

Tenaga Nasional Berhad

(5347 | TNB MK) Main | Utilities

Stronger Earnings Priced In

KEY INVESTMENT HIGHLIGHTS

- **2QFY24 result within our expectations, ahead of consensus**
- **GenCo rebounds into the black**
- **Excess demand of 5.9TWh in 1HFY24 adjusted under revenue-cap mechanism**
- **Maintain NEUTRAL with a revised TP of RM14.20**

Within expectations. Tenaga's 2QFY24 result came in within expectations. The group reported a core net profit of RM1.31b for its 2QFY24 (normalised for forex translation gain of RM130.2m). The cumulative six months for 1HFY24 saw the core net profit rising +26.8%yoy to RM2.23b, making up 52.0% of our full-year estimates but ahead of consensus at 56.5%. An interim dividend of 25 sen was announced, representing a stronger dividend payout ratio of 63.9% (1HFY23: 58.3%).

Key result highlights. Revenue in 1HFY24 grew +7.9%yoy to RM28.01b, driven by a growth in sales demand volume by +8.4%yoy and a +30.7%yoy growth from the group's UK operations. Aiding the stronger bottom line were lower fuel and power purchase cost due to lower coal prices during the 6-month period while GenCo rebounded into the black with a PAT of RM399.4m in 2QFY24, an improvement over the pre-tax losses of -RM80.4m in 1QFY24 and -RM116.7m in 2QFY23, attributable to a narrower negative fuel margin of -RM69.8m as compared to -RM565.7m in 1HFY23.

Demand growth. Demand grew +7.9%yoy to 65.0TWh mainly driven by the domestic (+11.9%yoy) and commercial (+10.0%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 5.9TWh in 1HFY24 was adjusted under the revenue-cap mechanism.

RE updates. Tenaga's RE capacity remained at 4.3GW, with only a 3MW increase in domestic capacity during the quarter. The current RE capacity is made up of 72.6% domestic and 27.4% international, representing 21% of the total generation portfolio.

Earnings estimates. We maintain our earnings estimates as the results were within expectations.

Recommendation. Maintain **NEUTRAL** on Tenaga. Our **TP** is raised to **RM14.20** from RM11.52 on the back of housekeeping changes to our WACC to reflect a slightly lower risk premium in our valuation (WACC:7.6%).

Fairly priced for now. We still like Tenaga as a beneficiary of the energy transition but we believe it is fairly priced at this juncture. The stock, having risen about +39.0% year-to-date, is now trading at 16.9x

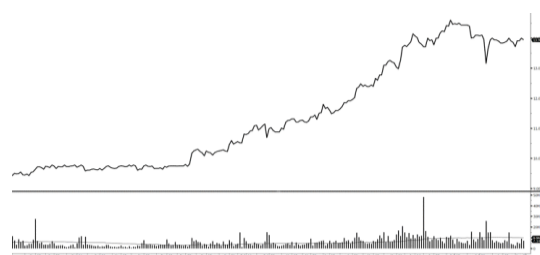
Maintain NEUTRAL

Revised Target Price: RM14.20
(Previously RM11.52)

RETURN STATISTICS

Price @ 29 th Aug 2024 (RM)	13.94
Expected share price return (%)	+1.9
Expected dividend yield (%)	+3.3
Expected total return (%)	+5.2

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-1.1	-2.9
3 months	1.2	2.5
12 months	40.5	23.6

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)	24.9	18.5	16.6
DPS (sen)	46.0	46.0	50.0
Dividend Yield (%)	3.5	3.5	3.8

KEY STATISTICS

FBM KLCI	1,653.55
Issue shares (m)	5787.33
Estimated free float (%)	52.22
Market Capitalisation (RM'm)	81,032.50
52-wk price range	RM9.73-RM14.60
3-mth average daily volume (m)	10.02
3-mth average daily value (RM'm)	139.14
Top Shareholders (%)	
Amanah Saham Nasional Bhd	22.38
Khazanah Nasional Bhd	20.91
Employees Provident Fund	17.20

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FY25F PER, which is about +2SD above its long-term historical mean which in our view, already reflects high expectations of its future earnings. Our projections already assume a 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. 

Table 1: Tenaga 2QFY24 Result Summary

FYE Dec (RMm)	Quarterly					Cumulative		
	2QFY23	1QFY24	2QFY24	YoY	QoQ	1HFY23	1HFY24	YTD
Revenue	13,323.2	13,640.4	14,366.8	7.8%	5.3%	25,948.8	28,007.2	7.9%
EBITDA	4,664.4	4,805.0	5,099.5	9.3%	6.1%	9,548.1	9,904.5	3.7%
Depreciation	(2,795.7)	(2,780.2)	(2,858.3)	2.2%	2.8%	-5,597.3	(5,638.5)	0.7%
Operating profit	1,868.7	2,024.8	2,241.2	19.9%	10.7%	3,950.8	4,266.0	8.0%
Net interest expense	(988.7)	(870.9)	(854.7)	-13.6%	-1.9%	(2,009.7)	(1,725.6)	-14.1%
Forex translation gain/(loss)	(453.5)	(196.7)	130.2	-128.7%	-166.2%	(425.4)	(66.5)	-84.4%
Associates/JVs	(1.7)	19.6	245.8	14558.8%	1154.1%	21.3	265.4	1146.0%
FV change financial instr.	54.9	27.6	11.5			46.9	39.1	
Pretax profit	541.5	1,029.8	1,766.9	226.3%	71.6%	1,644.2	2,796.7	70.1%
Tax	(270.6)	(351.9)	(254.5)	-5.9%	-27.7%	(442.4)	(606.4)	37.1%
Minority Interest	(57.0)	(37.8)	68.3	-219.8%	-280.7%	(128.4)	30.5	-123.8%
Reported net profit	327.9	715.7	1,444.1	340.4%	101.8%	1,330.2	2,159.8	62.4%
Core net profit	781.4	912.4	1,313.9	68.1%	44.0%	1,755.6	2,226.3	26.8%
EPS (sen)	5.8	12.6	25.4	340.6%	101.8%	23.4	38.0	62.5%
Core EPS (sen)	13.7	16.0	23.1	68.1%	44.0%	30.9	39.1	26.8%
DPS (sen)	18.00	-	25.00	38.9%	-	18.00	25.00	38.9%
EBITDA margin	35.0%	35.2%	35.5%	0.5	0.3	36.8%	35.4%	(1.4)
Operating profit margin	14.0%	14.8%	15.6%	1.6	0.8	15.2%	15.2%	0.0
Pretax margin	4.1%	7.5%	12.3%	8.2	4.7	6.3%	10.0%	3.6
Effective tax rate	-50.0%	-34.2%	-14.4%			-26.9%	-21.7%	
Core net profit margin	5.9%	6.7%	9.1%	3.3	2.5	6.8%	7.9%	1.2

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

Table 2: Tenaga 2QFY24 Result Breakdown

Unit Revenue/Cost Analysis	2QFY23	1QFY24	2QFY24	YoY	QoQ	1HFY23	1HFY24	YTD
Average tariff achieved for TNB sale (sen/kWh)	40.50	39.65	41.02	1.3%	3.5%	39.93	40.35	1.1%
<i>Sales-to-Generation</i>	91.5%	92.1%	92.4%			91.9%	92.3%	
Demand sales volume (GWh)	31,153	31,899	33,121	6.3%	3.8%	60,267	65,020	7.9%
Generation volume (GWh)	34,064	34,632	35,829	5.2%	3.5%	65,548	70,461	7.5%
Unit Revenue (sen/kWh)	40.50	39.65	41.02	1.3%	3.5%	39.93	40.35	1.1%
Unit Generation Cost (sen/kWh)	26.62	24.67	23.91	-10.2%	-3.1%	27.87	12.16	
Unit Cost (sen/kWh) - Total cost	42.25	42.57	39.52	-6.4%	-7.2%	43.99	24.04	-45.3%
Unit Cost (sen/kWh) - Repair & maintenance	2.13	2.53	1.93	-9.2%	-23.5%	2.05	0.98	-52.1%
Unit Cost (sen/kWh) - General expenses	1.11	2.12	1.20	8.2%	-43.6%	1.20	0.61	-49.4%
Unit Cost (sen/kWh) - Staff cost	2.94	2.98	2.66	-9.7%	-11.0%	2.96	1.35	-54.4%
Gross Electricity Sale Revenue (RMm):	13,361.8	13,605.1	14,333.6	7.3%	5.4%	25,918.9	27,938.7	7.8%
TNB (without ICPT)	12,618.3	12,648.2	13,587.1	7.7%	7.4%	24,061.9	26,235.3	9.0%
EGAT	0.0	0.3	0.1	-	-66.7%	0.1	0.4	300.0%
SESB	529.7	549.2	595.9	12.5%	8.5%	1,008.5	1,145.1	13.5%
LPL	0.0	0.0	0.0	-	-	0.0	0.0	-
TNBI	228.5	202.4	273.0	19.5%	34.9%	363.7	475.4	30.7%
Sales Discounts & Accrued Revenue	(14.7)	205.0	(122.5)	733.3%	-159.8%	183.1	82.5	-54.9%

Source: Company, MIDFR

Generation Mix (Includes IPPs)	2QFY23 (%)	1QFY24 (%)	2QFY24 (%)	Variance (%) YoY	Variance (%) QoQ	1HFY23 (%)	1HFY24 (%)	Variance (%) YoY
Gas & LNG	39.5	39.4	37.2	(2.3)	(2.1)	36.7	38.3	1.6
Coal	53.7	52.5	57.2	3.5	4.7	57.0	54.9	(2.1)
Distillate	0.1	0.1	-	-	-	0.2	0.1	(0.1)
Oil	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Hydro (RE)	5.1	5.9	3.6	(1.5)	(2.3)	4.5	4.7	0.2
Solar (RE)	1.6	2.0	1.9	0.3	(0.1)	1.6	2.0	0.3
Fuel Cost Composition	2QFY23 (%)	1QFY24 (%)	2QFY24 (%)	Variance (%) YoY	Variance (%) QoQ	1HFY23 (%)	1HFY24 (%)	Variance (%) YoY
Gas & LNG	34.3	43.3	39.4	5.1	(3.9)	26.5	41.2	14.7
Coal	65.2	56.2	60.2	(5.0)	4.0	71.7	58.1	(13.6)
Distillate	0.4	0.3	0.2	(0.2)	(0.1)	1.5	0.5	(1.0)
Oil	0.0	0.2	0.1	0.1	(0.0)	0.3	0.2	(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)	2QFY23	1QFY24	2QFY24	YoY	QoQ	1HFY23	1HFY24	YTD
Industrial	10,882	11,210	11,170	2.6%	-0.4%	21,764	22,380	2.8%
Commercial	10,699	11,102	11,641	8.8%	4.9%	20,680	22,743	10.0%
Domestic	8,958	8,932	9,650	7.7%	8.0%	16,604	18,582	11.9%
Others	615	655	660	7.3%	0.8%	1,219	1,315	7.9%
Total Demand (GWh)	31,154	31,899	33,121	6.3%	3.8%	60,267	65,020	7.9%

Source: Company, MIDFR

Domestic generation (RMm)	2QFY23	1QFY24	2QFY24	YoY	QoQ	1HFY23	1HFY24	YTD
Revenue	6,596.6	5,752.6	6,192.9	-6.1%	7.7%	14,060.0	11,945.5	-15.0%
EBIT	201.9	174.8	617.0	205.6%	253.0%	408.6	791.8	93.8%
PAT	(116.7)	(80.4)	399.4	-442.2%	-596.8%	(193.8)	319.0	-264.6%

Source: Company, MIDFR

Cost Analysis (RMm)	2QFY23	1QFY24	2QFY24	YoY	QoQ	1HFY23	1HFY24	YTD
IPP purchase cost	4,001.0	4,233.4	4,694.8	17.3%	10.9%	7,709.3	8,928.2	15.8%
- Capacity payment	14.9	41.3	36.7	146.3%	-11.1%	(91.4)	78.0	-185.3%
- Energy payment	3,986.1	4,192.1	4,658.1	16.9%	11.1%	7,800.7	8,850.2	13.5%
Fuel costs	5,067.1	4,334.9	4,552.9	-10.1%	5.0%	10,558.2	8,887.8	-15.8%
Repair & Maintenance	724.4	692.2	801.0	10.6%	15.7%	1,345.5	1,493.2	11.0%
Staff cost	1,002.4	952.0	966.5	-3.6%	1.5%	1,940.7	1,918.5	-1.1%
TNB General Expenses	376.9	429.1	434.2	15.2%	1.2%	789.3	863.3	9.4%
Subsi. COS & Opex	423.0	660.8	992.8	134.7%	50.2%	893.3	1,653.6	85.1%
Depreciation & Amortisation	2,795.7	2,780.2	2,858.3	2.2%	2.8%	5,597.3	5,638.5	0.7%
Total	14,390.5	14,082.6	15,300.5	6.3%	8.6%	28,833.6	29,383.1	1.9%
Total gen cost	9,068.1	8,568.3	9,247.7	2.0%	7.9%	18,267.5	17,816.0	-2.5%
Total non-gen cost	5,322.4	5,514.3	6,052.8	13.7%	9.8%	10,566.1	11,567.1	9.5%

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