

Headline	Maintain Buy on TNB as it returns to Track 4A		
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	FYE AUG	FY15	FY16	FY17F	FY18F
	REVENUE (RM mil)	43,286.8	44,531.5	47,891.8	50,457.1
	CORE NET PROFIT (RM mil)	5,978.9	7,757.6	7,152.5	6,708.5
	FD EPS (sen)	105.9	137.5	126.7	118.9
	PER (x)	13.0	10.0	10.9	11.6

► Recommendation: Buy

TARGET Price: RM16.80
by MIDF Research
(May 4)

- Takes control of Track 4A.
- TNB re-assuming the project signals possibility of renegotiated terms.
- Re-affirm 'Buy' at unchanged DCF-derived TP of RM16.80/share. This liquid index proxy is deeply undervalued.

TNB control of Track 4A

Tenaga Nasional Bhd (TNB) is taking a controlling stake in Track 4A after announcing the acquisition of a 51% stake in Southern Power Generation Sdn Bhd (Track 4A) for RM51 from SIPP Energy Sdn Bhd.

Track 4A is now expected to achieve commercial operation date on July 1, 2020. The project is reported to cost ~RM4.7b.

Positives From the Move

The acquisition will:

- (1) Enhance the certainty of completion for the project given TNB's expertise;
- (2) Increase TNB's generation market share from the current 54%;
- (3) Value accretion to TNB; and
- (4) Enhance reserve capacity, which is currently estimated to stand at ~30%.

After Long Delays

Track 4A, which entails a 2x720MW CCGT plant in Pasir Gudang, was originally scheduled to come on stream in June 2018.

The project was conditionally awarded to SIPP in May 2014 with the participation of YTL Power International Bhd and TNB.

To ensure power generated from Track 4A is competitively priced, the Energy Commission set a condition that the levelised tariff for the plant must be comparable to that of TNB Prai, which is at 34.7sen/kwh.

Renegotiated Terms?

At this rate, however, TNB Prai was reported to have just managed an IRR of just above mid-single digit, which looked pretty unattractive and was rumoured to have been one of the reasons SIPP's partners, ie YTL Power, pulled out of the project and eventually TNB.

Considering the return of TNB now to the project, there could be a possibility that the terms have been renegotiated.

Recommendation

Pending further details on the project as it materialises, we maintain our 'Buy' call on TNB at an unchanged TP of RM16.80/share. At a 6%-7% IRR, we estimate marginal >1% NPV/share enhancement to our existing DCF-based target price.

Assuming a RM4.7b project cost as reported, TNB's net gearing will nudge up to 28% from the current 21%, but the project cost is likely to spread over the next three years.