

Headline	Possible rerating as clarity emerges for TNB		
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Possible rerating as clarity emerges for TNB

► Recommendation: Buy

TARGET Price: RM15.50
 by Maybank Investment Bank
 Bhd (April 5)

Our Views

CONCERNS over the impact of industry reforms appear overly pessimistic and possibly misplaced in our view. We believe these concerns would be alleviated as clarity emerges in the coming months. With that, we expect a rerating of share price to levels that better reflect Tenaga Nasional Bhd's (TNB) earnings stability.

Reiterate 'Buy' with an unchanged RM15.50 TP.

Likely muted impact from retail competition. A commonly-mooted reform is the possible introduction of retail competition, which would allow third parties into the "customer services" segment.

The net operating profit after taxes attributable to this segment is a mere c.RM20m annually. This does not entail the farming-out of TNB's existing distribution assets to third

► TENAGA NASIONAL BHD				
FYE DEC	FY18A	FY19E	FY20E	FY21E
REVENUE (RM mil)	50,393	49,280	50,137	51,010
CORE NET PROFIT (RM mil)	5,419	5,558	5,799	6,099
CORE FD EPS (sen)	95.2	97.6	101.8	107.1
CORE FD P/E (x)	14.3	13.0	12.4	11.8

parties (such a move would require shareholders' approval in any case).

On a standalone basis, the introduction of retail competition is unlikely to move the needle much with regards to tariff savings in our view.

Generation returns should remain largely intact. Another frequently-mentioned reform is the possible migration towards a full "merchant market" in the generation space (where generators bid to produce electricity), thus theoretically driving down tariffs and lowering generation returns.

Technicalities aside, current generation returns (inbuilt into capacity

payments) are effectively guaranteed upon fulfillment of availability (not generation) targets under the existing power purchase agreement (PPA) framework.

A premature dismantling of the PPA framework would require hefty compensation by the government.

Valuations

Reiterate 'Buy'. Our earnings forecasts and RM15.50 TP are unchanged. Our TP is derived from a DCF, assuming 7.5% WACC and 1% long-term growth and implies a 2019 PER of 15.9x. TNB also offers a relatively attractive dividend yield of mid-4% (based on a 55% payout ratio).