Tenaga Nasional Bhd

Target price: **RM15.70 ADD**

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**CIMB INVESTMENT RESEARCH (NOV 24):** 1Malaysia Development Bhd (1MDB) announced that the state fund and its energy arm (Edra) have executed a share sale and purchase agreement with China General Nuclear Power Corp and its subsidiaries (CGN Group) for the sale of 1MDB’s energy assets for RM9.83 billion. It is safe to presume that Tenaga has lost the bid given that the news was published on 1MDB’s official website. 1MDB’s announcement should also quell any concerns that Tenaga would have to bail out the state fund.

In the long run, CGN Group may compete with Tenaga in future tender exercises for independent power producer (IPP) power plants. CGN Group is poised to be a formidable opponent — it had more than RM826 billion in assets as at September 2012, according to its website.

Tenaga’s unsuccessful attempt to buy 1MDB’s assets also increases the urgency for it to optimise its capital. It is underleveraged, which could reduce the returns to its shareholders in the long run. A significant optimisation effort could provide the next rerating catalyst for the stock.