TNB financing obstacle removed with sukuk issue

Maximise your exports while minimising risks

TENAGA NASIONAL BHD

FY DEC FY14 FY15 FY16 FY17
REVENUE (RM mil) 42,792.4 43,277.5 45,624.3 48,083.9
CORE NET PROFIT (RM mil) 5,347.7 5,909.6 6,553.3 6,965.6
EPS (sen) 94.8 104.7 116.1 123.4
PER (x) 14.2 12.9 11.6 10.9

Recommendation: Buy
TARGET Price: RM15.60 by MIDF Research (Dec 7)

Highlights
- TNB's 70%-owned Jimah East has finalised financing for its coal-fired power plant project.
- We see this development positively as it removes a previous overhang in the execution of this project.
- Jimah East is expected to be one of the significant contributors to the strategic move to reduce reliance on heavily subsidised gas-fired power plants in the country.
- Maintain 'Buy' at unchanged DCF-derived target price of RM15.60/share.

Jimah East Power Sdn Bhd finalises financing. Tenaga Nasional Bhd (TNB) (via 70%-owned Jimah East) has completed the issuance of an RM898b sukuk to finance the development of Jimah East's 2,000MW coal-fired power plant (Project 3B).

The fresh debt increases TNB's net gearing from 38% as at end FY15 to an estimated 42% (this project is already factored into our projections).

The project is expected to reach full completion in 2019 (in two phases of 1,000MW each). Japan's Mitsui & Co Ltd owns the remaining 30% stake in Jimah East Power.

Why this is significant? This development serves to remove one of the key uncertainties in the execution of the Jimah East project.
Recall that the previous owner of the project, 1Malaysia Development Bhd, had to withdraw due to a lack of funding, which resulted in the project being transferred to TNB.

As a result of the transfer of ownership, project completion was delayed from 2018 to 2019, leaving a temporary gap in capacity build-up for the domestic power supply sector.

Second, this project will be one of the larger coal power plants (2,000MW capacity) after TNB's Janamanjung and Malakoff Corp Bhd's Tanjung Bin plant and serves as a strategic move to reduce reliance on the heavily subsidised natural gas-powered plants which currently account for ~50% of total installed capacity.

Coal plants account for an estimated 25%-30% of total installed capacity currently.
Jimah East is estimated to drive growth and increase TNB's capacity by ~14% in FY19F-FY20F.

Recommendation
Maintain 'Buy' on TNB at unchanged DCF-derived TP of RM15.60/share.

TNB is the largest electricity utility in Malaysia and one of the largest in the region, with an asset base totalling RM110.7 billion.