

Headline	TNB bright as ever on strong 1QFY14 gains		
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# TNB bright as ever on strong 1QFY14 gains

## ► Recommendation: Buy

**FAIR Value: RM14.90**

by AmResearch Sdn Bhd  
(Jan 24)

## Investment Highlights

**WE MAINTAIN** our 'Buy' call on Tenaga Nasional Bhd (TNB) with an unchanged DCF-derived fair value of RM14.90/share, which implies a CY14F PE of 16x and a P/BV of 2.4x.

We maintain Tenaga's FY14F-FY16F earnings as its 1QFY14 core net profit (excluding foreign exchange gains of RM253m) of RM1,482m accounted for an impressive 30% of our FY14F net profit of RM4,940m and 32% of street's RM4,707m.

Note that this strong result has not factored in the significant impact of a 3.2%-point net tariff increase effective Jan 1 this year, which could generate incremental earnings of RM550m over the next nine months.

But we caution against excessive optimism as 2QFY14 earnings may be lower sequentially given a one-month timing mismatch between the hike in gas costs this month vis-a-vis revenue recognition

from the electricity tariff increase in February due to meter-reading delay, and tax rate normalisation.

Also, amid a depreciating ringgit, coal prices have risen above US\$80 (RM266.64)/tonne from US\$77/tonne in 1QFY14.

The analyst briefing on Jan 23, clarified that Tenaga's liquefied natural gas (LNG) costs, which involve a volume of ~300mmscfd, will reflect Petrolina Nasional Bhd's (Petronas) market prices. But note that the electricity tariff's embedded LNG price assumption is fixed at RM41.68/mmbtu, which will be reviewed bi-annually in June and December with the Cabinet's approval still required for any adjustment in tariffs.

Currently, actual gas cost is slightly higher at RM45/mmbtu which could translate to an additional estimated charge of RM260m for six months. But this may be offset by lower actual coal costs versus US\$87.50/tonne assumed in the new tariff structure.

Tenaga's 1QFY14 core net profit rose by 77% QoQ largely due to an 8.5% decline in coal costs to US\$77/tonne, absence of an estimated RM300m cost

provisions in 4QFY13, and write-back of deferred tax provisions due to a 1%-point cut in corporate tax rate to 24%.

This was partly offset by higher LNG gas cost, which is now shared 50:50 with Petronas instead of the one third incremental cost from gas volume supplied over 1,000mmscfd. This includes additional RM130m LNG costs from previous quarters.

## Valuation

We remain convinced that Tenaga's earnings revision cycle from the tariff hike, commencing this month, will continue to propel its rerating focus forward.

The stock trades at a decent P/BV of 1.8x, within the adjusted 1.1x-2x over the past five years. Tenaga also offers a fair CY14F PE of 12x, compared to the stock's three-year average band of 10x-16x.

Foreign shareholding has risen to 27.8% currently, near its peak of 28% back in April 2007. But this is not a concern as there is currently no limitation on foreign shareholding levels.

Electricity unit demand seasonally declined by 3% QoQ due to holiday season but

mostly offset by higher average tariff rate, driven by strong demand from the commercial sector.

Lower QoQ largely due to 8.5% QoQ decline in average coal costs to US\$77/tonne and absence of RM300m

year-end provisions, which was included in 4QFY13.

This was partly offset by higher LNG gas cost, which is now shared 50:50 with Petronas instead of one third incremental cost from gas volume supplied over 1,000mmscfd. This includes additional RM130m LNG costs from previous quarters.

Tenaga is the largest electricity utility in Malaysia and a leading utility company in Asia. Listed on the Main Board of Bursa Malaysia Bhd with almost RM87 billion in assets, the company's more than 33,500 employees serve an estimated 8.3 million customers in Peninsular Malaysia, Sabah and Labuan.

TNB has been "Keeping the Lights On" in Malaysia ever since it was set up as the Central Electricity Board in 1949, powering national development via the provision of reliable and efficient electricity.

## ► TENAGA NASIONAL BHD

YE TO AUG	2013	2014F	2015F	2016F
REVENUE (RM mil)	37,130.7	42,630.5	45,861.8	47,728.5
CORE NET PROFIT (RM mil)	4,120.5	4,940.1	5,696.9	6,109.7
EPS (sen)	73.0	87.6	101.0	108.3
PE (x)	15.6	12.0	11.2	10.2