

Headline	TNB sheds more light on tariff hike		
MediaTitle	The Edge Financial Daily		
Date	27 Dec 2013	Language	English
Circulation	15,000	Readership	50,000
Section	Home Business	Page No	13
ArticleSize	270 cm ²	Journalist	N/A
PR Value	RM 6,231		



TNB sheds more light on tariff hike

Tenaga Nasional Bhd
(Dec 21, RM11.14)

Maintain add at RM10.82 with a target price of RM12.29: At TNB analysts' briefing, we received more clarification on the recent tariff hike. Although uncertainty remains pertaining to future tariff reviews, we believe the recent development is a positive step forward as TNB's earnings outlook is now better.

Our target price is unchanged at RM12.29, based on 12.6 times financial year 2015 ending Aug 31 (FY15) earnings per share, in line with its historical five-year average price-earnings ratio. We maintain our "add" rating on the stock. Re-rating catalysts include improved earnings for FY14 to FY17 arising from the base tariff hike that is expected to increase TNB's return on

assets (ROA).

TNB's recent analysts' briefing was chaired by its chief financial officer, Fazlur Rahman. From this session, we gathered that: (i) future tariff reviews after six months remain very much the government's prerogative; (ii) piped gas prices from Petroliam Nasional Bhd could be raised again, assuming there is another round of tariff hike after six months; and (iii) TNB's ROA is expected to match its weighted average cost of capital (WACC) by 2017.

We believe that the next two review periods are crucial for the sustainability of the Incentive Based Regulation (IBR) and for public acceptance. The IBR is intended to reduce the government's footprint

in matters related to the country's power supply, and empower the Energy Commission (EC) to raise tariffs when it sees fit.

However, for the initial review periods, the EC will still need the government's approval. As such, the government could still pull the plug on the fuel cost pass through (FCPT) in the next review period.

Accumulate TNB. The clarification on the tariff hike provides investors more comfort with regard to TNB's outlook, moving forward. The base tariff hike will improve TNB's ROA to match its WACC by 2017, thus implying that it will drive earnings higher to a certain extent.

Although fuel costs remain a concern moving forward, we believe they will not leave TNB worse off in the longer run. — *CIMB Research, Dec 23*

Headline	TNB sheds more light on tariff hike		
MediaTitle	The Edge Financial Daily		
Date	27 Dec 2013	Language	English
Circulation	15,000	Readership	50,000
Section	Home Business	Page No	13
ArticleSize	270 cm ²	Journalist	N/A
PR Value	RM 6,231		

Tenaga Nasional Bhd

FYE Aug (RM mil)	2012A	2013A	2014F	2015F	2016F
Revenue	35,848	37,131	41,334	44,992	46,965
Operating Ebitda	9,270	10,459	11,449	12,386	13,130
Net profit	3,196	4,122	4,492	5,270	5,774
Core EPS (RM)	0.54	0.79	0.83	0.98	1.07
Core EPS growth (%)	322	47	5	17	9
FD Core PER (x)	20.13	13.65	12.99	11.09	10.13
DPS (RM)	0.27	0.37	0.44	0.50	0.54
Dividend yield (%)	2.47	3.40	4.05	4.59	5.01
EV/Ebitda (x)	7.63	6.79	6.13	5.57	5.14
P/FCFE (x)	8.86	37.29	34.52	29.15	25.94
Net gearing (%)	36.6	35.3	31.1	27.9	24.1
P/BV (x)	1.80	1.70	1.60	1.60	1.60
ROE (%)	9.3	12.8	12.7	14.5	15.8
CIMB/consensus EPS (x)			0.97	1.04	1.03

Source: CIMB, Company reports

