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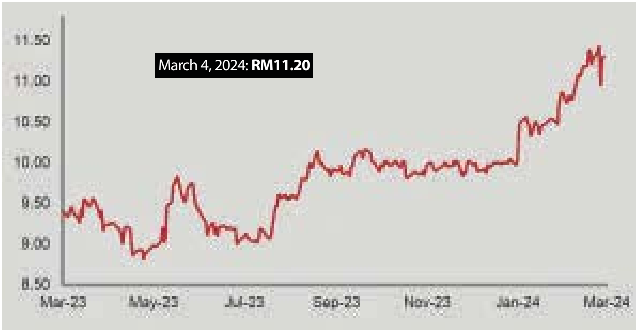
Tenaga Nasional Bhd

Market Perform. Target price: **RM11.40**



Source: Kenanga Research

ITS actual FY23 demand growth came in at 3.6%, which was higher than the 1.7% embedded in IBR, led by commercial (+7.6%) and domestic segments (+6.7%). TENAGA guided for electricity demand growth of 2.5%-3.0% in FY24, underpinned largely by new data centres.

In FY23, nine data centre projects with 635MW capacity were completed which will bring annual sales of RM350 million to TENAGA. Of these projects, two projects completed ahead of time, i.e. (i) GDS Data Centre (with total maximum demand of 85.5MW) completed three months ahead of time in September 2023, and, (ii) SIPP YTL Data Centre Park (with total maximum demand of 300MW) completed two months ahead of time in October 2023. At the same time, TENAGA has signed Electricity Supply Agreements (ESA) with nine projects for a total potential demand of 2,300MW of electricity.

In FY24, nine more data centre projects with 700MW are expected to be completed while 10 new ESA are expected to be concluded with potential energy demand of 2,000MW. As such, this will result in a total potential maximum demand of >5,000MW of electricity from data centres by 2035.

We continue to like TENAGA for: (i) its dominance in power generation, transmission and distribution in Malaysia, (ii) its defensive earnings backed a resilient domestic economy and assets that are largely regulated, and (iii) its heavyweight index-linked stock status. In addition, its dividend yield is decent at 3-4%. However, its valuations are rich after the recent run-up in its share price.

We maintain our forecasts, TP of RM11.40 and MARKET PERFORM rating.