TENAGA NASIONAL Better. Brighter.

Headline	TNB 1HFY16 revenue down due to ICPT recognition		
MediaTitle	Malaysian Reserve		
Date	29 Apr 2016	Language	English
Circulation	20,000	Readership	60,000
Section	Money	Page No	10
ArticleSize	257 cm²	Journalist	N/A
PR Value	RM 7,272		

TNB 1HFY16 revenue down due to ICPT recognition

▶ **Recommendation: Outperform**

TARGET Price: RM15.55
by Public Investment Bank Bhd (April 28)

Highlights

DESPITE recording a 4.2% increase in sales of electricity, Tenaga Nasional Bhd (TNB) reported a slight drop in its 1HFY16 revenue (-2.2% YoY) due to recognition of an imbalance cost pass-through (ICPT) over-recovery, amounting to RM1.3b versus non-recognition of ICPT adjustment in the previous corresponding period.

Imputation of the ICPT into TNB's financial records only commenced in 3QFY15. Its 1HFY16 revenue was RM21.2b compared to RM21.6b in 1HFY15, which is in line with our and consensus estimates at about 46% and 47% of full-year forecasts, respectively.

Stripping out foreign-exchange (forex) losses, core net profit of RM3.5b met our expectations at 51%, but slightly exceeds consensus forecast at 54%. Though reported net profit declined by 26.9% YoY, adjusted net profit increased by 2.3% YoY. The group declared an interim dividend of 10 sen for the quarter.

We raise our TP to RM15.55, from RM14.97 previously after lowering our risk premium in view of the group's earnings visibility and stability. Our 'Outperform' call on TNB is reaffirmed.

Lower revenue due to ICPT recognition. Despite recording better overall electricity sales of 4.6% YoY, its 2QFY16 revenue dropped marginally by 1.1% YoY due to ICPT over-recovery amounting to RM663.4m recognised in the current quarter versus non recognition of ICPT in 2QFY15. The computation of ICPT adjustments into TNB's financial statements only started in 3QFY15. Overall, 1HFY16 revenue declined by 2.2% YoY, even as electricity sales rose 4.2%.

Steady electricity demand. Total unit demand for electricity remained steady at 4% compared to 2.3% in 2QFY15 driven by higher demand from commercial and domestic sectors which grew by 6.1% and 12% respectively, compared to 3.1% and 2.1% in the same period last year. Nevertheless, demand for the industrial sector contracted by 1.4% versus 1.6% growth in 2QFY15.

Higher fuel costs despite better generation mix. For 1HFY16, overall fuel costs increased by 1.6% YoY to RM7.5b due to higher piped gas and coal prices. Average piped gas price was RM17.20 in 1HFY16 compared to RM15.20 in 1HFY15.

Normalised net profit for a fair comparison. Lower revenue and higher operating expenses dragged reported net profit 38.7% lower to RM1.3b in 2QFY16 compared to RM2.2b in 2QFY15. After excluding forex transaction and ICPT amount for a fair comparison, 2QFY16 normalised net profit dropped by 12.1% YoY. Nevertheless, 1HFY16 normalised net profit increased by 2.3% YoY to RM4.9b from RM4.8b.

Maintain 'Outperform' with a higher TP of RM15.55. We raise our DCF-derived TP to RM15.55, from RM14.97 previously after lowering our market risk premium, translating to a lower WACC of 8.1%.

We believe TNB deserves a lower risk premium due to its earnings visibility and stability. Overall electricity demand growth is expected to remain stable at 2.2%.

In addition, any fluctuations in fuel and generation costs will be reflected under ICPT and does not affect TNB's earnings.

We continue to like TNB for its defensive nature and undemanding valuation, which is trading at a forward PE of 11.3x at current levels.

▶ **TENAGA NASIONAL BHD**

FYE AUG	2015A	2016F	2017F	2018F
REVENUE (RM mil)	43,286.8	46,016.9	47,027.7	48,065.0
NET PROFIT (RM mil)	6,118.4	6,990.6	7,213.1	7,326.3
EPS (sen)	108.4	123.9	127.8	129.8
PE (x)	13.3	11.6	11.3	11.1