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TNB SHARES STILL ANALYSTS' FAVOURITE

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ANALYST POLL

TNB REMAINS FAVOURITE STOCK

Bullish view on group's long-term growth, cash flow

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TENAGA Nasional Bhd (TNB) remains a favourite stock among analysts, despite its share price shedding eight sen since the first trading day of this year.

The underlying reason is that TNB has been resilient, showed good profitability and continued to ride out economic turbulence.

A poll of 24 analysts by Bloomberg showed 17 had a "buy" call, four tagged a "hold" and three recommended selling.

The target price ranges from a high of RM19.36 by AmInvestment Bank Bhd to a low of RM12.50 by Credit Suisse. Overall, the consensus expects a potential return of 17.6 per cent.

TNB closed two sen lower at RM13.72 with 87,000 shares traded on Friday.

Analysts are generally bullish about TNB's long-term growth and strong cash flow.

They said the group's earnings and cash flow should be stable due to the implementation of the incentive-based regulation (IBR) framework.

The expected IBR revision to lower return on regulated assets by next year will be offset by new contributions from associates and power plants, they added.

The government implemented the IBR for TNB on January 1 2014, effective for three years with a return on asset of 7.5 per cent, expiring this year.

Thereafter, the government and TNB will review the capex requirement and key operating parameters for the second regulatory period from 2018 to 2020.

> *TNB will benefit from sustainable demand growth... and its new generation capacity will progressively boost capacity by 30 per cent by 2019*
>
> **ALLIANCE DBS RESEARCH SDN BHD**

TNB's first quarter ended November last year's core earnings of RM2.3 billion is 27.2 per cent of Hong Leong Bank Bhd's financial year 2017 (FY17) estimate, but better than consensus estimate of 30.7 per cent.

AllianceDBS Research Sdn Bhd said TNB was the largest beneficiary of the Imbalance Cost Pass-Through mechanism under the IBR.

The firm believes the group would benefit from sustainable demand growth, backed by the relatively steady economic outlook.

"In addition, TNB's new generation capacity will progressively boost its capacity by about 30 per cent by 2019," it said.

Currently, TNB is undertaking three generations projects, namely Manjung 5, Jimah East Power and Tembat with over 3,000 megawatt capacities. They are due to be completed between this year and 2019.

Their capital expenditure (capex) investment represented 45.4 per cent of TNB's total capex investment of RM2.07 billion in the first quarter of FY17.

Maybank Investment Bank Bhd (Maybank IB) said TNB was still its top buy pick with RM16.40 target price, given its compelling valuations, stable earnings and possibility of higher dividends.

The target price is based on discounted cash flow.

"(TNB's) weighted average cost of capital is 7.5 per cent while long-term growth is one per cent. This implies a price-earnings ratio of 12.3 times for FY2017 ending August versus 10.5 times currently," said Maybank IB analyst Wong Chew Hann.

Maybank IB said regulatory developments would continue to be the overriding theme for TNB.

However, it said the developments were unlikely to adversely impact profitability, and that its share price would recover when clarity emerged.

The firm also noted that TNB's electricity demand grew 3.6 per cent in the first quarter of FY17.

Analysts said TNB would not be affected by the recent surge in prices of coal price, gas and liquefied natural gas.

TNB would either receive higher effective tariff (surplus charge on top of existing base tariff) or in the form of compensation from government, they added.

The government still has savings of RM1.4 billion from first-generation power purchase agreements renegotiation.