

Headline	TNB acquires 51pc of Track 4A		
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# TNB acquires 51% of Track 4A

Tenaga Nasional Bhd  
(May 4, RM13.90)

**Maintain outperform with an unchanged target price (TP) of RM16.16:** More than a year after Tenaga Nasional Bhd (TNB) had pulled out from being a partner with SIPP Energy Sdn Bhd for the development of Track 4A, it made an announcement on Wednesday that it is acquiring a 51% shareholding in Southern Power Generation Sdn Bhd (SPG).

Prior to this, SPG was 100% owned by SIPP Energy. SPG is the special purpose vehicle company for the development of two generating blocks of 720MW combined cycle gas turbine power plant in Pasir Gudang, Johor, also known as Track 4A.

To recap, TNB had ceased to be part of 4A's consortium with SIPP Energy in October 2015. The schedule commercial operation of the power plant is expected to be on July 1, 2020.

TNB has entered into a share sale and purchase agreement with SIPP Energy and a shareholders' agreement with SIPP Energy and SPG for the acquisition of a 51% shareholding in SPG, for a total consideration of RM51. Upon completion of the acquisition, SPG will become a subsidiary of TNB.

The power purchase agreement for the power plant is for a period of 21 years from the commercial operation date (COD) of the first

## Tenaga Nasional Bhd

FY/AUG (RM MIL)	2015A	2016A	2017F	2018F	2019F	CAGR (%)
Revenue	43,286.8	44,531.5	47,027.7	48,065.0	49,129.6	3.2
Operating profit	8,627.6	9,072.0	9,157.8	9,217.0	9,601.7	2.7
Pre-tax profit	7,133.7	8,066.8	8,100.2	8,220.9	8,684.6	5.0
Net profit*	6,118.4	7,367.6	7,137.3	7,225.5	6,886.1	3.0
EPS (sen)	108.4	130.2	126.5	128.0	122.0	3.0
PER (x)	12.9	10.7	11.0	10.9	11.4	
DPS (sen)	29.0	32.0	50.6	51.2	48.8	
Dividend yield (%)	2.1	2.3	3.6	3.7	3.5	

\* Forecast excludes forex gains/loss

\*\* Lower effective tax rate until financial year 2018 (FY18) due to tax allowance and will be normalised back in FY19

Sources: Company, PublicInvest Research estimates

generating block. The project cost is estimated to be approximately RM4.7 billion, which will be financed through a combination of project finance and equity.

To recap, Track 4A was awarded to TNB, SIPP Energy and YTL Power on a direct negotiation basis in May 2014, with YTL Power and TNB subsequently withdrawing from the project in June 2014 and October 2015 respectively. News reported previously that TNB-SIPP was trying to obtain tariffs higher than the benchmark of 34.7 sen/kWh, based on TNB's Prai tariff, as the earlier rates stipulated were no longer economical due to the weaker ringgit which resulted in higher

costs. Currently, details on the tariff are yet to be disclosed.

Upon completion of the project, the power plant should be earnings accretive to TNB in the longer term. Nevertheless, we believe there will be no impact on TNB's financial year 2017 (FY17) to FY19F (forecast) earnings as the COD for the project will be on July 1, 2020 (instead of June 1, 2018, as planned earlier).

Hence, we maintain our earnings estimates and outperform call on TNB with an unchanged TP of RM16.16. At the current level, TNB's share price is trading at undemanding FY17 to FY19F average price-earnings ratio of 11 times. — *PublicInvest Research, May 4*