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TNB to ride on rising electricity demand

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Potential upside seen for share price

CORPORATE

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>
> CGS-CIMB Research

PETALING JAYA: There is further upside for Tenaga Nasional Bhd's (TNB) share price amid an improving operating environment for the utility giant, say analysts.

Rising electricity demand in Malaysia in tandem with the recovery of the country's economy will continue to bode well for TNB.

The company, which posted strong earnings for the nine months ended September 2022, is also expected to benefit as the country transitions towards a low-carbon future, with a focus on renewable energy.

Bullish about TNB's prospects, CGS-CIMB Research reiterated its "add" recommendation on the company, with a higher target price (TP) of RM13.60, compared with RM13.30 previously.

The brokerage explained its target price for TNB was raised after it rolled over its valuation to financial year ending Dec 31, 2024 (FY24) from FY23 previously, with unchanged five-year historical price-earnings of 15 times.

"We like TNB as it will likely keep its monopoly position in the electricity transmission and distribution segment, and it has a decent dividend yield of more than 5% for FY22 to FY24," CGS-CIMB Research wrote in its report yesterday.

"It is poised to benefit from Malaysia's energy transition, that is, additional grid investments and renewable energy opportunities, which could boost its earnings and improve the public's environmental, social and governance perception of TNB," it added.

Electricity demand expanded 8.1% year-on-year (y-o-y) in the nine months of this year, compared with 0.6% y-o-y during the same period last year, supported by higher demand across all sectors after Malaysia's border and economic reopening.

TNB expects FY22 electricity demand to grow 1.7% y-o-y, compared with 1.2% y-o-y in FY21, in line with the government's 2022 GDP growth projection of 6.5% to 7%.

Hong Leong Investment Bank Research (HLIB) also maintained a "buy" on TNB, with unchanged target price of RM11.65, noting that it expected the company to leverage on the country's economic recovery in 2022.

"The company is backed by stable earnings under regulatory period three or RP3, with committed dividend payout policy.

"We expect the upcoming imbalance cost pass-through (ICPT) review by year-end to address the current mismatch of ICPT recognition and recovery, given the already stable/downtrend in global coal prices in recent months," it added, noting the government is providing a guarantee to TNB's financing of up to RM6bil to fund additional working capital costs, which were also recoverable through the ICPT.

Meanwhile, UOB Kay Hian (UOBKH) Research has maintained its "sell" call on TNB.

The brokerage, however, raised its TP for the counter to RM7.70 from RM6.60 previously.

"We remain cautious on the stock as trade receivables remain elevated. The government continues to defer compensation for under-recovery and the probability of TNB having to bear some of the higher costs as part of its government-linked company undertaking is highly likely," the brokerage explained.

The government paid TNB RM4.8bil out of the RM5.8bil owed for the second half of 2022 ICPT under-recovery.

Receivables from the government stood at RM15.5bil – a hefty amount to recover, UOBKH Research said.