



# Tenaga Nasional Berhad

(5347 | TNB MK) Main | Utilities

**Maintain BUY**

## Temporary Drag, Receivables Receding

**Unchanged Target Price: RM11.00**

### KEY INVESTMENT HIGHLIGHTS

- **9MFY23 result missed estimates**
- **Temporary drag from negative fuel margin**
- **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 unchanged TP of RM11.00**

**Missed expectations.** Tenaga's 3QFY23 result was still dragged by negative fuel margins and came in weaker than expected. However, we expect the drag to be temporary with a potential recovery next FY. Tenaga reported a core net profit of RM793m for its 3QFY23, bringing 9MFY23 core earnings to RM2.55b. This made up 64%/55% of our/consensus full year estimates. For illustration, excluding negative fuel margins, we estimate 9MFY23 core earnings would have registered at RM3.32b, making up 84% of our FY23F.

**Key highlights.** Tenaga's 3QFY23 core earnings dropped -39.1%oyoy mainly due to negative fuel margin at genco, though the impact was partly cushioned by lower effective tax rate given higher capital and reinvestment allowance claims. Sequentially, earnings showed some recovery (+1.5%qoq) as the negative fuel margin narrowed to -RM202m in 3QFY23 compared to an average -RM283m/quarter in 1HFY23 given gradually stabilising coal prices. On cumulative basis, 9MFY23 core earnings (-22%oyoy) were similarly dragged by negative fuel margins, but regulated earnings growth remained intact, up +5%oyoy to RM3.56b as capex reaccelerated following delays in the prior 2 years given the pandemic. We expect the drag from negative fuel margins to normalise in FY24 judging by stabilising market coal prices. Coupled with steady growth of regulated earnings, we expect Tenaga's FY24F earnings to register a meaningful recovery.

**Balance sheet recovering.** On a positive note, balance sheet continued to improve. Receivables receded further to RM13.42 (-8%qoq) from improved cost recovery via ICPT and collection of Government subsidy. Net gearing eased to 75% (2QFY23: 78%) as Tenaga continues to pare down short-term debt given easing working capital requirement on the back of easing fuel prices.

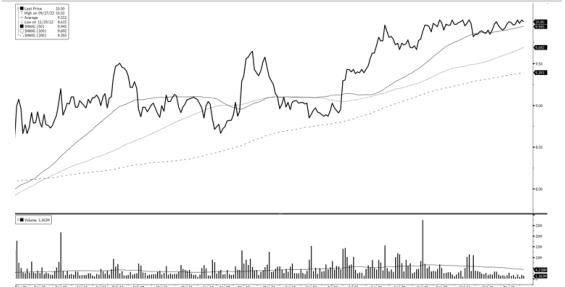
**Earnings estimates.** We trim FY23F net profit by -14% to reflect larger negative fuel margin for genco but leave FY24F/25F unchanged as we expect fuel margins to stabilise next year from stabilising coal prices.

**Maintain BUY.** Our **TP** is unchanged at **RM11.00** (WACC: 8.3%). We continue to like Tenaga as a key beneficiary of NETR given: (1) Accelerated grid capex to accommodate higher VRE penetration, which is expected to be underpinned in the upcoming RP4 capex and regulated asset base (RAB) determination, (2) Aggressive 70% RE penetration

### RETURN STATISTICS

Price @ 24 <sup>th</sup> Nov 2023 (RM)	10.00
Expected share price return (%)	+10.0
Expected dividend yield (%)	5.1
Expected total return (%)	+15.1

### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.3	0.5
3 months	0.1	-0.4
12 months	13.9	16.5

### INVESTMENT STATISTICS

FYE Dec (RMm)	2023F	2024F	2025F
Revenue	51,802	53,981	56,231
Operating Profit	8,398	10,467	10,902
Profit Before Tax	4,594	6,474	6,708
Core PATAMI	3,402	4,830	5,008
Core EPS (sen)	60.3	85.6	88.7
PER (x)	16.6	11.7	11.3
DPS (sen)	36.2	51.3	53.2
Dividend Yield (%)	3.6	5.1	5.3

### KEY STATISTICS

FBM KLCI	1453.92
Issue shares (m)	5753.08
Estimated free float (%)	33.19
Market Capitalisation (RM'm)	57,873.32
52-wk price range	RM8.75-RM10.2
3-mth average daily volume (m)	4.41
3-mth average daily value (RM'm)	43.97
Top Shareholders (%)	
Khazanah Nasional	22.56
Employees Provident Fund Board	16.54
Amanah Saham Nasional Bhd	15.47

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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.

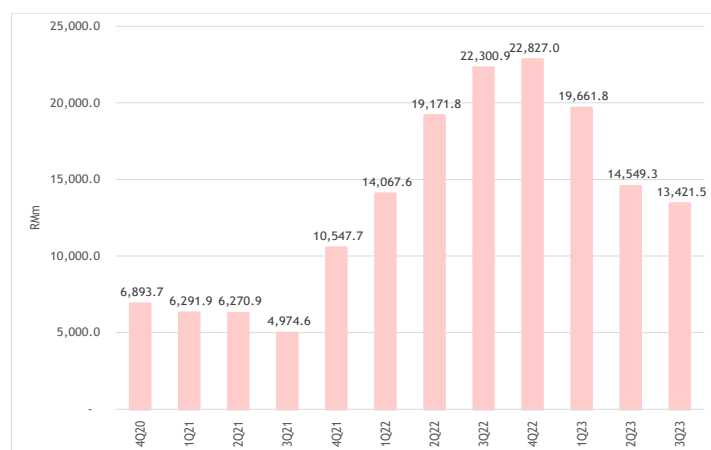


**Table 1: Tenaga 3QFY23 Result Summary**

FYE Dec (RMm)	3Q22	2Q23	3Q23	YoY	QoQ	9M22	9M23	YTD
Revenue	12,961.8	13,323.2	13,466.1	3.9%	1.1%	37,952.3	39,414.9	3.9%
<b>EBITDA</b>	<b>5,737.3</b>	<b>4,664.4</b>	<b>4,794.7</b>	<b>-16.4%</b>	<b>2.8%</b>	<b>16,314.2</b>	<b>14,342.8</b>	<b>-12.1%</b>
Depreciation	(2,825.7)	(2,795.7)	(2,771.1)	-1.9%	-0.9%	-8,404.7	-8,368.4	-0.4%
Operating profit	2,911.6	1,868.7	2,023.6	-30.5%	8.3%	7,909.5	5,974.4	-24.5%
Net interest expense	(1,074.5)	(988.7)	(954.7)	-11.1%	-3.4%	(3,020.9)	(2,964.4)	-1.9%
FX translation gain/(loss)	(413.8)	(453.5)	62.9	115.2%	113.9%	(608.3)	(362.5)	-40.4%
Associates/JVs	31.4	(1.7)	14.4	-54.1%	-947.1%	102.5	35.7	-65.2%
FV change financial instr.	66.4	54.9	(32.4)			125.1	14.5	
Pretax profit	1,534.2	541.5	1,055.5	-31.2%	94.9%	4,531.9	2,699.7	-40.4%
Tax	(561.5)	(270.6)	(178.1)	-68.3%	-34.2%	(1,782.4)	(620.5)	-65.2%
Minority Interest	83.8	(57.0)	21.2	-74.7%	137.2%	95.3	(107.2)	-212.5%
Reported net profit	888.9	327.9	856.2	-3.7%	161.1%	2,654.2	2,186.4	-17.6%
<b>Core net profit*</b>	<b>1,302.7</b>	<b>781.4</b>	<b>793.3</b>	<b>-39.1%</b>	<b>1.5%</b>	<b>3,262.5</b>	<b>2,548.9</b>	<b>-21.9%</b>
EPS (sen)	15.6	5.8	15.0	-3.7%	161.1%	46.6	38.4	-17.6%
<b>Core EPS (sen)</b>	<b>22.9</b>	<b>13.7</b>	<b>13.9</b>	<b>-39.1%</b>	<b>1.5%</b>	<b>57.4</b>	<b>44.8</b>	<b>-21.9%</b>
DPS (sen)	-	18.00	-			20.00	18.00	
EBITDA margin	44.3%	35.0%	35.6%			43.0%	36.4%	
Operating profit margin	22.5%	14.0%	15.0%			20.8%	15.2%	
Pretax margin	11.8%	4.1%	7.8%			11.9%	6.8%	
Effective tax rate	-36.6%	-50.0%	-16.9%			-39.3%	-23.0%	
Core net profit margin	10.1%	5.9%	5.9%			8.6%	6.5%	

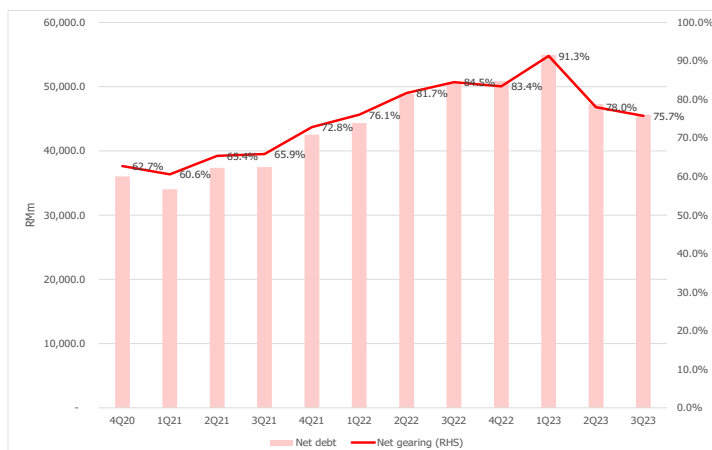
Source: Company, MIDFR \*Normalised for FX translation gain/(loss)

**Chart 1: Receivables continue to recede**



Source: Company, MIDFR

**Chart 2: Net gearing continues to ease**



**Table 2: Tenaga 3QFY23 Result Breakdown**

Unit Revenue/Cost Analysis	3Q22	2Q23	3Q23	YoY	QoQ	9M22	9M23	YTD
Average tariff: TNB sale (sen/kWh)	40.18	40.50	40.21	0.1%	-0.7%	39.90	40.02	0.3%
<b>Demand sales volume (GWh)</b>	<b>30,348</b>	<b>31,153</b>	<b>31,448</b>	<b>3.6%</b>	<b>0.9%</b>	<b>89,467</b>	<b>91,715</b>	<b>2.5%</b>
Generation volume (GWh)	33,318	34,064	34,118	2.4%	0.2%	98,356	99,666	1.3%
Unit Revenue (sen/kWh)	40.18	40.50	40.21	0.1%	-0.7%	39.90	40.02	0.3%
Unit Generation Cost (sen/kWh)	33.10	26.62	23.85	-27.9%	-10.4%	31.55	28.11	
<b>Unit Cost (sen/kWh) - Total cost</b>	<b>49.10</b>	<b>42.25</b>	<b>40.09</b>	<b>-18.4%</b>	<b>-5.1%</b>	<b>47.29</b>	<b>44.26</b>	<b>-6.4%</b>
Unit Cost (sen/kWh) - Repair & maint.	2.38	2.13	2.38	-0.1%	11.8%	1.84	2.16	17.7%
Unit Cost (sen/kWh) – Gen. expenses	1.11	1.11	1.28	15.4%	15.3%	1.20	1.22	1.7%
Unit Cost (sen/kWh) - Staff cost	2.85	2.94	2.68	-6.0%	-8.9%	2.87	2.87	-0.2%
<b>Gross Electricity Revenue (RMm):</b>	<b>12,814.1</b>	<b>13,361.8</b>	<b>13,415.2</b>	<b>4.7%</b>	<b>0.4%</b>	<b>37,607.2</b>	<b>39,032.5</b>	<b>3.8%</b>
TNB (without ICPT)	12,194.6	12,618.3	12,646.5	3.7%	0.2%	35,695.0	36,708.4	2.8%
EGAT	0.1	0.0	0.2	100%	NA	0.4	0.3	-25.0%
SESB	504.5	529.7	541.7	7.4%	2.3%	1,470.0	1,550.2	5.5%
TNBI (UK Wind)	21.1	26.6	37.2	76.3%	39.8%	83.6	99.3	18.8%
TNBI (Vortex)	97.1	165.9	133.2	37.2%	-19.7%	254.1	333.9	31.4%
Sales Discounts & Accrued Revenue	(34.7)	(14.7)	(0.2)	-99.4%	-98.6%	35.1	182.9	421.1%
TNBI (CEI UK Ltd)	31.4	36.0	56.6	80.3%	57.2%	69.0	157.5	128.3%

Generation Mix	3Q22 (%)	2Q23 (%)	3Q23 (%)	Variance (%) YoY	Variance (%) QoQ	9M22 (%)	9M23 (%)	Variance (%) YoY
Gas & LNG	35.8	34.0	35.1	(0.7)	1.0	37.3	36.1	(1.2)
Coal	56.5	60.1	58.6	2.1	(1.5)	56.2	57.6	1.4
Distillate	0.0	0.2	0.2	0.2	0.0	0.5	0.2	(0.3)
Oil	0.0	0.0	0.0	(0.0)	0.0	0.0	0.0	(0.0)
Hydro (RE)	6.3	4.0	4.5	(1.8)	0.5	4.9	4.5	(0.3)
Solar (RE)	1.4	1.7	1.6	0.3	(0.1)	1.2	1.6	0.5
Fuel Cost Composition	3Q22 (%)	2Q23 (%)	3Q23 (%)	Variance (%) YoY	Variance (%) QoQ	9M22 (%)	9M23 (%)	Variance (%) YoY
Gas & LNG	27.2	30.3	35.0	7.9	4.7	27.1	33.2	6.1
Coal	71.5	68.6	63.4	(8.1)	(5.2)	70.7	65.8	(4.9)
Distillate	0.4	1.0	1.3	1.0	0.3	1.9	0.9	(1.0)
Oil	1.0	0.1	0.3	(0.8)	0.1	0.4	0.1	(0.2)
Solar	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company, MIDFR

Demand Sales (GWh)	3Q22	2Q23	3Q23	YoY	QoQ	9M22	9M23	YTD
Industrial	11,484	10,882	11,302	-1.6%	3.9%	34,115	33,066	-3.1%
Commercial	10,232	10,699	10,925	6.8%	2.1%	29,616	31,605	6.7%
Domestic	8,015	8,958	8,580	7.0%	-4.2%	23,931	25,184	5.2%
Others	617	615	641	3.9%	4.2%	1,805	1,860	3.0%
<b>Total Demand (GWh)</b>	<b>30,348</b>	<b>31,154</b>	<b>31,448</b>	<b>3.6%</b>	<b>0.9%</b>	<b>89,467</b>	<b>91,715</b>	<b>2.5%</b>

Domestic generation (RMm)	3Q22	2Q23	3Q23	YoY	QoQ	9M22	9M23	YTD
Revenue	7,253.3	6,596.6	5,667.6	-21.9%	-14.1%	19,959.2	19,727.6	-1.2%
EBIT	834.3	201.9	96.5	-88.4%	-52.2%	2,435.9	505.1	-79.3%
PAT	303.4	(116.7)	(134.1)	-144.2%	-14.9%	1,110.0	(327.9)	-129.5%

Source: Company, MIDFR

**FINANCIAL SUMMARY**

<b>Income Statement</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23F</b>	<b>FY24F</b>	<b>FY25F</b>
<b>Revenue</b>	<b>52,629.5</b>	<b>50,867.7</b>	<b>50,802.0</b>	<b>52,980.7</b>	<b>55,231.3</b>
Operating expenses	(44,546.5)	(41,458.2)	(42,404.1)	(42,513.4)	(44,329.7)
<b>Operating profit</b>	<b>8,083.0</b>	<b>9,409.5</b>	<b>8,398.0</b>	<b>10,467.3</b>	<b>10,901.7</b>
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
<b>PBT</b>	<b>4,805.7</b>	<b>5,598.1</b>	<b>4,594.4</b>	<b>6,473.6</b>	<b>6,708.3</b>
Taxation	(873.6)	(1,791.2)	(1,102.7)	(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	3,401.7	4,829.7	5,007.8
<b>Core net profit</b>	<b>4,519.8</b>	<b>3,712.8</b>	<b>3,401.7</b>	<b>4,829.7</b>	<b>5,007.8</b>
<b>Balance Sheet</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23F</b>	<b>FY24F</b>	<b>FY25F</b>
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
<b>Non-current assets</b>	<b>155,578.0</b>	<b>160,866.1</b>	<b>166,920.3</b>	<b>171,367.9</b>	<b>175,508.6</b>
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	6,966.1	6,547.4	6,620.7
<b>Current assets</b>	<b>27,022.6</b>	<b>45,056.2</b>	<b>25,442.8</b>	<b>25,658.6</b>	<b>26,387.4</b>
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	51,195.8	53,127.7	55,130.8
<b>TOTAL EQUITY</b>	<b>58,392.4</b>	<b>60,966.2</b>	<b>65,939.2</b>	<b>67,871.1</b>	<b>69,874.2</b>
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
<b>Non-current liabilities</b>	<b>96,991.3</b>	<b>107,358.8</b>	<b>97,506.6</b>	<b>99,778.4</b>	<b>102,163.7</b>
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
<b>Current liabilities</b>	<b>27,216.9</b>	<b>37,597.3</b>	<b>28,917.4</b>	<b>29,377.1</b>	<b>29,858.0</b>

Cash Flow Statement	FY21	FY22	FY23F	FY24F	FY25F
PBT	4,805.7	5,598.1	4,594.4	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	(7,121.4)	(1,643.9)	(1,700.5)
<b>CF from Operations</b>	<b>13,343.9</b>	<b>9,377.9</b>	<b>14,242.1</b>	<b>12,567.8</b>	<b>13,053.1</b>
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
<b>CF from Investments</b>	<b>(3,962.6)</b>	<b>(14,553.1)</b>	<b>(12,860.5)</b>	<b>(12,360.5)</b>	<b>(12,360.5)</b>
Dividends paid	(4,568.4)	(1,938.4)	(2,041.0)	(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
<b>CF from Financing</b>	<b>(8,819.2)</b>	<b>3,595.8</b>	<b>(877.4)</b>	<b>(626.0)</b>	<b>(619.3)</b>
Net changes in cash	562.1	(1,579.4)	504.1	(418.7)	73.3
<b>Beginning cash</b>	<b>5,023.0</b>	<b>5,634.9</b>	<b>4,056.1</b>	<b>4,560.2</b>	<b>4,141.5</b>
Forex adjustments	49.8	0.6	0.0	0.0	0.0
<b>Ending cash</b>	<b>5,634.9</b>	<b>4,056.1</b>	<b>4,560.2</b>	<b>4,141.5</b>	<b>4,214.8</b>
Key Ratios	FY21	FY22	FY23F	FY24F	FY25F
PATAMI margin	8.6%	7.3%	6.7%	9.1%	9.1%
ROE	7.7%	6.1%	5.2%	7.1%	7.2%
ROA	2.5%	1.8%	1.8%	2.5%	2.5%
Net gearing	73%	83%	70%	72%	74%
Book value/share (RM)	10.27	10.72	11.59	11.93	12.29
PBV (x)	1.0	0.9	0.9	0.8	0.8
PER (x)	12.4	15.2	16.6	11.7	11.3

Source: Company, MIDFR

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#### 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