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Tenaga Nasional Bhd

Target price: **RM12.29 ADD**



CIMB RESEARCH (DEC 23): We have gathered that: 1) future tariff reviews after six months remain very much the government's prerogative; 2) piped gas prices from Petronas could be raised again, assuming there is another round of tariff hike after six months; and 3) Tenaga's return on assets (ROA) is expected to match its weighted average cost of capital (WACC) by 2017.

The clarification with regards to the tariff hike provides investors with more comfort for Tenaga's outlook moving forward. The base tariff hike would improve Tenaga's ROA to match its WACC by 2017, thus implying that it would drive earnings higher to a certain extent. Although fuel costs remain a concern, we believe they would not leave Tenaga worse off in the longer run.

Our target price is unchanged at RM12.29 based on 12.6 times FY15 EPS, in line with its historical five-year average PER. We maintain our "add" rating. Rerating catalysts include improved earnings for FY14 to FY17 arising from the base tariff hike that is expected to increase Tenaga's ROA.