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Better financial footing seen for TNB as concerns ease over high receivables

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Mixed views on TNB

Analysts' calls		Target prices (RM)
Buy	9	10.00-14.20
Hold	6	8.30-9.60
Sell	4	6.90-8.00

Source: Bloomberg

THE EDGE

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KUALA LUMPUR (Jan 16): Concerns over Tenaga Nasional Bhd's (TNB) high receivables should ease moving forward, analysts said, on the back of higher electricity tariff surcharge in 1H2023, and progress over the RM6 billion government guarantee for the utility firm's working capital.

In a note, CGS-CIMB said the Ministry of Finance-approved RM6 billion government guarantee "is pending finalisation of documents", according to what the research house gathered from its recent discussions with TNB.

The guarantee came about in August 2022, after TNB's balance sheet faced pressure in the high fuel costs environment that started from late 2021.

TNB front-loads fuel costs in a six-month period under the imbalance cost pass-through (ICPT) mechanism, before recouping it from higher tariff surcharge in the subsequent six months. A portion is also recouped from the government when the latter provides electricity subsidy.

However, a lagging tariff revision and delay in payment from government resulted in TNB's receivables ballooning to RM22.3 billion in September 2022 (from RM6.9 billion at end-2020), and led to cash flow constraints for the utility group.

Separately, Kenanga Research said the higher electricity tariff surcharge in 1H2023 under the ICPT mechanism — imposed on customers that make up 46% of TNB's total electricity sales volume — will help TNB recoup its fuel costs faster.

The research house is optimistic that the ballooning under-recovery of fuel costs will eventually be recovered. "The 20 sen/kWh surcharge in 1H2023 should likely see the reduction of ICPT under-recovery in the future," it added.

To recap, the government approved the 20 sen/kWh surcharge on certain non-domestic electricity users in 1H2023. This compares with a blanket 3.7 sen/kWh surcharge on all non-domestic users imposed in the whole of 2022.

That said, for TNB to recoup the ICPT impact of RM16.2 billion in the period under review, the tariff surcharge should be at 27 sen/kWh. The difference is subsidised by the government, totalling RM10.8 billion.

CGS-CIMB said moving forward, the ICPT for the next implementation period (2H2023) will "likely come in lower than RM16.2 billion given that fuel prices have stabilised at the moment".

It also "gathered that TNB aims to distribute dividends at the higher end of the dividend policy band". TNB has a dividend policy of 30%-60% payout ratio based on adjusted profit after tax and minority interest, and has continued to pay dividends amid the tight cash flow situation.

Despite improved outlook on TNB's cost recovery and cash flow position, some analysts are still cautious on its outlook.

Among the 19 analysts covering the group, nine have 'buy' calls with target price (TP) ranging from RM10 to RM14.20, six have 'hold' calls (TP: RM8.30-RM9.60), and four have 'sell' calls (TP: RM6.90-RM8). Average TP stood at RM10.08.

CGS-CIMB is one of two research houses with an 'add' call of RM13.60 on the counter — the second highest TP among analysts covering the company — representing an upside of 44%.

The research house forecast TNB's dividend yield of 4.9%-5.3% in the financial year ending Dec 31, 2022 (FY22) to FY24, based on its latest share price.

Kenanga Research has maintained an 'outperform' call on TNB, albeit with a lower target price of RM10.17 — still representing an upside of 7.6%.

TNB shares slipped three sen or 0.32% to settle at RM9.45 on Monday, giving it a market capitalisation of RM54.37 billion. The counter has risen 4.54% in the last year.

More from brokers:

CGS-CIMB downgrades MAHB, lowers target price to RM7.34