

07 September 2018 | Corporate Update

## Tenaga Nasional Berhad

### *First step towards monetising fibre asset*

- **Pilot project to assess fibre potential**
- **A step towards monetising a legacy asset**
- **Likely to limit capex exposure to backbone infra**
- **Re-affirm BUY at unchanged TP of RM16.90**

**Pilot project to test fibre infra.** Tenaga has initiated a pilot project in Jasin, Melaka to assess the technical, safety and commercial viability of using Tenaga's electrical infrastructure for the Government's National Connectivity Plan (NCP). The pilot project is targeted to be completed by end-2018, will cover 1100 of 4300 homes in 3 areas: (1) Taman Merbau (2) Taman Maju (3) Felda Kemendor, all in Jasin.

**Monetisation of legacy asset.** The development is a step towards potential monetisation of Tenaga's fibre assets. The fibre asset is utilised for Tenaga's supervisory control and data acquisition (SCADA) system. We understand that the fibre (in certain parts of Tenaga's network) runs all the way to the substations. The network is understood to be underutilised currently, but it is still uncertain at this juncture whether Tenaga is required to inject further capital to upgrade the existing fibre infrastructure for it to be commercially viable.

**Tenaga to stick to core business.** Tenaga is likely to stick to its core business in power generation, transmission and distribution and will likely limit its exposure to the fibre broadband business, possibly via: (1) Leasing out of its backbone fibre infra (2) Leasing out infrastructure that can support last mile connection e.g. extensive electrical pole network connection to homes – Malaysia has a high 99% electrification ratio. Given that the current fixed broadband space is dominated by TM, Tenaga's potential entry into the fray is likely to infuse meaningful competition. We understand that Tenaga does not intend to get into last mile provision (as it will involve major capex and is not within Tenaga's core business) and is open to partnership with 3<sup>rd</sup> parties for this.

**HSBB capex.** If we were to look at TM's HSBB rollout as a yardstick, total investment for Phase 1 HSBB (Klang Valley and all key economic areas in the country) amounted to RM11.3b. This was a Public-Private partnership with the Government investing RM2.4b and TM investing RM8.9b. Phase 1 covered >1.3m premises. The investment involved backhaul investments up to the last mile and involved 800 broadband-enabled exchanges.

**Recommendation.** We re-affirm our BUY call on Tenaga at unchanged TP of RM16.90. 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 room for dividend upside (3) Possible monetisation of backbone fibre asset via partners.

**Maintain BUY**  
**Unchanged Target Price: RM16.90**

RETURN STATS	
Price (6 <sup>th</sup> Sept 2018)	RM15.76
Target Price	RM16.90
Expected Share Price Return	+7.2%
Expected Dividend Yield	+4.6%
<b>Expected Total Return</b>	<b>+12.4%</b>

STOCK INFO	
KLCI	1,798.57
Bursa / Bloomberg	5347/TNB MK
Board / Sector	Main
Syariah Compliant	Yes
Issued shares (mil)	5678.18
Market cap. (RM'm)	89,488.13
Price over NA	1.51
52-wk price Range	RM13.5 - RM16.3
Beta (against KLCI)	0.82
3-mth Avg Daily Vol	8.16m
3-mth Avg Daily Value	RM121m
Major Shareholders (%)	
Khazanah Nasional	28.1%
EPF	12.7%
Skim ASB	8.8%

**INVESTMENT STATISTICS**

<b>FYE Dec **</b>	<b>FY15</b>	<b>FY16</b>	<b>16MFY17*</b>	<b>FY18F</b>	<b>FY19F</b>
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)	14.9	11.5	8.8	12.1	13.6
Net Dividend (sen)	29.0	32.0	82.4	71.9	63.8
Net Dividend Yield (%)	1.8	2.0	5.2	4.6	4.0
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

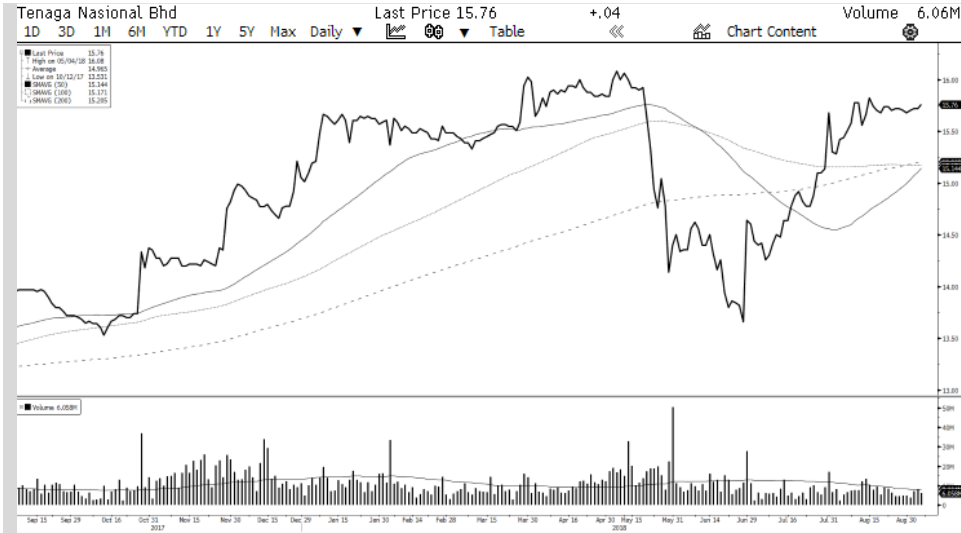
\*\* FYE Aug prior to FY17

Source: Company, MIDF

<b>Income Statement</b>	<b>FY15</b>	<b>FY16</b>	<b>16MFY17</b>	<b>FY18F</b>	<b>FY19F</b>
<b>Revenue</b>	<b>43,286.8</b>	<b>44,531.5</b>	<b>63,244.0</b>	<b>50,573.5</b>	<b>53,266.0</b>
Operating expenses	(35,591.5)	(35,459.5)	(50,731.4)	(41,413.0)	(43,726.6)
<b>EBIT</b>	<b>7,695.3</b>	<b>9,072.0</b>	<b>12,512.6</b>	<b>9,160.5</b>	<b>9,539.5</b>
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
<b>PBT</b>	<b>7,133.7</b>	<b>8,456.8</b>	<b>10,945.1</b>	<b>8,290.5</b>	<b>8,672.5</b>
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
<b>Core net profit</b>	<b>5,978.9</b>	<b>7,757.6</b>	<b>10,128.8</b>	<b>7,373.8</b>	<b>6,544.9</b>
Consensus net profit	6,118	7,268	N/A	7,200	7,236
<b>Balance Sheet</b>	<b>FY15</b>	<b>FY16</b>	<b>16MFY17</b>	<b>FY18F</b>	<b>FY19F</b>
<b>Non-current assets</b>	<b>98,340.0</b>	<b>106,146.9</b>	<b>114,491.7</b>	<b>108,493.1</b>	<b>111,776.9</b>
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
<b>Current assets</b>	<b>18,795.0</b>	<b>26,755.3</b>	<b>27,520.7</b>	<b>30,400.0</b>	<b>30,341.3</b>
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
<b>TOTAL ASSETS</b>	<b>117,135.0</b>	<b>132,902.2</b>	<b>142,012.4</b>	<b>138,893.1</b>	<b>142,118.2</b>
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
<b>TOTAL EQUITY</b>	<b>47,466.9</b>	<b>52,599.7</b>	<b>57,584.8</b>	<b>58,585.4</b>	<b>61,530.6</b>
<b>Non-current liabilities</b>	<b>54,075.9</b>	<b>64,218.5</b>	<b>69,101.1</b>	<b>63,742.3</b>	<b>63,640.3</b>
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
<b>Current liabilities</b>	<b>15,592.2</b>	<b>16,084.0</b>	<b>15,326.5</b>	<b>16,565.4</b>	<b>16,947.3</b>
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
<b>TOTAL LIABILITIES</b>	<b>69,668.1</b>	<b>80,302.5</b>	<b>84,427.6</b>	<b>80,307.7</b>	<b>80,587.6</b>

<b>Cash Flow Statement</b>	<b>FY15</b>	<b>FY16</b>	<b>16MFY17</b>	<b>FY18F</b>	<b>FY19F</b>
<b>Operating activities</b>					
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
<b>CF from Operations</b>	<b>11,439.4</b>	<b>13,292.5</b>	<b>12,558.5</b>	<b>12,423.9</b>	<b>12,078.9</b>
<b>Investing activities</b>					
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
<b>CF from Investments</b>	<b>(12,826.3)</b>	<b>(18,395.9)</b>	<b>(12,685.1)</b>	<b>(9,860.5)</b>	<b>(8,860.5)</b>
<b>Financing activities</b>					
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)	-
<b>CF from Financing</b>	<b>(4,251.7)</b>	<b>6,539.0</b>	<b>1,226.7</b>	<b>2,902.9</b>	<b>(3,701.8)</b>
Net changes in cash	(5,638.6)	1,435.6	1,100.1	5,466.3	(483.4)
<b>Beginning cash</b>	<b>7,871.5</b>	<b>1,982.1</b>	<b>3,411.5</b>	<b>4,512.9</b>	<b>9,979.2</b>
Overdrafts, Deposits & Forex	0.2	(6.2)	1.3	-	-
<b>Ending cash</b>	<b>2,233.1</b>	<b>3,411.5</b>	<b>4,512.9</b>	<b>9,979.2</b>	<b>9,495.7</b>
<b>Ratios</b>	<b>FY15</b>	<b>FY16</b>	<b>16MFY17</b>	<b>FY18F</b>	<b>FY19F</b>
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	7.0
FCF yield (%)	1.2	2.4	0.2	2.7	3.5
Gross gearing (%)	52%	47%	67%	59%	56%

## DAILY PRICE CHART



Source: Bloomberg, MIDFR

**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.