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Tenaga Nasional Bhd

Target price: **RM15.60 HOLD**



MAYBANK IB RESEARCH (DEC 17): The regulator has announced that the tariff surcharge will be raised to 2.55sen/kWh in March to June 2019. Net tariff is thus slated to increase by 2.9% to 42.0sen/kWh effective March 2019. Domestic users are unaffected in 1H19 as the surcharge (for households using >300kWh monthly) would be funded by the Electricity Industry Fund.

The surcharge calculation has incorporated the return of TNB's excess revenue of c.RM 564 million for 2018. It appears revenue imbalances would now be reversed on an annual basis. With TNB having already recognised this excess revenue on the P&L in 9M18, we do not rule out a revenue reversal charge in 4Q18.

Our earnings forecasts and target price (based on base tariffs and reference fuel prices) are unchanged for now. Our target price of RM15.60 is derived from a DCF, assuming 7.5% WACC and 1% long-term growth. Following the surcharge announcement, investors' attention would likely shift towards industry reforms and potential implications to TNB. While details are scant, any hypothetical break-up of TNB would require shareholders' approval and does not necessarily equate to lower returns.