


Headline	TNB's market share likely to rise to 51pc in 2016		
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TNB's market share likely to rise to 51% in 2016

▶ TENAGA NASIONAL BHD				
FYE AUG 31	2015	2016E	2017E	2018E
REVENUE (RM mil)	43,286.8	45,352.1	46,643.5	47,981.3
NET PROFIT (RM mil)	6,118.4	7,366.1	7,652.1	7,786.1
EPS (sen)	108.4	130.5	135.6	138.0
PER (x)	12.4	10.3	9.9	9.7

► Recommendation:
Buy
TARGET Price: RM15.50
 by Affin Hwang Investment Bank Bhd (Dec 3)

Highlights
WE BELIEVE Tenaga Nasional Bhd (TNB) is undervalued as its share price is not fully reflecting the removal of the overhang from the sale of Edra Global Energy Bhd by 1Malaysia Development Bhd (1MDB) to a foreign party.

Even without Edra, TNB would see its generation market share trend higher. We upgrade TNB to 'Buy' with a revised TP of RM15.50 after rolling forward our valuation to FY16.

Lag in rerating. Empirically, we believe the market had turned too negative during the period of uncertainty when there was speculation that TNB would buy Edra.

Subsequently, we see that the market has yet to fully reflect the positive news last month that TNB had report-

edly put in the lowest bid for Edra's assets and lost out to China General Nuclear Power Corp (CGN). At TNB's current share price, its market cap stands at RM75.6b and this still implies RM9b in value destruction from its peak in Jan 15.

Generation market share likely to still trend higher. Even without Edra's assets, TNB would see its domestic power generation capacity market share increase due to new hydro and gas power plants that are on track for commissioning by 2016.

We estimate TNB's generation market share to increase to 51.2% in 2016 from 48.3% currently. Had TNB acquired Edra's assets, TNB's generation market share would have jumped to 69.2%.

New Enhanced Dispatch Arrangement (NEDA) unlikely to have significant impact on TNB in short term. For the existing power purchase agreements (PPAs), we believe the IPPs may not risk the visibility of

their cashflows for potentially higher returns by competing for more dispatch through lowering their variable operating rates. NEDA also allows power plants that have expired PPAs to still sell power under a competitive price-based bidding system but this represents a very small proportion.

Upgrade to 'Buy' with revised TP of RM15.50. We upgrade TNB to 'Buy' from 'Hold' after raising our DCF-derived (WACC: 8.1%, LT growth: 3%) TP to RM15.50 (previously RM12).

We have rolled forward our valuation to FY16 and removed the discount on TNB following the sale of Edra to CGN, which removes the overhang that TNB may not get good value for Edra's assets.

Our TP translates into a target FY16E PE of 11.9x, which we deem relatively undemanding given that TNB's forward PE was within an estimated range of 13x-16x prior to the gas shortage issues in FY11-FY13.