

Tenaga Nasional Berhad

(5347 | TNB MK) Main | Utilities

Priced to Perfection

KEY INVESTMENT HIGHLIGHTS

- **1QFY24 result within expectations**
- **Genco still in the red due to Manjung 4 outage**
- **Market already pricing in high expectations - any weaker than expected capex in upcoming RP4 is a valuation de-rating risk**
- **Maintain NEUTRAL at TP of RM11.52**

Within expectations. Tenaga's 1QFY24 result came in within expectations. The group reported a core net profit of RM912m for its 1QFY24 (normalized for forex translation loss of -RM197m) making up 21%/23% of our/consensus' full year estimates. No dividends were declared for the quarter.

Key result highlights. Core earnings contracted -6.3%yoy mainly due to a reduction in other operating income. Additionally, Genco remained in the red with an -RM80m LAT despite stabilising fuel margin loss, given capacity payment loss of -RM141m arising from Manjung 4 outage since late-4QFY23. These negatives were partly offset by a reduction in finance cost (-15%yoy) as Tenaga progressively pared down borrowings throughout FY23 in tandem with reduced working capital requirement given moderating fuel cost.

Demand growth. Demand grew +9.6%yoy to 31.9TWh mainly driven by the domestic (+17%yoy) and commercial (+11%yoy) segments. However, Tenaga's allowed annual revenue for revenue-cap entities is capped at 118.1TWh demand this year (+1.7%yoy) - excess demand of 2.4TWh in 1QFY24 was adjusted under the revenue-cap mechanism.

RE updates. Group RE capacity stood at 4.3GW comprising 73% domestic and 27% international capacity, making up 20% of total generation portfolio. TNBI, which houses the group's international RE assets saw revenue growth of +50%yoy in 1QFY24 thanks to contribution from newly acquired solar portfolio in Ireland (276MW) in Dec-23 and higher locked in PPA prices in 2024 within Vantage RE's portfolio. However, TNBI's contribution to the group is currently small at 1.5% of Tenaga's gross revenue.

Earnings estimates. No change to our earnings estimates.

Recommendation. Maintain **NEUTRAL** on Tenaga. Our **TP** is raised to **RM11.52** (WACC: 8.5%, implied FY25F PER: 13.9x) from RM11.00 as we rollover our valuation base to FY25F.

Market pricing in high expectations. We still like Tenaga as a beneficiary of the energy transition but we believe valuations have run ahead of fundamentals at this juncture. The stock is now trading at 16x FY25F PER, close to 1SD above historical mean of 13.9x reflecting already high expectation of future earnings. Our projections already assume a

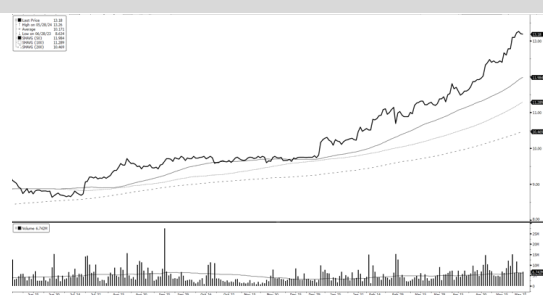
Maintain NEUTRAL

Revised Target Price: RM11.52
(Previously RM11.00)

RETURN STATISTICS

Price @ 31 st May 2024 (RM)	13.04
Expected share price return (%)	-11.7
Expected dividend yield (%)	+3.5
Expected total return (%)	-8.1

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	10.2	8.1
3 months	15.8	13.1
12 months	37.0	19.2

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)	23.3	17.3	15.8
DPS (sen)	46.0	46.0	50.0
Dividend Yield (%)	3.5	3.5	3.8

KEY STATISTICS

FBM KLCI	1596.68
Issue shares (m)	5787.33
Estimated free float (%)	24.79
Market Capitalisation (RM'm)	76,277.03
52-wk price range	RM8.99-RM13.2
3-mth average daily volume (m)	6.20
3-mth average daily value (RM'm)	74.45
Top Shareholders (%)	
Amanah Saham Nasional Bhd	23.63
Khazanah Nasional Bhd	21.52
Employees Provident Fund	18.16

Analyst

Hafriz Hezry

hafriz.hezry@midf.com.my
03-2173 8392


step-up in regulated asset base growth to a CAGR of +7.7% in RP4 (vs. +4.2% in RP3) to reflect accelerated capex spend on the energy transition. Any weaker than expected capex in the upcoming RP4 determination is a valuation de-rating risk, in our opinion. Meanwhile, introduction of Third-Party Access, while possibly neutral to regulated earnings, could introduce more competition in the generation segment for incumbents, we believe. 

Table 1: Sector Valuation Summary

Companies	FYE	Rating	Shr Price	EPS (sen)		PE (x)		ROE	Div Yield	Market Cap	TP
			(RM)	FY24	FY25	FY24	FY25	(%)	(%)	(RMm)	(RM)
Ranhill Utilities	Dec	SELL	1.34	4.2	4.2	31.5	32.2	6.9	2.5	1,717.0	1.07
Tenaga Nasional	Dec	NEUTRAL	13.04	75.3	82.7	17.3	15.8	6.8	3.5	74,556.5	11.52
YTL Power	Jun	BUY	4.91	38.3	38.4	12.8	12.8	16.5	2.3	39,781.6	6.35
Samaiden	Jun	BUY	1.32	5.9	7.0	22.4	18.9	19.5	0.0	520.1	1.57
Sunview	Mar	BUY	0.65	2.3	3.5	28.3	18.6	17.5	0.0	304.2	0.88
Pekat	Dec	BUY	0.80	2.7	3.5	29.6	22.9	9.5	0.0	516.0	0.88

Source: Company, MIDFR

Table 2: Tenaga 1QFY24 Result Summary

FYE Dec (RMm)	1Q23	4Q23	1Q24	YoY	QoQ
Revenue	12,625.6	13,652.0	13,640.4	8.0%	-0.1%
EBITDA	4,883.7	4,279.8	4,805.0	-1.6%	12.3%
Depreciation	(2,801.6)	(2,897.3)	(2,780.2)	-0.8%	-4.0%
Operating profit	2,082.1	1,382.5	2,024.8	-2.8%	46.5%
Net interest expense	(1,021.0)	(822.4)	(870.9)	-14.7%	5.9%
Forex translation gain/(loss)	28.1	71.9	(196.7)	-800.0%	-373.6%
Associates/JVs	23.0	26.7	19.6	-14.8%	-26.6%
FV change financial instr.	(8.0)	(63.9)	27.6		
Pretax profit	1,102.7	673.9	1,029.8	-6.6%	52.8%
Tax	(171.8)	(149.5)	(351.9)	104.8%	135.4%
Minority Interest	(71.4)	(59.5)	(37.8)	-47.1%	-36.5%
Reported net profit	1,002.3	583.9	715.7	-28.6%	22.6%
Core net profit *	974.2	635.6	912.4	-6.3%	43.5%
EPS (sen)	17.6	10.3	12.6	-28.6%	22.6%
Core EPS (sen)	17.1	11.2	16.0	-6.3%	43.5%
DPS (sen)	-	28.00	-	NA	-100.0%
EBITDA margin	38.7%	31.3%	35.2%		
Operating profit margin	16.5%	10.1%	14.8%		
Pretax margin	8.7%	4.9%	7.5%		
Effective tax rate	-15.6%	-22.2%	-34.2%		
Core net profit margin	7.7%	4.7%	6.7%		

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

Table 3: Tenaga 1QFY24 Result Breakdown

Unit Revenue/Cost Analysis	1Q23	4Q23	1Q24	YoY	QoQ
Average tariff achieved for TNB sale (sen/kWh)	39.31	39.92	39.65	0.9%	-0.7%
Demand sales volume (GWh)	29,113	31,491	31,899	9.6%	1.3%
Generation volume (GWh)	31,484	34,055	34,632	10.0%	1.7%
Unit Revenue (sen/kWh)	39.31	39.92	39.65	0.9%	-0.7%
Unit Generation Cost (sen/kWh)	29.22	25.09	24.74	-15.3%	-1.4%
Unit Cost (sen/kWh) - Total cost	45.87	43.64	40.66	-11.4%	-6.8%
Unit Cost (sen/kWh) - Repair & maintenance	1.97	2.57	2.00	1.3%	-22.2%
Unit Cost (sen/kWh) - General expenses	1.31	2.16	1.24	-5.4%	-42.7%
Unit Cost (sen/kWh) - Staff cost	2.98	3.03	2.75	-7.8%	-9.4%
Gross Electricity Sale Revenue (RMm):	12,255.5	13,351.2	13,605.1	11.0%	1.9%
TNB (without ICPT)	11,443.6	12,570.3	12,648.2	10.5%	0.6%
EGAT	0.1	0.1	0.3	200.0%	200.0%
SESB	478.8	545.2	549.2	14.7%	0.7%
TNBI	135.2	185.7	202.4	49.7%	9.0%
Sales Discounts & Accrued Revenue	197.8	49.9	205.0	3.6%	310.8%

Source: Company, MIDFR

Generation Mix (Includes IPPs)	1Q23 (%)	4Q23 (%)	1Q24 (%)	Variance (%) YoY	Variance (%) QoQ
Gas & LNG	39.5	38.2	39.4	(0.1)	1.1
Coal	53.7	55.6	52.5	(1.2)	(3.1)
Distillate	0.1	0.1	0.1	0.0	0.1
Oil	0.0	0.0	0.0	0.0	0.0
Hydro (RE)	5.1	4.8	5.9	0.9	1.1
Solar (RE)	1.6	1.3	2.0	0.4	0.8
Fuel Cost Composition	1Q23 (%)	4Q23 (%)	1Q24 (%)	Variance (%) YoY	Variance (%) QoQ
Gas & LNG	34.3	38.5	43.3	9.0	4.8
Coal	65.2	60.8	56.2	(9.0)	(4.6)
Distillate	0.4	0.7	0.3	(0.1)	(0.4)
Oil	0.0	(0.0)	0.2	0.2	0.2
Solar	0.0	0.0	0.0	0.0	0.0

Source: Company, MIDFR

Demand Sales (GWh)	1Q23	4Q23	1Q24	YoY	QoQ
Industrial	10,882	11,416	11,210	3.0%	-1.8%
Commercial	9,981	11,070	11,102	11.2%	0.3%
Domestic	7,646	8,356	8,932	16.8%	6.9%
Others	604	649	655	8.4%	0.9%
Total Demand (GWh)	29,113	31,491	31,899	9.6%	1.3%

Source: Company, MIDFR

Domestic generation (RMm)	1Q23	4Q23	1Q24	YoY	QoQ
Revenue	7,463.4	5,558.2	5,752.6	-22.9%	3.5%
EBIT	206.7	(26.3)	174.8	-15.4%	-764.6%
PAT	(77.1)	(198.9)	(80.4)	4.3%	-59.6%

Source: Company, MIDFR

Cost Analysis (RMm)	1Q23	4Q23	1Q24	YoY	QoQ
IPP purchase cost	3,708.3	3,992.1	4,233.4	14.2%	6.0%
- Capacity payment	(106.3)	47.7	41.3	-138.9%	-13.4%
- Energy payment	3,814.6	3,944.4	4,192.1	9.9%	6.3%
Fuel costs	5,491.1	4,552.3	4,334.9	-21.1%	-4.8%
Repair & Maintenance	621.1	874.5	692.2	11.4%	-20.8%
Staff cost	938.3	1,033.5	952.0	1.5%	-7.9%
TNB General Expenses	412.4	735.8	429.1	4.0%	-41.7%
Subsi. COS & Opex	470.3	775.8	660.8	40.5%	-14.8%
Depreciation & Amortisation	2,801.6	2,897.3	2,780.2	-0.8%	-4.0%
Net loss on impairment of financial instrument	-	-	-		
Total	14,443.1	14,861.3	14,082.6	-2.5%	-5.2%
Total gen cost	9,199.4	8,544.4	8,568.3	-6.9%	0.3%
Total non-gen cost	5,243.7	6,316.9	5,514.3	5.2%	-12.7%

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)	1.3	1.2	1.2	1.2	1.1
PER (x)	16.4	19.5	23.3	17.3	15.8

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