



Tenaga Nasional Berhad

(5347 | TNB MK) Main | Utilities

Rich Valuations Coupled with Earnings Miss

KEY INVESTMENT HIGHLIGHTS


- **FY23 result missed estimates**
- **Drag from negative fuel margin and CRF step-down**
- **Receivables and net debt continue to recede on easing fuel prices**
- **FY24F/25F earnings revised down -11%/-6%**
- **Valuations are now rich following share price run-up – downgrade to NEUTRAL at unchanged TP of RM11.00**

Missed expectations. Tenaga's FY23 results disappointed expectations. The group registered a core net profit of RM636m (+41%yoy) in 4QFY23, which brought FY23 core net profit to RM3.18b (-16%yoy) after normalizing for RM291m forex translation loss and RM124m impairment of intangible asset. The full year core earnings accounted for 94%/91% of our and consensus estimates. A final dividend of 28sen/share was declared, bringing full year dividend to 46sen per share, representing a generous 82% DPR against core earnings.

Key highlights. Despite absence of negative fuel margins in 4QFY23 (which presumably has stabilised in line with stabilising coal prices), net profit was down -20%qoq due to higher operating cost, which was unusually higher despite typically being backloaded. In addition, Genco fell into an LBIT, which we reckon was due to outage at its Manjung plant since late 4QFY23. On a full year basis, core earnings were down -16%yoy to RM3.18b mainly due to: (1) Negative fuel margin of -RM619m (2) Step down in CRF of selective generation plants of -RM418m. However, this was partly offset by lower net interest expense (-7%yoy) due to reduced borrowings, in line with easing working capital requirements given moderating fuel prices.

Improving balance sheet. On a positive note, balance sheet continued to improve. Receivables receded further to RM10.4b (-22%qoq) from improved cost recovery via ICPT and collection of Government subsidy. Net gearing eased further to 69% (3QFY23: 76%) as cash levels rose in tandem with improved fuel cost recovery and moderating fuel prices.

Earnings estimates. We trim FY24F/25F net profit by -11%/-6% to reflect higher operating cost and the step-down in CRF for Genco. The +34%/+10%yoy growth in FY24F/25F net profit is expected to be driven by absence of negative fuel margins and underlying growth in regulated earnings.

Recommendation. Despite the earnings revision, overall capex has been running below our earlier estimates and given adjustments to our capex projection, our DCF-based **TP** remains largely unchanged at **RM11.00** (WACC: 8.8%, TG: 1%). We still like Tenaga as a beneficiary of NETR but we believe valuations have run ahead of fundamentals at this juncture. The stock is now trading at 15x FY24F PER, at a premium to historical mean of 13.5x. As such, we now downgrade Tenaga to **NEUTRAL** from BUY. 

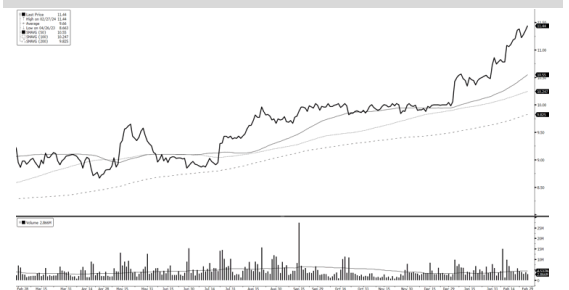
Downgrade to NEUTRAL

*(Previously BUY)***Unchanged Target Price: RM11.00**

RETURN STATISTICS

Price @ 27 th Feb. 2024 (RM)	11.44
Expected share price return (%)	-3.85
Expected dividend yield (%)	4.02
Expected total return (%)	+0.17

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	8.5	5.1
3 months	13.9	8.2
12 months	18.7	11.0

INVESTMENT STATISTICS

FYE Dec (RMm)	2023	2024F	2025F
Revenue	53,067	56,333	58,903
Operating Profit	7,357	9,226	9,972
Profit Before Tax	3,374	5,342	5,893
Core PATAMI	3,185	4,280	4,705
Core EPS (sen)	56.0	75.3	82.7
PER (x)	20.4	15.2	13.8
DPS (sen)	46.0	46.0	50.0
Dividend Yield (%)	4.02	4.02	4.37

KEY STATISTICS

FBM KLCI	1558.80
Issue shares (m)	5753.08
Estimated free float (%)	32.51
Market Capitalisation (RM'm)	66,207.08
52-wk price range	RM8.82-11.40
3-mth average daily volume (m)	4.50
3-mth average daily value (RM'm)	47.01
Top Shareholders (%)	
Khazanah Nasional	22.56
Employees Provident Fund Board	17.25
Amanah Saham Nasional Bhd	15.47

Analyst

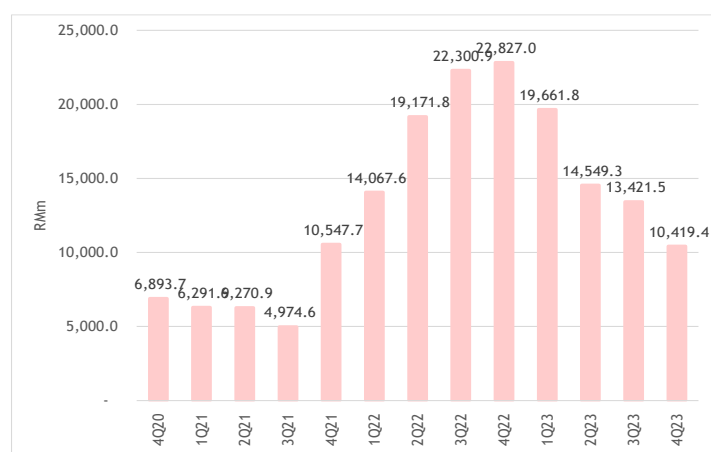
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Table 1: Tenaga 4QFY23 Result Summary

FYE Dec (RMm)	4Q22	3Q23	4Q23	YoY	QoQ	FY22	FY23	YTD
Revenue	12,915.1	13,466.1	13,652.0	5.7%	1.4%	50,867.7	53,066.9	4.3%
EBITDA	4,497.8	4,794.7	4,279.8	-4.8%	-10.7%	20,812.0	18,622.6	-10.5%
Depreciation	(2,997.8)	(2,771.1)	(2,897.3)	-3.4%	4.6%	-11,402.5	-11,265.7	-1.2%
Operating profit	1,500.0	2,023.6	1,382.5	-7.8%	-31.7%	9,409.5	7,356.9	-21.8%
Net interest expense	(1,044.8)	(954.7)	(822.4)	-21.3%	-13.9%	(4,065.7)	(3,786.8)	-6.9%
FX translation gain/(loss)	358.8	62.9	71.9	-80.0%	14.3%	(249.5)	(290.6)	16.5%
Associates/JVs	(4.9)	14.4	26.7	-644.9%	85.4%	97.6	62.4	-36.1%
FV change financial instr.	5.6	(32.4)	(63.9)			130.7	(49.4)	
Pretax profit	816.7	1,055.5	673.9	-17.5%	-36.2%	5,348.6	3,373.6	-36.9%
Tax	(8.8)	(178.1)	(149.5)	1598.9%	-16.1%	(1,791.2)	(770.0)	-57.0%
Minority Interest	(1.2)	21.2	(59.5)	4858.3%	-380.7%	94.1	(166.7)	-277.2%
Reported net profit	809.1	856.2	583.9	-27.8%	-31.8%	3,463.3	2,770.3	-20.0%
Core net profit*	450.3	793.3	635.6	41.2%	-19.9%	3,804.1	3,184.5	-16.3%
EPS (sen)	14.2	15.1	10.3	-27.8%	-31.8%	60.9	48.7	-20.0%
Core EPS (sen)	7.9	13.9	11.2	41.2%	-19.9%	66.9	56.0	-16.3%
DPS (sen)	26.00	18.00	28.00	7.7%	55.6%	46.00	46.00	0.0%
EBITDA margin	34.8%	35.6%	31.3%			40.9%	35.1%	
Operating profit margin	11.6%	15.0%	10.1%			18.5%	13.9%	
Pretax margin	6.3%	7.8%	4.9%			10.5%	6.4%	
Effective tax rate	-1.1%	-16.9%	-22.2%			-33.5%	-22.8%	
Core net profit margin	3.5%	5.9%	4.7%			7.5%	6.0%	

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

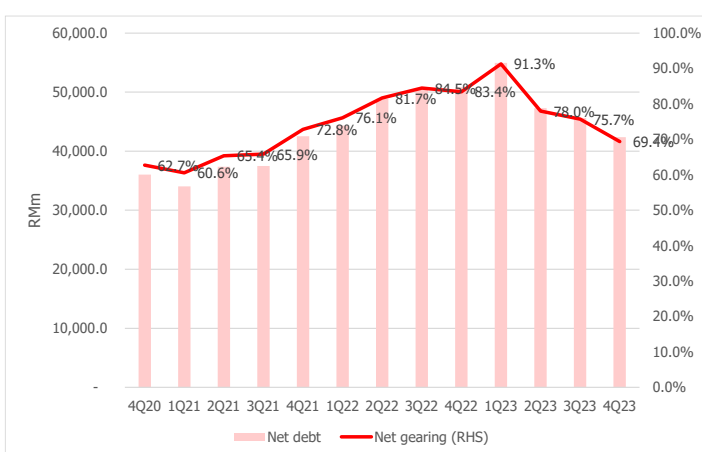


Table 2: Tenaga 4QFY23 Result Breakdown

Unit Revenue/Cost Analysis	4Q22	3Q23	4Q23	YoY	QoQ	FY22	FY23	YTD
Average tariff: TNB sale (sen/kWh)	39.90	40.21	39.92	0.1%	-0.7%	39.90	40.00	0.3%
Demand sales volume (GWh)	29,415	31,448	31,491	7.1%	0.1%	118,882	123,206	3.6%
Generation volume (GWh)	32,117	34,118	34,055	6.0%	-0.2%	130,452	133,754	2.5%
Unit Revenue (sen/kWh)	39.90	40.21	39.92	0.1%	-0.7%	39.90	40.00	0.3%
Unit Generation Cost (sen/kWh)	37.53	23.85	25.09	-33.1%	5.2%	33.03	26.13	
Unit Cost (sen/kWh) - Total cost	56.37	40.09	43.64	-22.6%	8.9%	49.53	42.89	-13.4%
Unit Cost (sen/kWh) - Repair & maint.	2.16	2.38	2.57	19.1%	8.1%	1.92	2.27	18.2%
Unit Cost (sen/kWh) – Gen. expenses	2.16	1.28	2.16	-0.1%	69.3%	1.44	1.46	1.5%
Unit Cost (sen/kWh) - Staff cost	3.05	2.68	3.03	-0.5%	13.2%	2.91	2.91	-0.2%
Gross Electricity Revenue (RMm):	12,338.4	13,415.2	13,351.2	8.2%	-0.5%	49,945.6	52,383.7	4.9%
TNB (without ICPT)	11,735.3	12,646.5	12,570.3	7.1%	-0.6%	47,428.1	49,278.7	3.9%
EGAT	0.2	0.2	0.1	-50.0%	-50.0%	0.6	0.4	-33.3%
SESB	492.3	541.7	545.2	10.7%	0.6%	1,962.3	2,095.4	6.8%
TNBI	131.0	227.0	185.7	41.8%	-18.2%	537.7	776.4	44.4%
Sales Discounts & Accrued Revenue	(20.4)	(0.2)	49.9	>100%	>100%	16.9	232.8	1277.5%

Source: Company, MIDFR

Generation Mix	4Q22 (%)	3Q23 (%)	4Q23 (%)	Variance (%)	Variance (%)	FY22 (%)	FY23 (%)	Variance (%)
				YoY	QoQ			YoY
Gas & LNG	36.7	35.1	38.2	1.6	3.2	37.2	36.7	(0.5)
Coal	55.1	58.6	55.6	0.5	(3.0)	55.9	57.0	1.2
Distillate	0.6	0.2	0.1	(0.5)	(0.1)	0.5	0.2	(0.4)
Oil	0.0	0.0	0.0	(0.0)	0.0	0.0	0.0	0.0
Hydro (RE)	6.2	4.5	4.8	(1.3)	0.3	5.2	4.6	(0.6)
Solar (RE)	1.5	1.6	1.3	(0.2)	(0.4)	1.2	1.5	0.3
Fuel Cost Composition	4Q22 (%)	3Q23 (%)	4Q23 (%)	Variance (%)	Variance (%)	FY22 (%)	FY23 (%)	Variance (%)
				YoY	QoQ			YoY
Gas & LNG	24.9	35.0	38.5	13.5	3.4	26.5	34.4	8.0
Coal	74.2	63.4	60.8	(13.4)	(2.6)	71.7	64.6	(7.1)
Distillate	0.6	1.3	0.7	0.2	(0.6)	1.5	0.8	(0.7)
Oil	0.3	0.3	(0.0)	(0.3)	(0.3)	0.3	0.1	(0.3)
Solar	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company, MIDFR

Demand Sales (GWh)	4Q22	3Q23	4Q23	YoY	QoQ	FY22	FY23	YTD
Industrial	11,246	11,302	11,416	1.5%	1.0%	45,361	44,482	-1.9%
Commercial	10,050	10,925	11,070	10.1%	1.3%	39,666	42,675	7.6%
Domestic	7,508	8,580	8,356	11.3%	-2.6%	31,439	33,540	6.7%
Others	612	641	649	6.0%	1.2%	2,417	2,509	3.8%
Total Demand (GWh)	29,416	31,448	31,491	7.1%	0.1%	118,883	123,206	3.6%

Source: Company, MIDFR

Domestic generation (RMm)	4Q22	3Q23	4Q23	YoY	QoQ	FY22	FY23	YTD
Revenue	7,812.5	5,667.6	5,558.2	-28.9%	-1.9%	27,771.7	25,285.8	-9.0%
EBIT	165.5	96.5	(26.3)	-115.9%	-127.3%	2,601.4	478.8	-81.6%
PAT	(249.5)	(134.1)	(198.9)	-20.3%	48.3%	860.5	(526.8)	-161.2%

Source: Company, MIDFR

Cost Analysis (RMm)	4Q22	3Q23	4Q23	YoY	QoQ	FY22	FY23	YTD
IPP purchase cost	5,097.7	3,797.0	3,992.1	-21.7%	5.1%	17,999.5	15,498.4	-13.9%
- Capacity payment	(58.4)	30.9	47.7	-181.7%	54.4%	(328.5)	(12.8)	-96.1%
- Energy payment	5,156.1	3,766.1	3,944.4	-23.5%	4.7%	18,328.0	15,511.2	-15.4%
Fuel costs	6,955.1	4,341.8	4,552.3	-34.5%	4.8%	25,084.5	19,452.3	-22.5%
Repair & Maintenance	692.5	810.8	874.5	26.3%	7.9%	2,499.8	3,030.8	21.2%
Staff cost	979.1	914.9	1,033.5	5.6%	13.0%	3,801.8	3,889.1	2.3%
TNB General Expenses	694.9	435.4	735.8	5.9%	69.0%	1,873.5	1,950.2	4.1%
Subsi. COS & Opex	685.8	605.2	775.8	13.1%	28.2%	1,950.5	2,284.6	17.1%
Depreciation & Amortisation	2,997.8	2,771.1	2,897.3	-3.4%	4.6%	11,402.5	11,265.7	-1.2%
Total	18,102.9	13,676.2	14,861.3	-17.9%	8.7%	64,612.1	57,371.1	-11.2%
Total gen cost	12,052.8	8,138.8	8,544.4	-29.1%	5.0%	43,084.0	34,950.7	-18.9%
Total non-gen cost	6,050.1	5,537.4	6,316.9	4.4%	14.1%	21,528.1	22,420.4	4.1%

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement	FY21	FY22	FY23	FY24F	FY25F
Revenue	52,629.5	50,867.7	53,066.9	56,333.4	58,902.8
Operating expenses	(44,546.5)	(41,458.2)	(45,710.0)	(47,107.2)	(48,930.9)
Operating profit	8,083.0	9,409.5	7,356.9	9,226.2	9,971.8
Net interest expense	(3,571.5)	(4,065.7)	(3,786.8)	(3,977.4)	(4,176.2)
Associates	193.5	97.6	62.4	93.0	97.6
PBT	4,805.7	5,348.6	3,373.6	5,341.8	5,893.2
Taxation	(873.6)	(1,791.2)	(770.0)	(1,228.6)	(1,355.4)
Minority Interest	202.9	94.1	(166.7)	(167.0)	(167.0)
Net profit	3,661.8	3,463.3	2,770.3	4,280.2	4,704.8
Core net profit	4,519.8	3,804.1	3,184.5	4,280.2	4,704.8
Balance Sheet	FY21	FY22	FY23	FY24F	FY25F
PPE	114,105.6	116,577.1	122,024.7	125,465.5	128,668.9
Others	41,472.4	44,289.0	42,087.3	42,087.3	42,087.3
Non-current assets	155,578.0	160,866.1	164,112.0	167,552.8	170,756.2
Inventories	1,977.1	3,290.8	2,758.0	2,362.0	2,469.7
Receivables	10,547.7	22,827.0	13,219.7	14,044.8	14,685.4
Others	5,339.4	5,904.0	3,677.1	3,677.1	3,677.1
Cash & equivalent	9,158.4	13,034.4	21,004.6	19,899.8	21,209.3
Current assets	27,022.6	45,056.2	40,659.4	39,983.7	42,041.5
Share capital	11,927.6	12,204.3	12,037.6	12,037.6	12,037.6
Minority Interest	1,784.0	2,449.1	2,449.1	2,449.1	2,449.1
Reserves	44,680.8	46,312.8	46,596.0	48,282.4	50,164.3
TOTAL EQUITY	58,392.4	60,966.2	61,082.7	62,769.1	64,651.0
Long-term borrowings	44,685.7	50,620.0	54,739.6	57,476.6	60,350.4
Others	52,305.6	56,738.8	56,410.5	56,410.5	56,410.5
Non-current liabilities	96,991.3	107,358.8	111,150.1	113,887.1	116,760.9
Short-term borrowings	6,992.5	13,262.2	7,030.6	7,030.6	7,030.6
Payables	8,596.7	11,509.7	12,830.7	11,172.4	11,677.9
Others	11,627.7	12,825.4	12,677.3	12,677.3	12,677.3
Current liabilities	27,216.9	37,597.3	32,538.6	30,880.3	31,385.8

Cash Flow Statement	FY21	FY22	FY23	FY24F	FY25F
PBT	4,805.7	5,348.6	3,373.6	5,341.8	5,893.2
Depreciation & Amortization	10,691.5	11,402.5	11,265.7	12,044.8	12,282.2
Chgs in working capital	(5,984.7)	(10,680.0)	11,461.1	(2,087.4)	(242.8)
Others	3,831.4	3,306.8	6,118.1	(4,686.7)	(4,813.5)
CF from Operations	13,343.9	9,377.9	32,218.5	10,612.5	13,119.1
Capex	(8,415.5)	(8,428.9)	(10,571.2)	(12,000.0)	(12,000.0)
Others	4,452.9	(6,124.2)	4,789.1	139.5	139.5
CF from Investments	(3,962.6)	(14,553.1)	(5,782.1)	(11,860.5)	(11,860.5)
Dividends paid	(4,568.4)	(1,938.4)	(1,948.4)	(2,593.8)	(2,822.9)
Net movement in borrowings	1,886.0	12,061.1	(2,112.0)	2,737.0	2,873.8
Others	(6,136.8)	(6,526.9)	(8,924.2)	0.0	(0.0)
CF from Financing	(8,819.2)	3,595.8	(12,984.6)	143.2	51.0
Net changes in cash	562.1	(1,579.4)	13,451.8	(1,104.8)	1,309.5
Beginning cash	5,023.0	5,634.9	4,056.1	17,507.9	16,403.1
Forex adjustments	49.8	0.6	0.0	0.0	0.0
Ending cash	5,634.9	4,056.1	17,507.9	16,403.1	17,712.6
Key Ratios	FY21	FY22	FY23	FY24F	FY25F
PATAMI margin	8.6%	7.5%	6.0%	7.6%	8.0%
ROE	7.7%	6.2%	5.2%	6.8%	7.3%
ROA	2.5%	1.8%	1.6%	2.1%	2.2%
Net gearing	73%	83%	67%	71%	71%
Book value/share (RM)	10.27	10.72	10.74	11.04	11.37
PBV (x)	1.0	1.1	1.1	1.0	1.0
PER (x)	12.4	17.1	20.4	15.2	13.8

Source: Company, 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.

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