

19 December 2018 | Corporate Update

Tenaga Nasional

Updates from teleconference

- Annual revenue adjustments on quarterly basis going forward, but lumpy adjustment for 4Q18
- Fuel price adjustment could partly offset the impact
- FY19F earnings unchanged, FY18F revised down 11% to reflect retrospective revenue adjustment hit
- Maintain BUY at unchanged FY19F-based TP of RM14.60

Quarterly adjustments in future. After further clarification, we gather that the annual revenue adjustments (ARA) – adjustments for the difference between RP2 revenue requirements vs. actual revenue achieved - will be done on a quarterly basis going forward, while the RM564m adjustment for FY18F variances will be recognised in 4Q18. The adjustment in 4Q18 is large as this will reflect the retrospective adjustments for the prior quarters. Going forward, the recognition should be more even given quarterly provisions. Recognition was delayed for FY18F given that the Government had yet to decide on a mechanism for ARA previously. Cash flow impact is still expected on an annual basis, via ICPT pass-through.

Revenue cap adjustments. To recap, FY18F revenue cap adjustment was determined at RM367m and there were also several other items factored in, including refunds of excess single buyer working capital (See Exhibit 1). All in, adjustments, including revenue and price cap adjustments, amounted to RM564m for the FY18F period.

Fuel price adjustments. Underlying 4Q18 earnings (excluding ARA provisions) should improve as Fuel Price Adjustment (FPA) mechanism (difference between actual coal price and Applied Coal Price (ACP)) will reflect the significant increase in coal price recognised in 3Q18. ACP is adjusted quarterly reflecting the prior quarter's effective price and hence is constantly lagging. In 3Q18, the FPA stood at RM422m given a sharp increase in coal price.

Earnings revisions. We revise down our FY18F earnings by 11% to reflect the retrospective ARA provisions in 4Q18. Our FY19F earnings are unchanged as we had made the adjustments in an earlier report.

Recommendation. Our FY19F-based DCF-based TP is unchanged at RM14.60/share. Our BUY is maintained following already steep share price correction in the past one month, particularly after Tenaga's weak 3Q18 and more so, after the announcement of the ARA late last week. Tenaga now trades at just 11.8x FY19F. Dividend yield is decent at 4.2% (based on conservative 50% payout assumption). Key catalysts: (1) Peaking capex cycle suggests room for dividend upside (2) Possible monetisation of backbone fibre asset via partners.

Maintained BUY
Unchanged Target Price: RM14.60

RETURN STATS	
Price (18 Dec 2018)	RM12.70
Target Price	RM14.60
Expected Share Price Return	+15.0%
Expected Dividend Yield	+4.2%
Expected Total Return	+19.2%

STOCK INFO	
KLCI	1,684.97
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	49,642.4	52,666.2
EBIT (RM'm)	7,695.3	9,072.0	12,512.6	8,229.3	8,939.6
Pre-tax Profit (RM'm)	7,133.7	8,456.8	10,945.1	7,359.3	8,072.6
Core net profit (RM'm)	5,978.9	7,757.6	10,128.8	6,062.0	6,089.0
FD EPS (sen)	105.9	137.5	179.5	107.4	107.9
EPS growth (%)	27.7	29.7	30.6	(40.2)	0.4
PER (x)	12.0	9.2	7.1	11.8	11.8
Net Dividend (sen)	29.0	32.0	82.4	53.7	53.9
Net Dividend Yield (%)	2.3	2.5	6.5	4.2	4.2
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 1: IMBALANCE COST 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	
Balance to be Pass-Through to Non-Domestic / Residential	948.00	2.15

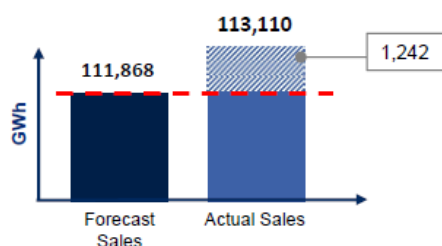
Source: Company, MIDF

EXHIBIT 2: 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

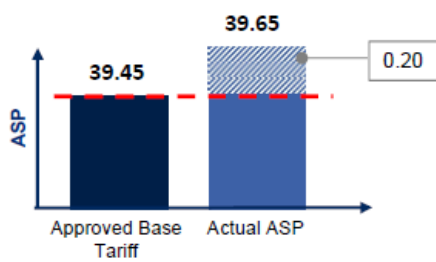
Source: Company, MIDF

EXHIBIT 3: 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, MIDF

Income Statement	FY15	FY16	16MFY17	FY18F	FY19F
Revenue	43,286.8	44,531.5	63,244.0	49,642.4	52,666.2
Operating expenses	(35,591.5)	(35,459.5)	(50,731.4)	(41,413.0)	(43,726.6)
EBIT	7,695.3	9,072.0	12,512.6	8,229.3	8,939.6
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
PBT	7,133.7	8,456.8	10,945.1	7,359.3	8,072.6
Taxation	(1,072.8)	(746.0)	(1,605.1)	(1,251.1)	(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	6,062.0	6,089.0
Core net profit	5,978.9	7,757.6	10,128.8	6,062.0	6,089.0
Consensus net profit	6,118	7,268	N/A	7,200.0	7,139.0
				-15.8%	-14.7%
Balance Sheet	FY15	FY16	16MFY17	FY18F	FY19F
Non-current assets	98,340.0	106,146.9	114,491.7	108,493.1	111,776.9
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
Current assets	18,795.0	26,755.3	27,520.7	30,112.8	30,153.4
Inventories	843.8	950.2	1,009.4	1,029.3	1,092.0
Receivables	8,639.4	5,929.0	6,298.4	6,800.3	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	18,602.2	18,165.8
TOTAL ASSETS	117,135.0	132,902.2	142,012.4	138,605.9	141,930.3
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	46,914.4	49,958.9
TOTAL EQUITY	47,466.9	52,599.7	57,584.8	58,298.2	61,342.7
Non-current liabilities	54,075.9	64,218.5	69,101.1	63,742.3	63,640.3
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
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	80,587.6

Cash Flow Statement	FY15	FY16	16MFY17	FY18F	FY19F
Operating activities					
PBT	7,133.7	8,456.8	10,945.1	7,359.3	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)	(152.3)	(95.0)
Interest expense	(662.7)	(740.3)	(1,660.9)	(972.7)	(969.7)
Tax paid	(810.8)	(746.0)	(1,605.1)	(1,251.1)	(1,937.4)
Others	(3,416.6)	764.3	(1,129.0)	926.5	923.5
CF from Operations	11,439.4	13,292.5	12,558.5	11,259.0	11,570.7
Investing activities					
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
CF from Investments	(12,826.3)	(18,395.9)	(12,685.1)	(9,860.5)	(8,860.5)
Financing activities					
Dividends paid	(1,636.7)	(1,637.7)	(2,205.9)	(3,031.0)	(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
CF from Financing	(4,251.7)	6,539.0	1,226.7	3,927.5	(3,146.6)
Net changes in cash	(5,638.6)	1,435.6	1,100.1	5,325.9	(436.4)
Beginning cash	7,871.5	1,982.1	3,411.5	4,512.9	9,838.8
Overdrafts, Deposits & Forex	0.2	(6.2)	1.3	0.0	0.0
Ending cash	2,233.1	3,411.5	4,512.9	9,838.8	9,402.5
Ratios	FY15	FY16	16MFY17	FY18F	FY19F
Revenue growth	1.2%	2.9%	42.0%	-21.5%	6.1%
EBITDA growth	3.9%	13.9%	25.8%	-27.1%	6.9%
Net profit growth	27.7%	29.7%	30.6%	-40.2%	0.4%
EBITDA margin	30.0%	29.7%	30.1%	27.4%	27.6%
PATAMI margin	13.8%	17.4%	16.0%	12.2%	11.6%
ROE	12.6%	14.7%	17.6%	10.4%	9.9%
ROA	5.1%	5.8%	7.1%	4.4%	4.3%
Net gearing	33%	27%	37%	27%	26%
Book value/share (RM)	8.41	9.32	10.20	10.33	10.87
PBV (x)	1.5	1.4	1.2	1.2	1.2
EV/EBITDA (x)	7.0	6.3	5.7	6.5	6.1
FCF yield (%)	1.5	3.0	0.3	1.8	3.6
Gross gearing (%)	52%	47%	67%	59%	56%

DAILY PRICE CHART



Source: Bloomberg, MIDFR

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

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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.