Headline	TNB buys 30pc stake in India's GMR Energy		
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Riding the 'solarcoaster' as shares sink

PetChem posts weaker earnings despite higher PURs

TNB buys 30% stake in India's GMR Energy

▶ TENAGA NASIONAL BHD				
FYE DEC 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)	13.0	10.8	10.4	10.2

▶ Recommendation: Buy

TARGET Price: RM16.50
by Affin Hwang Capital (May 10)

Highlights

WE ARE neutral on Tenaga Nasional Bhd's (TNB) move to acquire a 30% stake in GMR Energy Ltd (GEL).

The growth prospects in India look positive due to high electricity demand growth, but we do not expect an immediate positive impact to earnings.

TNB to take a 30% stake in GEL. We are neutral on TNB's move to acquire a 30% equity stake in GEL by subscribing for new shares for a total cash consideration of US$300m (RM1.2b).

We note that GEL has a pipeline of 2,330MW in power plant capacity, which could potentially generate decent recurring income to TNB in the medium term.

However, based on GMR Group's 2015 annual report, we note that GEL posted a loss of 4.59b rupees on the back of 44.55b rupees (RM2.66b in revenue). In contrast, management expects the subscription to be earnings accretive to TNB.

About GEL. GEL currently has an operating capacity of c.2,300MW, and thus the pipeline as mentioned above would double GEL's total capacity to c.4,600NW.

Note that no official disclosures of GEL's financials has been made available yet and therefore it is difficult to forecast the potential impact to TNB's future earnings.

Shareholding structure. Following TNB's acquiring a 30% stake in GEL, the GMR Group will remain the majority shareholder with a 51.7% stake. The other minorities are Claymore Investment (Mauritius) Pte Ltd (12.35%), IDFC Bank Ltd (5.54%) and Welfare Trust for GMR Group employees (0.41%).

Reaffirm 'Buy' and TP of RM16.50. Pending further clarification, we maintain our 'Buy' rating with an unchanged DCF-derived 12-month TP of RM16.50. The latest acquisition by TNB mirrors its previous foray into Turkey where there is strong demand for more power plants due to high electricity demand growth.

We still like TNB for its undemanding valuation and growing generation market share. Our TP translates into an FY17E PE of 12x, which we deem relatively undemanding given that TNB's forward PE is within an estimated range of 13x-16x prior to the gas shortage issues in FY11-FY13.

Risks to our call. These include: 1) Delays in implementing the imbalance cost pass-through mechanism; 2) weak electricity demand growth; 3) a rise in coal prices; 4) a weaker ringgit; 5) disruptions in the gas supply; and 6) overpriced acquisitions.

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