

02 July 2018 | Corporate Update

## Tenaga Nasional

### *Maiden surcharge pass-through for 2H18*

- **ICPT pass-through for non-residential consumers**
- **Decision for narrower scope of subsidy reduces EIF burden**
- **Removes a major overhang on regulatory risk post-elections**
- **Reaffirm BUY at unchanged TP of RM16.30, 4.9% yields**

**ICPT pass-through for non-residential.** The EC announced an ICPT surcharge of 1.35sen/kwh for 2H18 which will be passed on for non-residential consumers. The 2H18 ICPT surcharge, or cost under-recovery, amounts to a total of RM698m. We also understand that the previous 1.52sen/kwh rebate has expired on 30<sup>th</sup> June, which means that 2H18 tariff effectively increases by 7.6% or a total 2.87sen/kwh for non-residential consumers. Both the rebate and ICPT surcharge in 1H18 was previously subsidised by EIF (Electricity Industry Fund). For residential consumers however, the ICPT surcharge will continue to be subsidised by the EIF for 2H18.

**Reduces burden on EIF.** The decision to subsidise only residential consumers helps to reduce the burden on EIF, which would have depleted to an estimated RM571m post 1H18 subsidy. The residential segment accounts for just 22% of total power demand. Extrapolating from this we estimate only RM155m of the total RM698m 2H18 ICPT surcharge, as well as RM175m of an estimated RM785m (1.52sen/kwh) in rebates will be funded by the EIF. The remaining (i.e. sales to non-residential sectors) will be absorbed by an ICPT pass through as well as the elimination of the previous 1.52sen/kwh rebate. In comparison, in 1H18, some RM929m of EIF funds were used to subsidise consumers across the board.

**Removes a major overhang.** The decision to allow a cost pass through sends a positive signal to the market in that the new Government is willing to bite the bullet to pass through higher generation costs and uphold the IBR framework; a perceived risk previously that drove down Tenaga's share price 14%-15% post-election. This is in fact the first time ICPT is allowed to be passed through since turning into a surcharge a year ago.

**Time to bottom fish?** Tenaga's share price has been bashed down quite substantially, presumably given the perceived risk on its ability to attain a tariff hike, and secondly, given Tenaga's reasonably high foreign shareholding (of 24%) among index stocks. Given substantial price depreciation in the past month, we see value emerging. Our TP remains unchanged at RM16.30, and our BUY call is reaffirmed. Dividend yields are now attractive at 5.3% (+ve spread against 10yr MGS of 4.26%) while valuations are cheap at 11x FY18F earnings, a substantial discount to the market's 16x-17x.

**Maintain BUY**  
**Unchanged Target Price: RM16.30**

RETURN STATS	
Price (29 June 2018)	RM14.64
Target Price	RM16.30
Expected Share Price Return	+11.3%
Expected Dividend Yield	+4.9%
<b>Expected Total Return</b>	<b>+16.2%</b>

STOCK INFO	
KLCI	1,691.50
Bursa / Bloomberg	5347/TNB MK
Board / Sector	Main
Syariah Compliant	Yes
Issued shares (mil)	5678.18
Market cap. (RM'm)	83,128.56
Price over NA	1.50
52-wk price Range	RM13.5 - RM16.3
Beta (against KLCI)	0.79
3-mth Avg Daily Vol	12.7m
3-mth Avg Daily Value	RM193m
Major Shareholders (%)	
EPF	12.7%
Skim ASB	8.7%
KWAP	5.8%

## 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	9,710.9
Pre-tax Profit (RM'm)	7,133.7	8,456.8	10,945.1	8,290.5	8,454.8
Core net profit (RM'm)	5,978.9	7,757.6	10,128.8	7,373.8	6,379.5
FD EPS (sen)	105.9	137.5	179.5	130.7	113.0
EPS growth (%)	27.7	29.7	30.6	(27.2)	(13.5)
PER (x)	13.8	10.7	8.2	11.2	13.0
Net Dividend (sen)	29.0	32.0	82.4	71.9	62.2
Net Dividend Yield (%)	2.0	2.2	5.6	4.9	4.2

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

\*\* FYE Aug prior to FY17

Source: Company, MIDF

## EXHIBIT 1: 2H18 EFFECTIVE TARIFF

	sen/kwh
Effective tariff in 1H18	37.93
Previous ICPT rebate given	1.52
RP2 base tariff	39.45
ICPT surcharge for 2H18	1.35
Effective tariff for 2H18	40.80
Effective increase in tariff vs. 1H18 effective tariff	7.6%

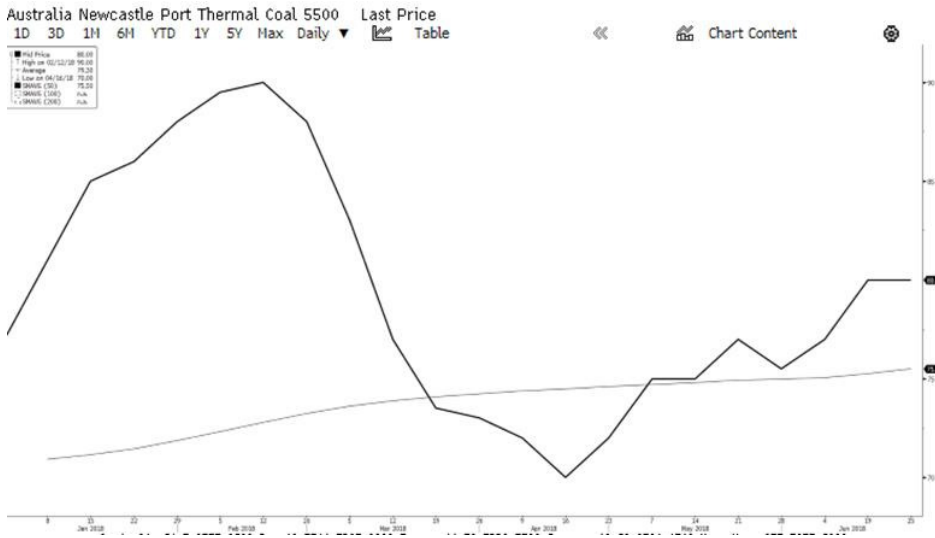
Source: Company, MIDF

## EXHIBIT 2: MAIDEN ICPT PASS THROUGH SINCE TURNING INTO SURCHARGE LAST YEAR

sen/kwh	1H15	2H15	1H16	2H16	1H17	2H17	1H18	1H19
Base Tariff	38.53	38.53	38.53	38.53	38.53	38.53	39.45	39.45
<b>Actual ICPT surcharge/(rebate) charged by Tenaga</b>	<b>(2.25)</b>	<b>(2.25)</b>	<b>(1.52)</b>	<b>(1.52)</b>	<b>(1.52)</b>	<b>1.02</b>	<b>0.28</b>	<b>1.35</b>
EIF subsidy (payment to Tenaga) on behalf of consumers (non-residential still subsidized for 2H18)						2.54	1.80	-
Effective ICPT surcharge/(rebate) to consumers (non-residential for 2H18)	(2.25)	(2.25)	(1.52)	(1.52)	(1.52)	(1.52)	(1.52)	1.35

Source: Company, MIDF

## EXHIBIT 3: MARKET COAL PRICE HAS EASED SINCE END-FEBRUARY



Source: Bloomberg, 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)	(43,555.2)
<b>EBIT</b>	<b>7,695.3</b>	<b>9,072.0</b>	<b>12,512.6</b>	<b>9,160.5</b>	<b>9,710.9</b>
Net interest expense	(662.7)	(740.3)	(1,660.9)	(972.7)	(1,358.8)
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>8,454.8</b>
Taxation	(1,072.8)	(746.0)	(1,605.1)	(870.5)	(2,029.2)
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	6,379.5
<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>6,379.5</b>
Consensus net profit	6,118	7,268	N/A	7,257	7,255
<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>103,252.5</b>	<b>104,707.7</b>
PPE	90,300.3	91,437.8	93,089.0	94,600.2	96,055.4
Investments in associate	634.7	1,699.3	2,937.8	485.4	485.4
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>35,640.6</b>	<b>50,287.8</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	11,084.6	11,674.8
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	19,826.4	33,827.6
<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>154,995.5</b>
Share capital	5,643.6	5,643.6	11,124.9	5,643.6	5,643.6
Minority Interest	258.9	258.9	473.4	258.9	258.9
Reserves	41,564.4	46,697.2	45,986.5	52,682.9	55,553.7
<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>61,456.2</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>76,592.0</b>
Long-term borrowings	22,713.1	22,945.5	37,038.4	32,379.4	45,229.1
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>93,539.3</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	8,454.8
Depreciation & Amortization	5,294.2	5,722.2	6,105.0	5,349.3	5,405.3
Chgs in working capital	3,901.6	(164.5)	(96.6)	(4,455.9)	(264.1)
Interest expense	(662.7)	(740.3)	(1,660.9)	(972.7)	(1,358.8)
Tax paid	(810.8)	(746.0)	(1,605.1)	(870.5)	(2,029.2)
Others	(3,416.6)	764.3	(1,129.0)	926.5	1,312.6
<b>CF from Operations</b>	<b>11,439.4</b>	<b>13,292.5</b>	<b>12,558.5</b>	<b>8,267.1</b>	<b>11,520.7</b>
<b>Investing activities</b>					
Capex	(10,363.7)	(11,142.8)	(12,336.8)	(7,000.0)	(7,000.0)
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>(6,860.5)</b>	<b>(6,860.5)</b>
<b>Financing activities</b>					
Dividends paid	(1,636.7)	(1,637.7)	(2,205.9)	(4,055.6)	(3,508.7)
Net proceeds in borrowings	(1,775.2)	9,063.4	4,473.6	9,199.1	12,849.7
Others	(839.8)	(886.7)	(1,041.0)	-	-
<b>CF from Financing</b>	<b>(4,251.7)</b>	<b>6,539.0</b>	<b>1,226.7</b>	<b>5,143.5</b>	<b>9,341.0</b>
Net changes in cash	(5,638.6)	1,435.6	1,100.1	6,550.1	14,001.2
<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>11,063.0</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>11,063.0</b>	<b>25,064.2</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%	-13.5%
EBITDA margin	30.0%	29.7%	30.1%	28.7%	28.4%
PATAMI margin	13.8%	17.4%	16.0%	14.6%	12.0%
ROE	12.6%	14.7%	17.6%	12.6%	10.4%
ROA	5.1%	5.8%	7.1%	5.3%	4.1%
Net gearing	33%	27%	37%	25%	22%
Book value/share (RM)	8.41	9.32	10.20	10.38	10.89
PBV (x)	1.6	1.5	1.3	1.3	1.3
EV/EBITDA (x)	7.4	6.7	6.1	6.3	6.0
FCF yield (%)	1.4	2.8	0.1	1.6	5.9
Gross gearing (%)	52%	47%	67%	59%	77%

## 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.