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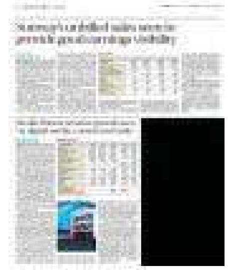

TNB evaluating commercialisation potential of its fibre network

Tenaga Nasional Bhd (March 1, RM13.08)

Maintain hold with a target price (TP) of RM13.30: Tenaga Nasional Bhd (TNB) reported a disappointing set of numbers for 2018, core profit after tax and minority interest (Patmi) of RM5.215 billion delivered only 70% and 82% of our respective forecasts. Guidance provided by management indicates a lower profit base moving forward, due to lower regulatory returns and losses from its foreign associates. As such we are cutting our EPS forecast by 24-27% for 2019-20E and reduce our discounted cash flow (DCF)-based TP to RM13.30, and downgrade our call to "hold" from "buy".

The management has guided that the profit base in regulatory period (RP) 2 should be around RM5 billion-5.4 billion, which is lower than what we had previously forecasted. The difference is due to the price and revenue cap set in RP2, which limits TNB's ability to earn additional returns above the regulated return from its asset base. Losses from its associates overseas are also unlikely to recover, hence the decision to make an impairment of around RM1.065 billion for its investment related to two of its international associates (Gama Enerji AS in Turkey GMR Energy Limited in India).

Despite guiding a lower base profit for 2019, there is still an avenue of growth that will help drive TNB profitability. Jimah East Power (2,000MW) is on schedule to achieve commercial operation date (COD) by end-2019, and Southern Power Generation (SPG) will achieve COD by mid-2020. Management has also indicated that they are evaluating the commercialisation potential of its fibre network, but only interested in a wholesale model. No guidance was provided as to the capex required for this potential new venture.

We have cut our 2019-20E EPS forecast by 24-27%, after factoring in the lower profit base. We have also lowered our DCF-based TP to RM 13.30 (from RM18.00) and downgrade our call to "hold" from "buy", on the back of the earnings cut. Risks to our thesis include higher/lower-than-expected losses from its associates and changes to the current IBR/ICPT. — *Affin Hwang Capital, March 1*