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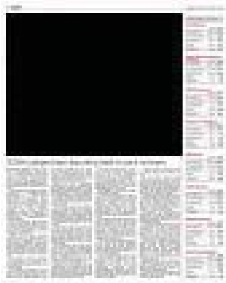

Generation company a bright light for TNB

Genco records positive fuel margin of RM149mil in FY23

ENERGY

PETALING JAYA: Tenaga Nasional Bhd's (TNB) earnings for financial year 2023 (FY23) fell short of analysts' expectations but the stock remains attractive for its dividend payout and prospects ahead.

The power utility posted a fourth quarter ended Dec 31, 2023 (4Q23) core net profit of RM763mil, which was below the RM1bil average most analysts were expecting it to make for every quarter of FY23, with the bulk of the problem in the quarter suspected to be due to issues with its Manjung 4 plant since early December last year.

Its full year FY23 core earnings amounted to RM3.74bil, which was 19% lower year-on-year (y-o-y).

"The results are below our expectations. Last year's electricity demand grew 3% y-o-y but earnings before interest, taxes, depreciation and amortisation margin fell five percentage points y-o-y to 27%.

"This is due to negative fuel margin of RM620mil in 2023 (versus a positive fuel margin of RM1.1bil in 2022), higher repair and maintenance costs and subsidiary operating expenditure," UOB Kay Hian (UOBKH) Research noted in a report on the company.

> "TNB's balance sheet continued to improve with its receivables easing 22% quarter-on-quarter to RM10.4bil in 4Q23 on improved cost recovery via the Imbalance Cost Pass-Through mechanism and collection of government subsidy."
>
> MIDF Research

On a positive note, the quarter saw TNB's generation company (genco) book a positive fuel margin of RM149mil as compared to negative fuel margin of RM509mil in 3Q23 as a result of relatively stable applicable coal prices in the quarter.

It also declared a final dividend of 28 sen a share, which took its full year dividend to 46 sen per share, representing a generous 82% payout rate against its core earnings.

MIDF Research added that TNB's balance sheet continued to improve with its receivables easing 22% quarter-on-quarter to RM10.4bil in 4Q23 on improved cost recovery via the Imbalance Cost Pass-Through mechanism and collection of government subsidy.

"Its net gearing eased further to 69% (3Q23: 76%) as cash levels rose in tandem with improved fuel cost recovery and moderating fuel prices," it noted.

The research firm nevertheless trimmed its earnings growth forecast for TNB for FY24 and FY25 by 11% and 6% respectively and now expects the power utility to enjoy a 34% and 10% y-o-y growth in FY24 and FY25 net profit driven by absence of negative fuel margins and underlying growth in regulated earnings.

Operationally, the quarter saw electricity demand grow by 7.1% y-o-y, driven mainly by strong growth from the commercial (10.1%) and residential (11.3%) segments, while growth from industrial users was modest (1.5%).

CGS International Securities Malaysia Research (CGS International Research) noted that TNB's generation mix in the quarter was skewed towards coal (56%), followed by gas (38%), with the balance comprising primarily hydropower.

The company added some 276 megawatts of solar capacity in Ireland to its portfolio in 4Q23, following the completion of the acquisition of Gillinstown and Rosspile (two operational facilities) on Dec 20, 2023, effectively taking its renewable energy mix to 20% (from 17% in 4Q22), the research outfit stated.

"We continue to see TNB as a key beneficiary of the country's National Energy Transition Roadmap, which aims to position Malaysia as a leader in the energy transition agenda in the region."

CGS International Research continues to have an "add" call on the company with a target price (TP) of RM12 per share.

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