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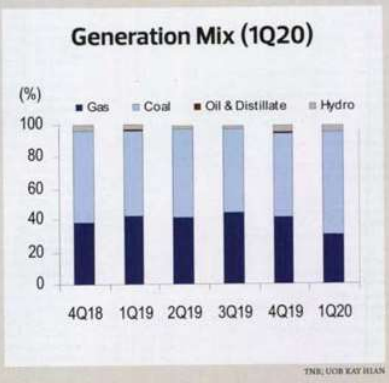
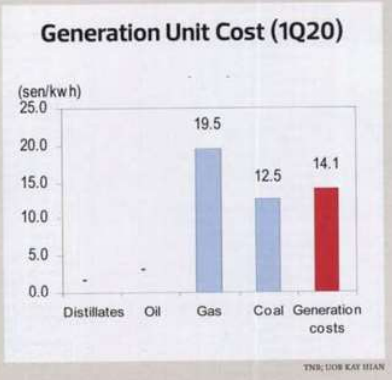
Local equities

COMPILED BY **LIEW JIA TENG**

Tenaga Nasional Bhd

Target price: **RM14.50 BUY**





UOB KAY HIAN (JULY 21): We understand the regulator, the Energy Commission (EC), has agreed in principle to a "gap year" between Regulatory Period 2 (2018 to 2020) and Regulatory Period 3 (2021 to 2023) for TNB. Regulatory Period 3 (RP3) was supposed to start on Jan 1, 2021 and we expected a lower regulatory return for the group's transmission and distribution (T&D) assets owing to the current low interest rate environment.

We believe the gap year (2021) will allow TNB to maintain a regulated return of 7.3% for 2021 and provide clarity on 2021 earnings and dividend yield. In essence, the gap year will allow the regulator and TNB to rebase demand volume and fuel input prices, given the current market volatility.

Our recent meeting suggests that there is no need for future provisions for higher tax assessment. To recap, TNB was slapped with another tax bill by the Inland Revenue Board (IRB) for year of assessment 2018 amounting to RM1.8 billion. The issue is similar to the two previous tax assessments served on TNB, which is not eligible for reinvestment tax allowance, as it is not a manufacturing company.

Total tax assessment disputed is RM7.8 billion for years of assessment 2013 to 2018. TNB believes it has a strong case and has obtained an interim stay order against the payment of the disputed taxes. Importantly, external auditors appear to agree with TNB's assessment and have recognised a recoverable tax asset amounting to RM1.7 billion in TNB's books. In the event TNB wins the case, the group is expected to receive a total of RM1.7 billion.

The stock offers good earnings visibility, more so with the probability of a "gap year" in 2021 before an expected step down in terms of regulatory return (ROA). The Incentive-Based Regulation (IBR) framework provides a 7.3% return on TNB's T&D assets. This accounts for 70% of 2020's net profit. All in all, we like the stock for its good earnings visibility, undemanding valuation and active capital management.

Maintain "buy" and target price of RM14.50. We like TNB for its attractive dividend yield and active capital management. The stock trades at an undemanding 12.4 times 2020 PER and 6.2 times EV/Ebitda.

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