

14 August 2018 | Corporate Update

Tenaga Nasional

Share price hit by weak Lira

- **Share price hit by weak Turkish Lira**
- **Miniscule earnings contribution from GAMA Enerji**
- **Debt presumably long-term, but any rollover or mark-to-market could be a substantial one-off**
- **Maintain BUY at unchanged TP of RM16.30, 4.6% yields**

Share price impacted by weak Lira. Tenaga's share price was hit yesterday following a continued fall in the Turkish Lira. The Lira has fallen 24% since late last week. Tenaga has a 30% stake (purchased for USD250m back in 2016) in Turkish based GAMA Enerji, which operates a portfolio of wind, hydro and gas turbine power plants. GAMA Holdings owns a 50.5% stake and the remaining 19.5% are held by International Finance Corp and Global Infrastructure Fund.

Small earnings contribution. GAMA Enerji generated PAT of RM52m in FY17 (Tenaga's share: RM16m) accounting for just 0.2% of Tenaga's earnings. Tenaga still carries a RM264m goodwill from the acquisition of the stake in GAMA Enerji. If the goodwill is written off, the impact is just a one-off 4% of Tenaga's annual earnings, to give a yardstick.

Debt could be a concern. It has been reported that GAMA Holdings (GAMA Enerji's major shareholder) has been looking to restructure USD1b worth of debt while at GAMA Enerji level, is looking to refinance a USD500m loan it took to construct a gas power plant in 2013. Both GAMA Holdings and GAMA Enerji are private companies, but GAMA Enerji has been reported to be GAMA Holdings' largest asset. There has also been reports of GAMA Holdings' intention to sell off its 50.5% stake in GAMA Enerji

Mark-to-market could hit earnings. If the bulk of GAMA Enerji's debt are foreign debt, there is possibility of a mark-to-market adjustment which could hit earnings by an exceptional amount. While we would presume most of GAMA Enerji's debt are long term in nature (concession backed), if there is any rollover or refinancing of existing debt, there is likelihood that GAMA will realize some forex loss.

Recommendation. Our TP remains unchanged at RM16.30 at this juncture, and our BUY call is maintained. Dividend yields are attractive at 4.6% (+ve spread against 10yr MGS of 4.26%) while valuations are cheap at 12x FY18F earnings, a substantial discount to the market's 16x-17x.

Maintain BUY
Unchanged Target Price: RM16.30

RETURN STATS	
Price (7 Aug 2018)	RM15.56
Target Price	RM16.30
Expected Share Price Return	+4.8%
Expected Dividend Yield	+4.6%
Expected Total Return	+9.4%

STOCK INFO	
KLCI	1,783.34
Bursa / Bloomberg	5347/TNB MK
Board / Sector	Main
Syariah Compliant	Yes
Issued shares (mil)	5678.18
Market cap. (RM'm)	88,352.48
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)	14.7	11.3	8.7	11.9	13.8
Net Dividend (sen)	29.0	32.0	82.4	71.9	62.2
Net Dividend Yield (%)	1.9	2.1	5.3	4.6	4.0

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

** FYE Aug prior to FY17

Source: Company, MIDF

EXHIBIT 1: GAMA ENERJI'S KEY FINANCIALS

Gama Enerji (RMm)	FY17
Revenue	1683.1
PAT	51.7
TNB's share of profit	15.5
Contribution to TNB net profit	0.2%
Non-current assets	7,264.7
Current assets	924.5
Non-current liabilities	(5,069.3)
Current liabilities	(758.7)
Non-controlling interest	(38.1)
Net asset	2,323.1
TNB's share of net asset	696.9
Goodwill carried by TNB	263.9
Goodwill as a percentage of TNB net profit	3.9%

Source: Company, MIDF

EXHIBIT 2: GAMA ENERJI'S ASSETS

	Fuel	Capacity (MW)	Stake	Commencement Year	Concession Period (Years)	Concession Start
Birecik	Hydro	672	18%	2001	15	-
Lamas	Hydro	36	100%	2009	49	2006
Cakirlar	Hydro	17	100%	2009	49	2007
Sares	Wind	25	96%	2010	49	2008
Karadag	Wind	10	96%	2012	50	2008
Gok II	Wind	35	96%	2014	49	2012
Tynagh	CCGT	385	40%	2006	30	2004
		1,179				
Previously Under Construction						
Kirikkale	CCGT	840	96%	2016	49	2016
		2,019				
Previously In Development						
Kirkagac	Wind	45	100%	2016		
Marmara	Wind	10	100%	2018		
Istanbul	Wind	200	100%	2019		

Source: Company, MIDFR

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)	(43,555.2)
EBIT	7,695.3	9,072.0	12,512.6	9,160.5	9,710.9
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
PBT	7,133.7	8,456.8	10,945.1	8,290.5	8,454.8
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
Core net profit	5,978.9	7,757.6	10,128.8	7,373.8	6,379.5
Consensus net profit	6,118	7,268	N/A	7,257	7,255
Balance Sheet	FY15	FY16	16MFY17	FY18F	FY19F
Non-current assets	98,340.0	106,146.9	114,491.7	103,252.5	104,707.7
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
Current assets	18,795.0	26,755.3	27,520.7	35,640.6	50,287.8
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
TOTAL ASSETS	117,135.0	132,902.2	142,012.4	138,893.1	154,995.5
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	50,072.4
TOTAL EQUITY	47,466.9	52,599.7	57,584.8	58,585.4	61,456.2
Non-current liabilities	54,075.9	64,218.5	69,101.1	63,742.3	76,592.0
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
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	93,539.3

Cash Flow Statement	FY15	FY16	16MFY17	FY18F	FY19F
Operating activities					
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
CF from Operations	11,439.4	13,292.5	12,558.5	8,267.1	11,520.7
Investing activities					
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
CF from Investments	(12,826.3)	(18,395.9)	(12,685.1)	(6,860.5)	(6,860.5)
Financing activities					
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)	-	-
CF from Financing	(4,251.7)	6,539.0	1,226.7	5,143.5	9,341.0
Net changes in cash	(5,638.6)	1,435.6	1,100.1	6,550.1	14,001.2
Beginning cash	7,871.5	1,982.1	3,411.5	4,512.9	11,063.0
Overdrafts, Deposits & Forex	0.2	(6.2)	1.3	-	-
Ending cash	2,233.1	3,411.5	4,512.9	11,063.0	25,064.2
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%	-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.