

Tenaga Nasional Berhad

(5347 | TNB MK) Main | Utilities

Temporary Drag, Receivables Receding

KEY INVESTMENT HIGHLIGHTS

- **1HFY23 result missed estimates**
- **Weak performance from negative fuel margin is temporary**
- **Receivables and debt continue to recede on easing fuel prices**
- **One of the best proxies to NETR, upcoming RP4 should underpin capex and RAB expansion**
- **Maintain BUY at higher TP of RM11.00 as we roll forward valuation to FY24F**

Missed expectations. Tenaga reported weak 2QFY23 results which missed our and consensus estimates. However, we expect the drag to be temporary with a potential recovery by next FY. Tenaga reported core net profit of RM781m for its 2QFY23 (-30%yoy) (normalized for forex translation loss of -RM454m), which brought 1HFY23 core earnings to RM1.76b (-10%yoy) (normalized for -RM425m forex translation loss), accounting for 37%/38% of our/consensus full year estimates. An interim dividend of 18sen was announced representing 1HFY23 DPR of 58%.

Key highlights. 1HFY23 revenue was up +3.8%yoy driven by higher electricity demand (+1.9%yoy). However, EBITDA fell -9.7%yoy – while regulated earnings were within expectations at RM2.34b in 1HFY23 (49% of our FY23F), earnings were dragged by genco losses given negative fuel margins (1H23: -RM566m) at its coal plants as well as CRF (capacity rate financial) step down of certain power plants since 3QFY22. However, we expect the drag from negative fuel margins to be temporary judging by stabilising market coal prices and believe FY24F will see genco earnings normalise. Positively, 2QFY23 interest expense reduced sequentially as Tenaga pares down its debt.

Balance sheet and cash flow strengthening. Despite the weaker earnings, Tenaga's balance sheet showed sustained improvement. Receivables in 2QFY23 receded further by -26%qoq to RM14.5b given cost recovery from the 1HFY23 ICPT surcharge increase and collection of Government subsidy. Net gearing eased to 78% in 2Q23 as Tenaga continues to pare down short-term debt given easing working capital requirement on the back of easing fuel prices.

Earnings estimates. We trim FY23F net profit by -15% to reflect negative fuel margin impact on genco but leave FY24F/25F unchanged as we expect fuel margins to stabilise in line with stabilising coal prices.

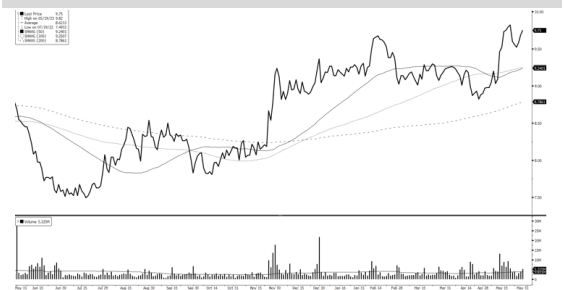
Recommendation. We keep our **BUY** call and roll forward our valuations to FY24F, which lifts our **TP** to **RM11.00** from RM10.50 previously (WACC: 8.3%). We also raise DPR to 60% (from 50% previously), in line with recovering cash flows – this raises FY23F-25F dividend yield to 4.2%-5.3%. We like Tenaga as it is in a sweet spot to benefit from NETR given: (1) Accelerated grid capex to accommodate higher VRE penetration, which could be underpinned in the upcoming RP4 capex and regulated asset base (RAB) determination, (2) Aggressive 70%

Maintain BUY**Revised Target Price: RM11.00**
(previously RM10.50)

RETURN STATISTICS

Price @ 25 th August 2023 (RM)	9.97
Expected share price return (%)	+10.33
Expected dividend yield (%)	4.24
Expected total return (%)	+14.57

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	9.2	7.0
3 months	13.7	3.4
12 months	-3.8	-2.3

INVESTMENT STATISTICS

FYE Dec (RMm)	2023F	2024F	2025F
Revenue	51,802	53,981	56,231
Operating Profit	9,148	10,467	10,902
Profit Before Tax	5,344	6,474	6,708
Core PATAMI	3,972	4,830	5,008
Core EPS (sen)	70.4	85.6	88.7
PER (x)	14.2	11.7	11.2
DPS (sen)	42.2	51.3	53.2
Dividend Yield (%)	4.24	5.15	5.34

KEY STATISTICS

FBM KLCI	1,404.93
Issue shares (m)	5,717.52
Estimated free float (%)	31.3
Market Capitalisation (RM'm)	55,745.82
52-wk price range	RM7.89-RM10
3-mth average daily volume (m)	3.3
3-mth average daily value (RM'm)	28.9
Top Shareholders (%)	
Khazanah Nasional	25.5
Employees Provident Fund Board	15.7
Amanah Saham Nasional Bhd	15.6

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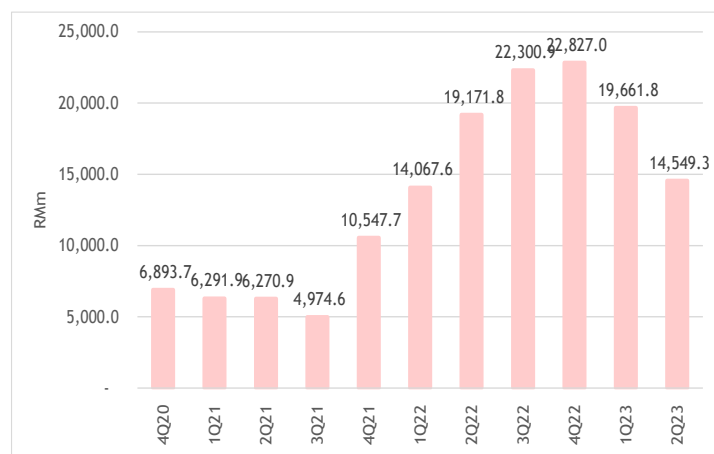
RE penetration target under NETR paves way for Tenaga's RE asset expansion, (3) Accelerated decarbonisation of Tenaga's generation portfolio to improve its ESG profile. Tenaga is trading at undemanding 11.7x FY24F PER, well below its 5-year mean of 14x. 

Table 1: Tenaga 2QFY23 Result Summary

FYE Dec (RMm)	2Q22	1Q23	2Q23	YoY	QoQ	1H22	1H23	YTD
Revenue	12,837.7	12,625.6	13,323.2	3.8%	5.5%	24,990.8	25,948.8	3.8%
EBITDA	5,439.1	4,883.7	4,664.4	-14.2%	-4.5%	10,576.9	9,548.1	-9.7%
Depreciation	(2,810.8)	(2,801.6)	(2,795.7)	-0.5%	-0.2%	-5,579.0	-5,597.3	0.3%
Operating profit	2,628.3	2,082.1	1,868.7	-28.9%	-10.2%	4,997.9	3,950.8	-21.0%
Net interest expense	(989.6)	(1,021.0)	(988.7)	-0.1%	-3.2%	(1,946.4)	(2,009.7)	3.3%
FX translation gain/(loss)	(237.2)	28.1	(453.5)			(194.5)	(425.4)	118.7%
Associates/JVs	35.1	23.0	(1.7)	-104.8%	-107.4%	71.1	21.3	-70.0%
FV change financial instr.	18.5	(8.0)	54.9			58.7	46.9	
Pretax profit	1,465.7	1,102.7	541.5	-63.1%	-50.9%	2,997.7	1,644.2	-45.2%
Tax	(560.1)	(171.8)	(270.6)	-51.7%	57.5%	(1,220.9)	(442.4)	-63.8%
Minority Interest	33.4	(71.4)	(57.0)	-270.7%	-20.2%	11.5	(128.4)	-1217%
Reported net profit	872.2	1,002.3	327.9	-62.4%	-67.3%	1,765.3	1,330.2	-24.6%
Core net profit*	1,109.4	974.2	781.4	-29.6%	-19.8%	1,959.8	1,755.6	-10.4%
EPS (sen)	15.3	17.6	5.8	-62.4%	-67.3%	31.0	23.4	-24.6%
Core EPS (sen)	19.5	17.1	13.7	-29.6%	-19.8%	34.5	30.9	-10.4%
DPS (sen)	20.00	0.00	18.00	-10.0%	NA	20.00	18.00	-10.0%
EBITDA margin	42.4%	38.7%	35.0%			42.3%	36.8%	
Operating profit margin	20.5%	16.5%	14.0%			20.0%	15.2%	
Pretax margin	11.4%	8.7%	4.1%			12.0%	6.3%	
Effective tax rate	-38.2%	-15.6%	-50.0%			-40.7%	-26.9%	
Core net profit margin	8.6%	7.7%	5.9%			7.8%	6.8%	

Source: Company, MIDFR *Normalised for FX translation gain/(loss)

Chart 1: Receivables continues to recede



Source: Company, MIDFR

Chart 2: Net gearing starting to ease

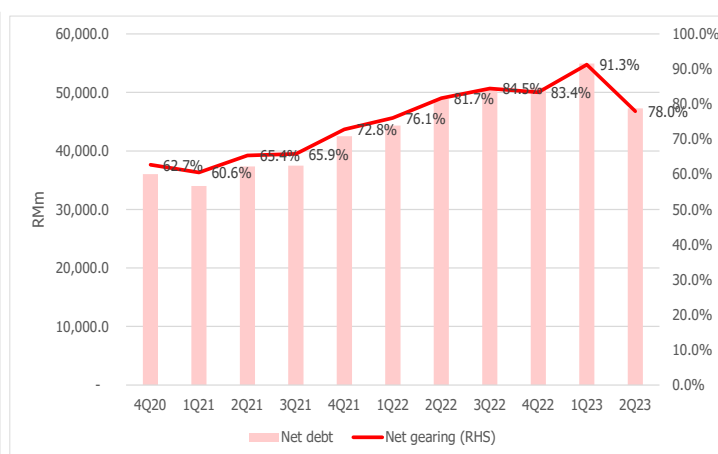


Table 2: Tenaga 2QFY23 Result Breakdown

Unit Revenue/Cost Analysis	2Q22	1Q23	2Q23	YoY	QoQ	1H22	1H23	YTD
Average tariff: TNB sale (sen/kwH)	40.49	39.31	40.50	0.0%	3.0%	39.75	39.93	0.4%
Demand sales volume (GWh)	30,159	29,113	31,153	3.3%	7.0%	59,119	60,267	1.9%
Generation volume (GWh)	33,148	31,484	34,064	2.8%	8.2%	65,017	65,548	0.8%
Unit Revenue (sen/kwh)	40.49	39.31	40.50	0.0%	3.0%	39.75	39.93	0.4%
Unit Generation Cost (sen/kwh)	35.10	29.22	26.62	-24.2%	-8.9%		27.87	
Unit Cost (sen/kwH) - Total cost	50.44	45.87	42.25	-16.2%	-7.9%	46.37	43.99	-5.1%
Unit Cost (sen/kwH) - Repair & maint.	1.63	1.97	2.13	30.6%	7.8%	1.56	2.05	31.5%
Unit Cost (sen/kwH) - General expenses	1.12	1.31	1.11	-1.3%	-15.5%	1.26	1.20	-4.2%
Unit Cost (sen/kwH) - Staff cost	2.86	2.98	2.94	3.1%	-1.3%	2.88	2.96	2.8%
Gross Electricity Revenue (RMm):	12,799	12,255	13,362	4.4%	9.0%	24,793	25,617	3.3%
TNB (without ICPT)	12,210	11,444	12,618	3.3%	10.3%	23,500	24,062	2.4%
EGAT	0.0	0.1	0.0	NA	-100%	0.3	0.1	-66.7%
SESB	497.2	478.8	529.7	6.5%	10.6%	965.5	1,008.5	4.5%
TNBI (UK Wind)	25.4	35.5	26.6	4.7%	-25.1%	62.5	62.1	-0.6%
TNBI (Vortex)	110.3	34.8	165.9	50.4%	377%	157.0	200.7	27.8%
Sales Discounts & Accrued Revenue	(81.0)	197.8	(14.7)	81.9%	-107%	69.8	183.1	162%
TNBI (CEI UK Ltd)	37.6	64.9	36.0	-4.3%	-44.5%	37.6	100.9	168%

Generation Mix	2Q22 (%)	1Q23 (%)	2Q23 (%)	Variance (%) YoY	Variance (%) QoQ	1H22 (%)	1H23 (%)	Variance (%) YoY
Gas & LNG	37.1	39.5	34.0	(3.1)	(5.5)	38.1	36.7	(1.4)
Coal	57.8	53.7	60.1	2.3	6.4	56.0	57.0	1.1
Distillate	0.4	0.1	0.2	(0.2)	0.1	0.7	0.2	(0.6)
Oil	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Hydro (RE)	3.4	5.1	4.0	0.6	(1.1)	4.1	4.5	0.4
Solar (RE)	1.2	1.6	1.7	0.5	0.1	1.1	1.6	0.6
Fuel Cost Composition	2Q22 (%)	1Q23 (%)	2Q23 (%)	Variance (%) YoY	Variance (%) QoQ	1H22 (%)	1H23 (%)	Variance (%) YoY
Gas & LNG	23.5	34.3	30.3	6.8	(4.0)	27.0	32.4	5.4
Coal	75.6	65.2	68.6	(7.0)	3.3	70.3	66.9	(3.5)
Distillate	0.9	0.4	1.0	0.1	0.6	2.7	0.7	(2.0)
Oil	0.0	0.0	0.1	0.1	0.1	0.0	0.1	0.1
Solar	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company, MIDFR

Demand Sales (GWh)	2Q22	1Q23	2Q23	YoY	QoQ	1H22	1H23	YTD
Industrial	11,363	10,882	10,882	-4.2%	0.0%	22,631	21,764	-3.8%
Commercial	9,985	9,981	10,699	7.2%	7.2%	19,384	20,680	6.7%
Domestic	8,216	7,646	8,958	9.0%	17.2%	15,916	16,604	4.3%
Others	595	604	615	3.4%	1.8%	1,188	1,219	2.6%
Total Demand (GWh)	30,159	29,113	31,154	3.3%	7.0%	59,119	60,267	1.9%

Domestic generation (RMm)	2Q22	1Q23	2Q23	YoY	QoQ	1H22	1H23	YTD
Revenue	6,449.9	7,463.4	6,596.6	2.3%	-11.6%	12,705.9	14,060.0	10.7%
EBIT	714.7	206.7	201.9	-71.8%	-2.3%	1,601.6	408.6	-74.5%
PAT	314.2	(77.1)	(116.7)	-137.1%	-51.4%	806.6	(193.8)	-124.0%

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement	FY21	FY22	FY23F	FY24F	FY25F
Revenue	52,629.5	50,867.7	50,802.0	52,980.7	55,231.3
Operating expenses	(44,546.5)	(41,458.2)	(41,654.1)	(42,513.4)	(44,329.7)
EBIT	8,083.0	9,409.5	9,148.0	10,467.3	10,901.7
Net interest expense	(3,571.5)	(4,065.7)	(3,892.1)	(4,086.7)	(4,291.1)
Associates	193.5	97.6	88.6	93.0	97.6
PBT	4,805.7	5,598.1	5,344.4	6,473.6	6,708.3
Taxation	(873.6)	(1,791.2)	(1,282.7)	(1,553.9)	(1,610.5)
Minority Interest	202.9	94.1	90.0	90.0	90.0
Net profit	3,661.8	3,463.3	3,971.7	4,829.7	5,007.8
Core net profit	4,519.8	3,712.8	3,971.7	4,829.7	5,007.8
Balance Sheet	FY21	FY22	FY23F	FY24F	FY25F
PPE	114,105.6	116,577.1	114,680.4	119,128.0	123,268.7
Others	41,472.4	44,289.0	52,239.9	52,239.9	52,239.9
Non-current assets	155,578.0	160,866.1	166,920.3	171,367.9	175,508.6
Inventories	1,977.1	3,290.8	2,130.0	2,221.4	2,315.8
Receivables	10,547.7	22,827.0	12,665.7	13,208.9	13,770.0
Others	5,339.4	5,904.0	3,680.9	3,680.9	3,680.9
Cash & equivalent	9,158.4	13,034.4	7,194.1	6,775.4	6,848.7
Current assets	27,022.6	45,056.2	25,670.8	25,886.6	26,615.4
Share capital	11,927.6	12,204.3	12,294.3	12,294.3	12,294.3
Minority Interest	1,784.0	2,449.1	2,449.1	2,449.1	2,449.1
Reserves	44,680.8	46,312.8	51,423.8	53,355.7	55,358.8
TOTAL EQUITY	58,392.4	60,966.2	66,167.2	68,099.1	70,102.2
Long-term borrowings	44,685.7	50,620.0	45,435.8	47,707.6	50,092.9
Others	52,305.6	56,738.8	52,070.8	52,070.8	52,070.8
Non-current liabilities	96,991.3	107,358.8	97,506.6	99,778.4	102,163.7
Short-term borrowings	6,992.5	13,262.2	8,000.0	8,000.0	8,000.0
Payables	8,596.7	11,509.7	9,410.4	9,870.1	10,351.1
Others	11,627.7	12,825.4	11,507.0	11,507.0	11,507.0
Current liabilities	27,216.9	37,597.3	28,917.4	29,377.1	29,858.0

Cash Flow Statement	FY21	FY22	FY23F	FY24F	FY25F
PBT	4,805.7	5,598.1	5,344.4	6,473.6	6,708.3
Depreciation & Amortization	10,691.5	11,402.5	7,546.3	7,913.0	8,219.8
Chgs in working capital	(5,984.7)	(10,680.0)	9,222.8	(174.8)	(174.5)
Others	3,831.4	3,057.3	(7,301.4)	(1,643.9)	(1,700.5)
CF from Operations	13,343.9	9,377.9	14,812.1	12,567.8	13,053.1
Capex	(8,415.5)	(10,500.0)	(13,000.0)	(12,500.0)	(12,500.0)
Others	4,452.9	(4,053.1)	139.5	139.5	139.5
CF from Investments	(3,962.6)	(14,553.1)	(12,860.5)	(12,360.5)	(12,360.5)
Dividends paid	(4,568.4)	(1,938.4)	(2,383.0)	(2,897.8)	(3,004.7)
Net movement in borrowings	1,886.0	12,061.1	(10,446.4)	2,271.8	2,385.4
Others	(6,136.8)	(6,526.9)	11,610.0	0.0	0.0
CF from Financing	(8,819.2)	3,595.8	(1,219.4)	(626.0)	(619.3)
Net changes in cash	562.1	(1,579.4)	732.1	(418.7)	73.3
Beginning cash	5,023.0	5,634.9	4,056.1	4,788.2	4,369.5
Forex adjustments	49.8	0.6	0.0	0.0	0.0
Ending cash	5,634.9	4,056.1	4,788.2	4,369.5	4,442.8
Key Ratios	FY21	FY22	FY23F	FY24F	FY25F
PATAMI margin	8.6%	7.3%	7.8%	9.1%	9.1%
ROE	7.7%	6.1%	6.0%	7.1%	7.1%
ROA	2.5%	1.8%	2.1%	2.4%	2.5%
Net gearing	73%	83%	70%	72%	73%
Book value/share (RM)	10.35	10.80	11.72	12.07	12.42
PBV (x)	1.0	0.9	0.9	0.8	0.8
PER (x)	12.4	15.2	14.2	11.7	11.2

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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.

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