

Headline	Tariff hike to boost TNBs earnings		
MediaTitle	The Edge Financial Daily		
Date	04 Dec 2013	Language	English
Circulation	15,000	Readership	50,000
Section	Home Business	Page No	12
ArticleSize	176 cm <sup>2</sup>	Journalist	N/A
PR Value	RM 4,062		



# Tariff hike to boost TNB's earnings

Tenaga Nasional Bhd  
(Dec 3, RM10.72)

**Upgrade to outright buy from trading buy at higher target price of RM13:** TNB has received approval from the Cabinet for a 15% tariff hike for Peninsular Malaysia from an average of 33.54 sen per kWh (June 2011) to 38.53 sen per kWh effective Jan 1, 2014. The base tariff hike and adjustments for liquefied natural gas (LNG) are earnings positive for TNB. There should be minimal impact from the tariff adjustment for coal, while the adjustment for higher gas price is earnings neutral.

We raise financial year 2014 ending Aug 31 (FY14) and FY15 earnings by 3% and 13% and upgrade TNB from "trading buy" to an outright "buy" with higher target price of RM13. With the tariff hike approved, reforms in the power sector are now a reality.

As of May this year, TNB has been purchasing imported LNG from the regasification terminal (RGT) in Melaka at a price of RM41.68 per million British thermal unit (mmBtu). It has been recognising one-third of the incremental cost of LNG (that is, LNG price less pipeline gas price) in its profit and loss, with the other two-thirds being borne by Petroliam Nasional Bhd and the government. With a 10.17% tariff hike for LNG now in place, this will cover the incremental LNG cost and enhance TNB's earnings.

The tariff adjustment by 0.51% for revised base coal price from US\$85 (RM274) per tonne to US\$87.5 per tonne will have a minimal positive impact on earnings as

coal prices are currently at US\$83 per tonne.

The base tariff hike by 2.69% will have a direct positive impact on TNB's bottom line. This is to account for inflationary pressures since the last base tariff hike by 2% in May 2011.

Based on FY13 estimated average tariff of 34 sen per kWh, the tariff hike will boost FY14 revenue by 8.9% with an eight-month impact and FY15 by 13.3% as the full-year impact sets in.

Our FY14 earnings estimates are increased only slightly by 2.8%. While we now impute the higher tariff impact, our previous forecast did not account for the higher gas cost from LNG. Coupled with higher gas prices, we estimate an increase in the blended cost of gas from RM13.70 to RM20.16 per mmbTU in FY14. For FY15, our earnings are increased by a higher 12.9% as the full-year impact of the tariff hike sets in.

We recently cut our weighted average cost of capital (WACC) from 8% to 7.5% in anticipation of the tariff hike, which we expect will boost sentiment on TNB. With the actual tariff details now disclosed, allowing us to more accurately quantify its impact on TNB's financials, we now revert to our original WACC assumption of 8% (terminal growth rate: 2.5%).

Following the revision in our earnings projection, rolling over our valuation horizon and model update upon the release of its annual report, our target price is raised from RM11.86 to RM13. — *Alliance Research, Dec 3*