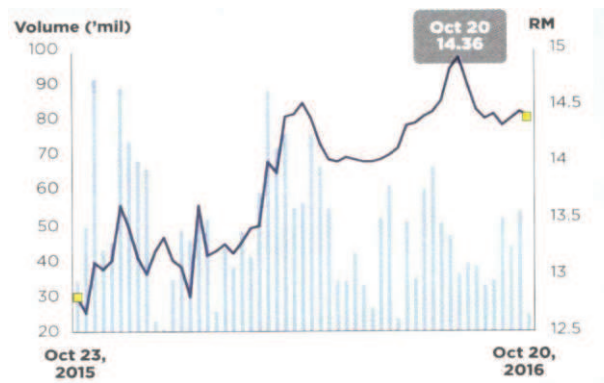


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Tenaga Nasional Bhd

Current Price: **RM14.36** (as of Oct 20)

Target Price: **RM18.60 BUY**

RHB Research

WE expect Tenaga Nasional's earnings to moderate in Q4FY16 (Aug) as weather conditions normalised. Our forecast implies Q4 core earnings coming in at around RM1.5 bil (-7% year-on-year [yoy], -36% quarter-on-quarter [qoq]). We noted that for June-July, industrial demand stayed weak while demand growth for commercial and domestic segments slowed drastically to 2.8%/2.3% yoy respectively. This was after demand was boosted by Q3FY16's El Nino effect.

We expect earnings growth in FY17 to moderate – forecasts a stable 4% GDP growth. We also expect regulated weighted average cost of capital (WACC) (under Incentive Based Regulation [IBR]) for the FY18-20 regulatory period to be stated next year. Given the low interest-rate environment, the cheaper borrowing costs could see its regulated WACC being reduced.

With the imbalance cost past-through mechanism under IBR, Tenaga's cash flow generation has been stable and earnings profile largely defensive. Recent sukuk issuance signals overseas growth plans. Reiterate buy with a revised target price of RM18.60 (from RM18.20).