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PETALING JAYA: Tenaga Nasional Bhd (TNB) may dish out higher dividends as the cash flow of the utility giant continues to improve.

Hong Leong Investment Bank (HLIB) Research said TNB's management has guided for an attractive dividend of 28 sen to 30 sen for the second half of financial year

2022 (2H22) and potentially higher dividend in FY23, as cash flow continues to improve under the recently approved imbalance cost pass-through (ICPT) of RM16.2bil.

The latest ICPT approval for 1H23 reaffirmed the new government's commitment towards the mechanism, the research house said.

"TNB will be able to recover RM10.8bil through government subsidies and RM5.4bil through a higher tariff surcharge of 3.7 sen to 20 sen a kilowatt hour (kWh) in 1H23," said HLIB in a note to clients following an update with the power group's management.

HLIB remained upbeat on TNB's outlook for 2023 and maintained a "buy" recommendation with an unchanged target price of RM11.65.

Apart from the higher ICPT cash collections, the group's balance sheet is set to improve in 1H23, given the stability of global energy prices.

In terms of earnings, HLIB said management has guided that earnings for 4Q22 would be seasonally lower quarter-on-quarter due to the accelerating operating expenditure, as well as lower contributions from

its own hydropower generation.

"We expect core earnings for 4Q22 to sustain above the RM1bil level, resulting in FY22 to achieve RM5bil to RM5.2bil.

"Management is confident of concluding at the higher end of its dividend payout policy of 30% to 60% on adjusted net profit for FY22," said HLIB.

The research firm's back-of-the-envelope calculations indicate an attractive 28 sen to 30 sen per share for 2H22, versus the 20 sen per share in 1H22 and 18 sen per share in 2H21.

Going forward, it said that TNB's power generation unit, TNB Power Generation Sdn Bhd (GenCo), is expected to post sustainable earnings and could be en route for a listing in three to five years when the unit reports earnings consistent

cy of RM1.5bil annually.

HLIB said the restructured independent GenCo unit has continued to show improvements in earnings contributions, reporting a profit after tax of RM1.1bil for the nine months of 2022.

The unit is also making progress on its environmental, social and governance (ESG) initiatives.

"The unit has received letters of intent to develop 1,400 megawatts (MW) Paka power and 2,100 MW Kapar power for new environmentally friendly technology involving gas power generation with hydrogen for cleaner energy production," added HLIB.

The research house said TNB's foreign shareholdings would continue to improve with the progress in its ESG initiatives and as it reports consistent earnings.