

Headline	TNB initiates pilot project to test fibre infrastructure		
MediaTitle	The Malaysian Reserve		
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PR Value	RM 7,938		



TNB initiates pilot project to test fibre infrastructure

► **Recommendation: Buy**
TARGET Price: RM16.90
by MIDF Research (Sept 7)

Highlights

- PILOT project to assess fibre potential.
- A step towards monetising a legacy asset.
- Likely to limit capex exposure to backbone infrastructure.
- Reaffirm 'Buy' at unchanged TP of RM16.90.

Pilot project to test fibre infrastructure. Tenaga Nasional Bhd (TNB) has initiated a pilot project in Jasin, Melaka, to assess the technical, safety and commercial viability of using TNB's electrical infrastructure for the government's National Connectivity Plan. The pilot pro-

► TENAGA NASIONAL BHD				
FYE DEC**	FY16	16MFY17*	FY18F	FY19F
REVENUE (RM mil)	44,531.5	63,244.0	50,573.5	53,266.0
CORE NET PROFIT (RM mil)	7,757.6	10,128.8	7,373.8	6,544.9
FD EPS (sen)	137.5	179.5	130.7	116.0
PER (x)	11.5	8.8	12.1	13.6

*16-month period due to change in financial year end from Aug to Dec. **FYE Aug prior to FY17. Source: Company, MIDF

ject is targeted to be completed by end-2018, will cover 1,100 of 4,300 homes in three areas: 1) Taman Merbau; 2) Taman Maju; and 3) Felda Kemendor, all in Jasin.

Monetisation of legacy asset. The development is a step towards potential monetisation of TNB's fibre assets. The fibre asset is utilised for TNB's supervisory control and data acquisition system.

We understand that the fibre (in certain parts of TNB's network) runs all the way to the substations.

The network is understood to be underutilised currently, but it is still uncertain at this juncture whether TNB is required to inject further capital to upgrade the existing fibre infrastructure for it to be commercially viable.

TNB to stick to core busi-

ness. TNB is likely to stick to its core business in power generation, transmission and distribution, and will likely limit its exposure to the fibre broadband business, possibly via: 1) leasing out of its backbone fibre infrastructure; and 2) leasing out infrastructure than can support last mile connection, eg extensive electrical pole network connection to homes — Malaysia has a high

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99% electrification ratio.

Given that the current fixed broadband space is dominated by Telekom Malaysia Bhd (TM), TNB's potential entry into the fray is likely to infuse meaningful competition. We understand that TNB does not intend to get into last mile provision (as it will involve major capital expenditure (capex) and is not within Tenaga's core business) and is open to partnership with third parties for this.

HSBB capex. If we were to look at TM's high-speed broadband (HSBB) rollout as a yardstick, total investment for Phase 1 HSBB (Klang Valley and all key economic areas in the country) amounted to RM11.3b.

This was a public-private

partnership with the government investing RM2.4b and TM investing RM8.9b. Phase 1 covered >1.3m premises. The investment involved backhaul investments up to the last mile and involved 800 broadband-enabled exchanges.

Recommendation. We re-affirm our 'Buy' call on TNB at an unchanged target price (TP) of RM16.90. Key catalysts: 1) Solid dividend yields of 4.6% (positive spread against 10-year Malaysian Government Securities of 4.04%), while valuations are cheap at 12x FY18F earnings, a substantial discount to the market's 16x-17x; 2) Peaking capex suggests room for dividend upside; and 3) Possible monetisation of backbone fibre asset via partners.