

Headline	Tenaga Nasional share price to climb as high as RM14.90		
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by AZLI JAMIL

TENAGA Nasional Bhd (TNB) 22% net profit rise in first-quarter ended Nov 30, 2013 seems exciting for research houses, with five 'Buy' recommendations and two 'Neutral', and target prices (TPs) ranging from a low of RM12.32 to a high of RM14.90.

Leading the pack is AmResearch Sdn Bhd which maintains its 'Buy' recommendation with an unchanged TP of RM14.90, citing the national electricity company's strong results as the reason behind the call.

"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 RM550 million over the next nine months," said AmResearch.

All the research houses highlighted the tariff increase favourable for the company, and would help with fuel costs volatility.

In addition, the research houses highlighted higher fuel costs in first-quarter of 2014 (1Q14) due to unplanned outages in the Jimah and Tanjung Bin coal plants, which resulted in higher usage of the more costly liquefied natural gas (LNG), oil and distillates.

In addition, the sharing of the costs of LNG, oil and distillates with Petroliaam Nasional Bhd (Petronas) and the government has now been revised to a 50:50 sharing arrangement between TNB and Petronas.

"For 1Q14, TNB additional

LNG costs stood at RM473.1 million, impacting its earnings.

Note that once the tariff hike comes into play, the costs will no longer be shared as TNB will be able to pass on the cost to the customers," said CIMB Investment Bank Bhd which raised its TP from RM12.29 to RM14.14.

In the middle of the pack, Hong Leong Investment Bank Bhd with a TP of 13.15 said the 1Q14 results is within expectation but remains bullish on Tenaga due to implementation of incentive-based regulation.

HwangDBS Vickers Research Sdn Bhd revised its TP from RM11.40 to RM12.80 citing promising outlook with rising demand and capacity growth.

"We expect stronger earnings from 2Q14 onwards, following the average 15% hike in electricity tariff effective Jan 1, 2014, and expected re-

duction in coal price following the winter season," said HwangDBS.

HwangDBS expects power demand in 2014 to increase by 4% to reflect gross domestic product growth.

The lowest TP is by Public Investment Bank Bhd (PIBB) with an adjusted TP of RM12.32 to account for the RM390 million of tax credit Tenaga is getting in FY14, in addition to a FY14 price/earning ratio of 15x, which PIBB said is justified.

"We maintain 'Neutral' as we believe with most of the reform initiatives rolled out and majority of new capacity plant-ups awarded, there will be a lack of catalysts going forward as the group settles into its new normal," said PIBB.

Tenaga closed trading last Friday down two sen at RM11.48 with 8.05 million shares traded.