Elia tie-up bodes well for TNB

Tenaga Nasional Bhd (Oct 3, RM14.30)

Maintain outperform with an unchanged target price of RM16.16: Tenaga Nasional Bhd (TNB) has announced that it had signed a memorandum of understanding (MoU) with Elia System Operator SA, one of the largest transmission system operators in Europe. The two-year MoU (extendable for another year) is for a strategic collaboration in sharing of best practices in capacity building. TNB has proposed 13 collaborative projects with Elia, with one of the proposed projects said to benefit the regional Asean Power Grid (APG) initiative. The MoU also bodes well for TNB's Advanced Metering Infrastructure project and ventures into renewable energy (tlti). While there is no discernible material financial impact on TNB in the near term, we believe this planned collaboration will help increase efficiencies in the electricity transmission system in Malaysia, and eventually translate into tangible gains over the longer term as energy consumption and demand rise further in the future. We maintain our "outperform" call on TNB with an unchanged TP of RM16.16.

The collaboration will cover asset management, cross-boundary system and market operations, grid development, network studies and renewable integration. Elia is the transmission operator for Belgium and the eastern part of Germany. It has 18,000km of high-voltage lines in Belgium and Germany and 30,000MW of installed capacity in RE.

A transmission system consists of high-voltage electric lines used to transmit electricity from one power station to a substation or to another power station. In Malaysia, the national grid refers to the transmission system across Peninsular Malaysia (with interconnections in Khlong Ngea and Sadoa in Thailand, and Woodlands in Singapore), while Sarawak, Sabah and Labuan have separate grid networks.

The APG is an initiative to link the electricity supply, transmission and distribution networks among countries.

We understand that regional electricity interconnection in Europe has benefited in terms of overall system cost reduction and improved supply security. Hence, we believe this MoU will help TNB through the exchange of technical information to improve the transmission system in Malaysia as well as ensure the viability of cross-border power trading in Asean. — PublicInvest Research, Oct 3