,856.20
Bursa / Bloomberg	5347/TNB MK
Board / Sector	Main
Syariah Compliant	Yes
Issued shares (mil)	5665.99
Par Value (RM)	1.00
Market cap. (RM'm)	88,955.98
Price over NA	1.50
52-wk price Range	RM13.40 - RM16.10
Beta (against KLCI)	0.55
3-mth Avg Daily Vol	12.5m
3-mth Avg Daily Value	RM195m
Major Shareholders (%)	
Khazanah Nasional	28.1%
EPF	12.4%
Skim ASB	8.5%

INVESTMENT STATISTICS

FYE Dec **	FY14	FY15	FY16	16MFY17*	FY18F	FY19F
Revenue (RM'm)	42,792.4	43,286.8	44,531.5	63,244.0	50,573.5	53,266.0
EBIT (RM'm)	7,629.9	7,695.3	9,072.0	12,512.6	9,160.5	9,710.9
Pre-tax Profit (RM'm)	7,114.7	7,133.7	8,456.8	10,945.1	8,290.5	8,454.8
Core net profit (RM'm)	4,682.5	5,978.9	7,757.6	10,128.8	7,373.8	6,379.5
FD EPS (sen)	83.0	105.9	137.5	179.5	130.7	113.0
EPS growth (%)	(13.7)	27.7	29.7	30.6	(27.2)	(13.5)
PER (x)	18.9	14.8	11.4	8.7	12.0	13.9
Net Dividend (sen)	29.0	29.0	32.0	82.4	71.9	62.2
Net Dividend Yield (%)	1.8	1.8	2.0	5.2	4.6	4.0
Payout ratio	25.3%	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

EXHIBIT 1: TENAGA RESULTS FOR 4-MTH TO DEC17 PERIOD

FYE Dec (RMm)	12M17 (ended Aug)	4M-to-Dec17	Dec-17
Revenue	47,416.9	15,827.1	4,220.1
EBITDA	15,469.0	3,148.6	804.5
Depreciation	(6,105.0)		
EBIT	9,364.0	3,148.6	804.5
Net interest expense	(1,218.4)	(442.5)	(85.6)
Translation gain/(loss)	(13.7)	329.7	(5.9)
Associates/JVs	128.3	(37.0)	23.9
Pretax profit before forex translation	8,295.5	2,649.6	765.0
Tax	(1,369.7)	(235.4)	(171.9)
Minority Interest	8.1	(11.8)	(16.7)
Reported net profit	6,904.0	2,755.7	603.9
Core net profit	7,744.8	2,384.0	725.6
Reported EPS (sen)	122.3	48.8	10.7
Core EPS (sen)	137.2	42.2	12.9
DPS (sen)	61.00	21.41	-
EBITDA margin	32.6%	19.9%	19.1%
EBIT margin	19.7%	19.9%	19.1%
Pretax margin (pre-forex transation)	17.5%	16.7%	18.1%
Tax rate	-16.5%	-8.9%	-22.5%
Core net profit margin	16.3%	15.1%	17.2%
Payout ratio	49.9%	43.8%	0.0%

Source: Company, MIDF

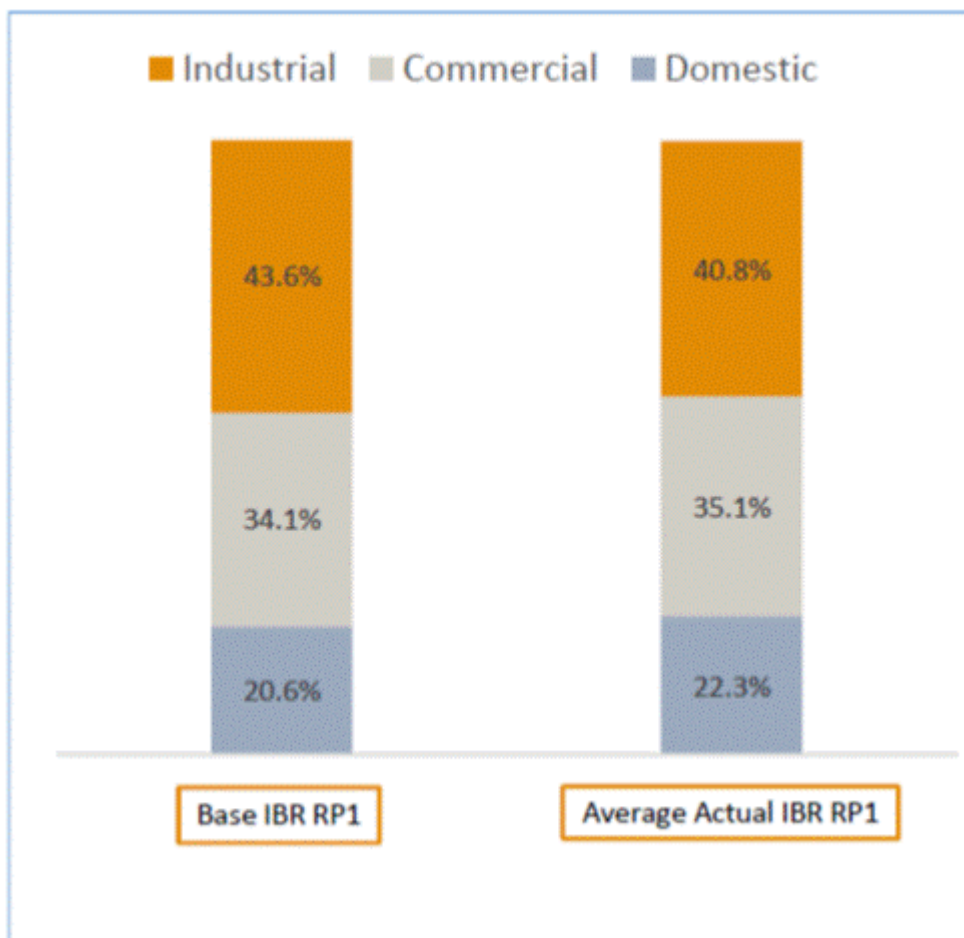
Recommendation. Maintain HOLD at unchanged DCF-derived TP of RM16.30. While dividend yields are still relatively attractive, the inflated earnings in RP1 is unlikely to be sustained in RP2. Furthermore, the stock has had a good run in the past 12 months and we suggest investors lock-in profits at this point.

EXHIBIT 2: TENAGA'S "BONUS" EARNINGS IN RP1 UNLIKELY TO BE SUSTAINED INTO RP2

	RP1	RP2
Reference price (sen/kwh)	38.53	39.45
Average allowable return RMm)	3,439	3,837
Actual average rates (sen/kwh)	39.45	N/A
<i>Estimated "Bonus" earnings from higher than forecast average rates</i>	<i>982.8</i>	<i>N/A</i>
Actual regulated earnings (RMm)	4,422	3,837

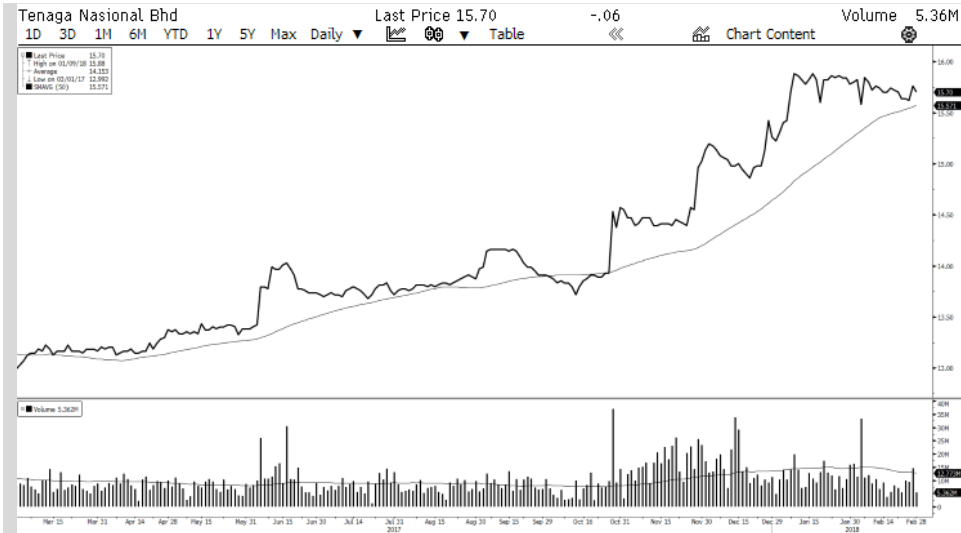
Source: Company, MIDF

EXHIBIT 3: TENAGA CUSTOMER MIX MORE FAVOURABLE THAN FORECAST IN RP1



Source: EC, MIDF

DAILY PRICE CHART



Hafiz Hezry
hafiz.hezry@midf.com.my
03-2173 8392

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

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.