

17 December 2018 | Corporate Update

## Tenaga Nasional

### ICPT vs. revenue cap adjustments

- **1H19 ICPT-surcharge raised, staggered implementation**
- **Revenue cap adjustments factored into ICPT higher than earlier expectation**
- **FY19F earnings revised down 7%**
- **TP lowered to RM14.60 (from RM16.80) but BUY maintained after sharp price correction**

**Higher imbalance cost.** Imbalance cost for the period of Jul-Dec18 was announced at RM1.8b which translates to 3.43sen/kwh. However, not all of the imbalance cost will be passed through via ICPT in 1H19 given cost and revenue adjustments for TNB. Post-adjustments, imbalance cost that will be passed through amounts to RM948m, translating to a 2.15sen/kwh average monthly surcharge in 1H19, higher than the 1.35sen/kwh current paid. Domestic consumers will continue to be subsidised by the KWIE (Electricity Industry Fund).

**Revenue cap adjustments.** For the first time, IBR revenue cap and price cap adjustments are factored into ICPT – in RP1 this was supposed to be done at end of regulatory period. Revenue cap adjustment was determined at RM367m and there were also several other items factored in including refunds of excess single buyer working capital (refer to Exhibit 2). All in, adjustments, including revenue and price cap adjustments, amounted to RM564m. The adjustments were higher than our earlier expectation given variance in forecast sales volume as well as other revenue adjustments made (i.e. refunds) that were earlier unanticipated.

**Staggered ICPT pass-through.** The ICPT pass through for 1H19 will be done on a staggered basis in order to allow adequate transition period for the non-domestic consumers. For Jan-Feb19, ICPT surcharge is maintained at 1.35sen/kwh while from Mar-June19 ICPT surcharge will increase to 2.55sen/kwh. All in, this should workout to an average 2.15sen/kwh surcharge per month (See Exhibit 2).

**Earnings revisions.** Given the higher than expected revenue adjustments for Tenaga, we make adjustments accordingly to our forecast sales and revise down our FY19F earnings by 7% to RM6.1b. FY18F earnings is unchanged.

**Recommendation.** Following the downward revision to earnings, our TP is revised down to RM14.60/share (from RM16.80/share earlier). However, our BUY is maintained following already steep share price correction after Tenaga's weak 3Q18 results recently. Dividend yield is decent at 4.1% (based on a more conservative 50% payout assumption). Key catalysts: (1) Peaking capex cycle suggests room for dividend upside (2) Possible monetisation of backbone fibre asset via partners.

**Maintain BUY**

**Revised Target Price: RM14.60**  
(previously RM16.80)

| RETURN STATS                 |               |
|------------------------------|---------------|
| Price (14 Dec 2018)          | RM13.26       |
| Target Price                 | RM14.60       |
| Expected Share Price Return  | +10.1%        |
| Expected Dividend Yield      | +4.1%         |
| <b>Expected Total Return</b> | <b>+14.1%</b> |

| STOCK INFO             |                 |
|------------------------|-----------------|
| KLCI                   | 1,661.96        |
| Bursa / Bloomberg      | 5347/TNB MK     |
| Board / Sector         | Main            |
| Syariah Compliant      | Yes             |
| Issued shares (mil)    | 5,686.89        |
| Market cap. (RM'm)     | 83,711.00       |
| Price over NA          | 1.41            |
| 52-wk price Range      | RM13.5 - RM16.3 |
| Beta (against KLCI)    | 0.92            |
| 3-mth Avg Daily Vol    | 5.74m           |
| 3-mth Avg Daily Value  | RM86.7m         |
| Major Shareholders (%) |                 |
| Khazanah Nasional      | 28.8%           |
| EPF                    | 12.2%           |
| Skim ASB               | 8.9%            |

## INVESTMENT STATISTICS

| FYE Dec **             | FY15     | FY16     | 16MFY17* | FY18F    | FY19F    |
|------------------------|----------|----------|----------|----------|----------|
| Revenue (RM'm)         | 43,286.8 | 44,531.5 | 63,244.0 | 50,573.5 | 52,666.2 |
| EBIT (RM'm)            | 7,695.3  | 9,072.0  | 12,512.6 | 9,160.5  | 8,939.6  |
| Pre-tax Profit (RM'm)  | 7,133.7  | 8,456.8  | 10,945.1 | 8,290.5  | 8,072.6  |
| Core net profit (RM'm) | 5,978.9  | 7,757.6  | 10,128.8 | 6,834.9  | 6,089.0  |
| FD EPS (sen)           | 105.9    | 137.5    | 179.5    | 121.1    | 107.9    |
| EPS growth (%)         | 27.7     | 29.7     | 30.6     | (32.5)   | (10.9)   |
| PER (x)                | 12.5     | 9.6      | 7.4      | 10.9     | 12.3     |
| Net Dividend (sen)     | 29.0     | 32.0     | 82.4     | 60.6     | 53.9     |
| Net Dividend Yield (%) | 2.2      | 2.4      | 6.2      | 4.6      | 4.1      |
| Payout ratio           | 26.7%    | 24.5%    | 48.1%    | 50.0%    | 50.0%    |

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

\*\* FYE Aug prior to FY17

Source: Company, MIDF

## EXHIBIT 2: IMBALANCE OCST PASS THROUGH FOR 1H19

|   | (RM mn)       | Sen/kwh     |
|---|---------------|-------------|
| ICPT for period 1 July – 31 December 2018                       | 1,820.00      | 3.43        |
| Subsidy for Domestic / Residential customers from KWIE/EIF      | 308.00        |             |
| Cost and Revenue Adjustment                                     | 564.00        |             |
| Excess Revenue for Revenue Cap & Price Cap                      | 367.00        |             |
| Refund of Interests on Customer Deposits                        | 59.00         |             |
| Refund of Excess Single Buyer Working Capital                   | 57.00         |             |
| Refund of Other Income Related to Regulated Business            | 81.00         |             |
| <b>Balance to be Pass-Through to Non-Domestic / Residential</b> | <b>948.00</b> | <b>2.15</b> |

Source: Company, MIDFR

## EXHIBIT 3: ILLUSTRATION OF STAGGERED ICPT SURCHARGE

| Balance to be Pass-Through to Non-Domestic / Residential | Jan          | Feb          | Mar           | Apr           | May           | June          | Total         |
|--|--------------|--------------|---------------|---------------|---------------|---------------|---------------|
| ICPT rates (sen/kwh)                                     | 1.35         | 1.35         | 2.55          | 2.55          | 2.55          | 2.55          | 2.15          |
| Sales for Non-domestic / Residential (Gwh)               | 7,400        | 7,250        | 7,200         | 7,600         | 7,400         | 7,400         | 44,250        |
| <b>Total Monthly Recovery (RM mn)</b>                    | <b>99.90</b> | <b>97.88</b> | <b>183.60</b> | <b>193.80</b> | <b>188.70</b> | <b>188.70</b> | <b>952.58</b> |

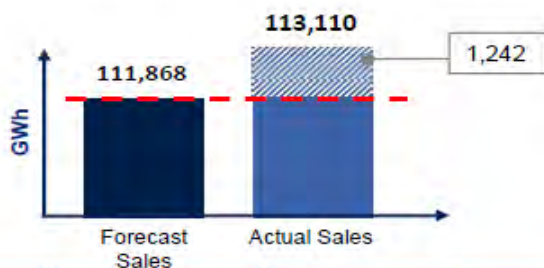
Source: Company, MIDFR

## EXHIBIT 4: REVENUE CAP ADJUSTMENT

### Revenue Cap (Transmission, Dist. Net, GSO & SBO)

- Revenue cap entities are not allowed to earn a revenue higher than their allowed annual revenue. Any excess must be passed-through to the customers via cost and revenue adjustment mechanism
- This year's higher actual sales leads to higher revenue earned by the revenue cap entities

2018 Variations in Sales (in GWh)



| Business Entities    | Allowed Tariff (sen/kWh) | Variations in Sales (GWh) | Adjustment (RM Mil) |
|----------------------|--------------------------|---------------------------|---------------------|
| Revenue Cap Entities | 11.36                    | + 1,242                   | 141.2               |

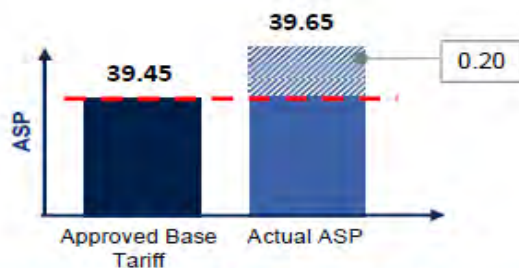
Source: Company, MIDFR

## EXHIBIT 5: PRICE CAP ADJUSTMENTS

### Price Cap (Customer Services)

- Any excess revenue earned due to higher Average Selling Price (ASP) compared to Base Tariff must be passed-through to the customers via cost and revenue adjustment mechanism
- For 2018, the ASP is recorded to be higher than the Base Tariff

2018 Variations in ASP (sen/kWh)



| Business Entities | Actual Sales (GWh) | Variations in ASP (sen/kWh) | Adjustment (RM Mil) |
|-------------------|--------------------|-----------------------------|---------------------|
| CS                | 113,110            | + 0.20                      | 226.2               |

Source: Company, MIDFR

| <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>52,666.2</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>8,939.6</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>8,072.6</b>   |
| Taxation                       | (1,072.8)        | (746.0)          | (1,605.1)        | (1,409.4)        | (1,937.4)        |
| Minority Interest              | (57.5)           | (46.8)           | (3.7)            | 46.2             | 46.2             |
| Net profit                     | 6,118.4          | 7,367.6          | 9,659.7          | 6,834.9          | 6,089.0          |
| <b>Core net profit</b>         | <b>5,978.9</b>   | <b>7,757.6</b>   | <b>10,128.8</b>  | <b>6,834.9</b>   | <b>6,089.0</b>   |
| Consensus net profit           | 6,118            | 7,268            | N/A              | 7,200.0          | 7,139.0          |
|                                |                  |                  |                  | -5.1%            | -14.7%           |
| <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>30,499.3</b>  | <b>30,539.8</b>  |
| Inventories                    | 843.8            | 950.2            | 1,009.4          | 1,048.6          | 1,092.0          |
| Receivables                    | 8,639.4          | 5,929.0          | 6,298.4          | 6,927.9          | 7,214.5          |
| 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         | 18,841.8         | 18,552.3         |
| <b>TOTAL ASSETS</b>            | <b>117,135.0</b> | <b>132,902.2</b> | <b>142,012.4</b> | <b>138,992.4</b> | <b>142,316.7</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         | 47,300.8         | 50,345.3         |
| <b>TOTAL EQUITY</b>            | <b>47,466.9</b>  | <b>52,599.7</b>  | <b>57,584.8</b>  | <b>58,684.6</b>  | <b>61,729.1</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>  |

| Cash Flow Statement          | FY15              | FY16              | 16MFY17           | FY18F            | FY19F            |
|------------------------------|-------------------|-------------------|-------------------|------------------|------------------|
| <b>Operating activities</b>  |                   |                   |                   |                  |                  |
| PBT                          | 7,133.7           | 8,456.8           | 10,945.1          | 8,290.5          | 8,072.6          |
| 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)          | 51.8             |
| Interest expense             | (662.7)           | (740.3)           | (1,660.9)         | (972.7)          | (969.7)          |
| Tax paid                     | (810.8)           | (746.0)           | (1,605.1)         | (1,409.4)        | (1,937.4)        |
| 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>11,885.0</b>  | <b>11,717.6</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)         | (3,417.5)        | (3,044.5)        |
| 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)        | 0.0              |
| <b>CF from Financing</b>     | <b>(4,251.7)</b>  | <b>6,539.0</b>    | <b>1,226.7</b>    | <b>3,541.0</b>   | <b>(3,146.6)</b> |
| Net changes in cash          | (5,638.6)         | 1,435.6           | 1,100.1           | 5,565.5          | (289.5)          |
| <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>10,078.4</b>  |
| Overdrafts, Deposits & Forex | 0.2               | (6.2)             | 1.3               | 0.0              | 0.0              |
| <b>Ending cash</b>           | <b>2,233.1</b>    | <b>3,411.5</b>    | <b>4,512.9</b>    | <b>10,078.4</b>  | <b>9,788.9</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%           | 4.1%             |
| EBITDA growth                | 3.9%              | 13.9%             | 25.8%             | -22.1%           | 0.0%             |
| Net profit growth            | 27.7%             | 29.7%             | 30.6%             | -32.5%           | -10.9%           |
| EBITDA margin                | 30.0%             | 29.7%             | 30.1%             | 28.7%            | 27.6%            |
| PATAMI margin                | 13.8%             | 17.4%             | 16.0%             | 13.5%            | 11.6%            |
| ROE                          | 12.6%             | 14.7%             | 17.6%             | 11.6%            | 9.9%             |
| ROA                          | 5.1%              | 5.8%              | 7.1%              | 4.9%             | 4.3%             |
| Net gearing                  | 33%               | 27%               | 37%               | 26%              | 25%              |
| Book value/share (RM)        | 8.41              | 9.32              | 10.20             | 10.40            | 10.94            |
| PBV (x)                      | 1.9               | 1.7               | 1.5               | 1.3              | 1.2              |
| EV/EBITDA (x)                | 8.4               | 7.6               | 6.9               | 6.3              | 6.3              |
| FCF yield (%)                | 1.2               | 2.4               | 0.1               | 2.5              | 3.6              |
| Gross gearing (%)            | 52%               | 47%               | 67%               | 59%              | 56%              |

## DAILY PRICE CHART



Source: Bloomberg, MIDFR

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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. |