



Tenaga Nasional Berhad

(5347 | TNB MK) Main | Utilities

At the Centre of the Transition

KEY INVESTMENT HIGHLIGHTS

- Firm policies to drive aggressive RE targets serves to enhance capacity growth prospects and improve Tenaga's ESG profile
- Positioned to benefit from emphasis on distributed generation and rooftop solar
- As a monopoly, Tenaga benefits from investments into the grid to support variable RE penetration and RE exports
- Upgrade to BUY, TP raised to RM10.50

Enhanced opportunity to decarbonise. Aggressive RE targets set by the current Government and constructive policies to drive this creates two-pronged benefits for Tenaga; it creates room for Tenaga to benefit from incremental returns from RE capacity expansion and at the same time, accelerates Tenaga's effort to decarbonise the grid, the latter which had long been an overhang on valuations given the grid's heavy reliance on coal power generation. Some 9GW of RE capacity is required by 2035 under the MyRER while the NETR's 70% RE mix target suggests a massive >30GW of new RE capacity is required up till 2050. A more aggressive than expected RE rollout under the upcoming NETR would be an incremental positive. Tenaga's huge balance sheet means it is one of the prime beneficiaries of this opportunity, in our opinion. Tenaga has an RE capacity target of 8.3GW by 2025, aims to reduce coal capacity by 50% and reduce emissions intensity by 35% by 2035. It also aims to be coal-free and aspires to achieve net-zero by 2050.

Rooftop solar. Tenaga is also well positioned to take advantage of the NETR's emphasis on rooftop solar and distributed generation via wholly-owned GSPARX, which is an established player in the solar rooftop sector. GSPARX has a total 272MWp capacity under its belt and is aiming to secure additional ~145MWp in FY23.

Benefits as the grid monopoly. Tenaga is at the centre of RE exports given its monopoly of the grid. We expect Tenaga to benefit from higher wheeling charges for RE export transmission. Additionally, Tenaga is expected to benefit from higher grid investments to support higher variable RE (VRE) penetration and growth in peak loads. Grid-related regulated asset base (RAB) is expected to rise by 61% to RM45b by 2050 from RM28b in 2022 with circa 11% of 2050 RAB comprising energy transition and decarbonisation assets. Meanwhile, the distribution network's RAB is expected to increase by 50% from RM36b in 2022 to RM54b in 2050 with 20% comprising energy transition elements.

Recommendation. In line with our more constructive view of the sector given a firm energy transition policy layout and improved growth and ESG profile, we upgrade Tenaga to **BUY** from NEUTRAL and raise our **TP** to **RM10.50** (from RM10.00 previously) to reflect lower risk premium in our valuations (WACC: 8.3%).

Upgrade to BUY

(from NEUTRAL)

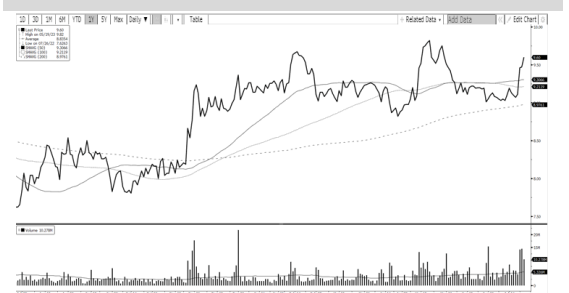
Revised Target Price: RM10.50

(previously RM10.00)

RETURN STATISTICS

Price @ 26 th July 2023 (RM)	9.60
Expected share price return (%)	+9.4
Expected dividend yield (%)	4.3
Expected total return (%)	+13.7

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	4.5	0.0
3 months	6.1	5.8
12 months	19.6	21.3

INVESTMENT STATISTICS

FYE Dec (RMm)	2022A	2023F	2024F
Revenue	50,868	51,802	53,981
Operating Profit	9,410	10,098	10,467
Profit Before Tax	5,598	6,294	6,474
Core PATAMI	3,713	4,694	4,830
Core EPS (sen)	65.8	83.2	85.6
PER (x)	14.6	11.5	11.2
DPS (sen)	46.0	41.6	42.8
Dividend Yield (%)	4.7	4.3	4.5

KEY STATISTICS

FBM KLCI	1,449.29
Issue shares (m)	5753.08
Estimated free float (%)	33.33
Market Capitalisation (RM'm)	55,558.39
52-wk price range	RM7.99 - RM10
3-mth average daily volume (m)	5.31
3-mth average daily value (RM'm)	49.30
Top Shareholders (%)	
Khazanah Nasional	23.67
Employees Provident Fund Board	15.47
Amanah Saham Nasional Bhd	15.29

Analyst

Hafriz Hezry

hafriz.hezry@midf.com.my

03-2173 8392

FINANCIAL SUMMARY

Income Statement	FY20	FY21	FY22	FY23F	FY24F
Revenue	43,976.0	52,629.5	50,867.7	50,802.0	52,980.7
Operating expenses	(36,617.2)	(44,546.5)	(41,458.2)	(40,704.1)	(42,513.4)
EBIT	7,358.8	8,083.0	9,409.5	10,098.0	10,467.3
Net interest expense	(3,351.0)	(3,571.5)	(4,065.7)	(3,892.1)	(4,086.7)
Associates	76.5	193.5	97.6	88.6	93.0
PBT	4,163.8	4,805.7	5,598.1	6,294.4	6,473.6
Taxation	(619.0)	(873.6)	(1,791.2)	(1,510.7)	(1,553.9)
Minority Interest	23.7	202.9	94.1	90.0	90.0
Net profit	3,592.7	3,661.8	3,463.3	4,693.7	4,829.7
Core net profit	3,635.1	4,519.8	3,712.8	4,693.7	4,829.7
Balance Sheet	FY20	FY21	FY22	FY23F	FY24F
PPE	112,596.1	114,105.6	116,577.1	114,680.4	119,128.0
Others	41,034.7	41,472.4	44,289.0	52,239.9	52,239.9
Non-current assets	153,630.8	155,578.0	160,866.1	166,920.3	171,367.9
Inventories	1,583.8	1,977.1	3,290.8	2,130.0	2,221.4
Receivables	6,893.7	10,547.7	22,827.0	12,665.7	13,208.9
Others	5,909.6	5,339.4	5,904.0	3,680.9	3,680.9
Cash & equivalent	13,415.4	9,158.4	13,034.4	7,952.3	8,016.6
Current assets	27,802.5	27,022.6	45,056.2	26,429.0	27,127.8
Share capital	11,675.2	11,927.6	12,204.3	12,294.3	12,294.3
Minority Interest	1,616.7	1,784.0	2,449.1	2,449.1	2,449.1
Reserves	44,158.0	44,680.8	46,312.8	52,182.0	54,596.8
TOTAL EQUITY	57,449.9	58,392.4	60,966.2	66,925.4	69,340.2
Long-term borrowings	43,043.5	44,685.7	50,620.0	45,435.8	47,707.6
Others	52,138.6	52,305.6	56,738.8	52,070.8	52,070.8
Non-current liabilities	95,182.1	96,991.3	107,358.8	97,506.6	99,778.4
Short-term borrowings	6,409.1	6,992.5	13,262.2	8,000.0	8,000.0
Payables	10,534.1	8,596.7	11,509.7	9,410.4	9,870.1
Others	11,858.1	11,627.7	12,825.4	11,507.0	11,507.0
Current liabilities	28,801.3	27,216.9	37,597.3	28,917.4	29,377.1

Cash Flow Statement	FY20	FY21	FY22	FY23F	FY24F
PBT	4,163.8	4,805.7	5,598.1	6,294.4	6,473.6
Depreciation & Amortization	10,622.4	10,691.5	11,402.5	7,546.3	7,913.0
Chgs in working capital	(991.9)	(5,984.7)	(10,680.0)	9,222.8	(174.8)
Others	1,724.3	3,831.4	3,057.3	(7,529.4)	(1,643.9)
CF from Operations	15,518.6	13,343.9	9,377.9	15,534.1	12,567.8
Capex	(6,909.7)	(8,415.5)	(10,500.0)	(13,000.0)	(12,500.0)
Others	1,416.7	4,452.9	(4,053.1)	139.5	139.5
CF from Investments	(5,493.0)	(3,962.6)	(14,553.1)	(12,860.5)	(12,360.5)
Dividends paid	(5,235.8)	(4,568.4)	(1,938.4)	(2,346.9)	(2,414.8)
Net movement in borrowings	2,004.5	1,886.0	12,061.1	(10,446.4)	2,271.8
Others	(4,211.9)	(6,136.8)	(6,526.9)	11,610.0	0.0
CF from Financing	(7,443.2)	(8,819.2)	3,595.8	(1,183.3)	(143.0)
Net changes in cash	2,582.4	562.1	(1,579.4)	1,490.3	64.2
Beginning cash	2,440.8	5,023.0	5,634.9	4,056.1	5,546.4
Overdrafts, Deposits & Forex	(0.2)	49.8	0.6	0.0	0.0
Ending cash	5,023.0	5,634.9	4,056.1	5,546.4	5,610.6
Key Ratios	FY20	FY21	FY22	FY23F	FY24F
PATAMI margin	8.3%	8.6%	7.3%	9.2%	9.1%
ROE	6.3%	7.7%	6.1%	7.0%	7.0%
ROA	2.0%	2.5%	1.8%	2.4%	2.4%
Net gearing	63%	73%	83%	68%	69%
Book value/share (RM)	10.18	10.35	10.80	11.86	12.29
PBV (x)	0.9	0.9	0.9	0.8	0.8
PER (x)	14.9	12.0	14.6	11.5	11.2

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (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 (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

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 MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment 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. MIDF Investment and its affiliates and related BNM and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loss, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such BNM mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology