Headline	Good start to FY14 for TNB		
MediaTitle	The Edge Financial Daily		
Date	27 Jan 2014	Language	English
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PR Value	RM 5,355		

Good start to FY14 for TNB

Tenaga Nasional Bhd
(Jan 24, RM11.48)

Maintain outperform at RM11.50 with a higher target price of RM12.33. TNB's core earnings for the first quarter ended Nov 30, 2013 of financial year 2014 (1QFY14) surged 55% quarter-on-quarter (q-o-q) to RM1.29 billion from RM836.5 million due to the lower effective tax rate of 7% on reinvestment allowance as well as a tax credit of RM188.7 million on tax provisions to reflect the change in corporate tax to 24% from 25%.

For 1QFY14, earnings before interest, tax, depreciation and amortisation (Ebitda) rose 18% to RM2.68 billion from RM2.27 billion, mainly driven by lower independent power producer (IPP) costs by 12% to RM2.99 billion from RM3.40 billion as the two coal-fired plants, namely the Tanjung Bin and Jimah power plants, continued to be in unplanned outages.

However, total fuel costs in 1QFY14 grew 9% q-o-q, which is attributable to higher generation costs from burning more expensive liquefied natural gas (LNG) (average RM45 per million British thermal unit [mmbtu]) due to the unplanned outages of the two coal-fired power plants.

In view of the lower availability factor for coal-fired power plants, TNB did not enjoy the benefit of lower coal prices in 1QFY14, which averaged US$77.2 (RM257) per tonne from US$80.8 per tonne in the preceding quarter.

Gas supply reached an average of 1,321 million standard cubic feet per day (mmscfd) in 1QFY14 from 1,230 mmscfd previously. As such, TNB incurred RM600 million in cost sharing based on the 50:50 ratio between TNB and Petroliam Nasional Bhd.

On a year-on-year comparison, 1QFY14 core earnings leapt 23% from RM1.02 billion in 1QFY13, largely due to the lower taxation as well as the higher top line which rose by 5%. However, total gas fuel cost was 28% higher or RM396.8 million in 1QFY14 while fuel cost for coal dropped to RM1.22 billion from RM1.33 billion earlier as the average coal price slid to US$77.2 per tonne from US$84.4 per tonne in 1QFY13.

On debt exposure, total debt dropped slightly to RM23.0 billion (net gearing: RM12.6 billion) as at November 2013 from RM23.2 billion (RM13.7 billion) three months ago. As such, gearing also slid to 38.3% (net: 21.0%) from 39.6% (23.3%) previously.

The new tariff rates, which took effect on Jan 1, 2014, are expected to boost TNB's bottom line by RM1.17 billion per annum. While a review on the tariff structure is expected every six months, we expect the tariff to stay unchanged at least for the next 12 months given the recent wave of subsidy cut, which had resulted in higher cost of living and inflationary pressure.

Moving forward, when a new set of fuel cost pass-through mechanism is in place, TNB's earnings are expected to stabilise. Its financial performance would then depend mainly on its operational efficiency.

Although the 1QFY14 results were stronger than expected, we maintain our earnings estimates for now as 2QFY14 will be a more reflective quarter for the impact on the new tariff.

We have upgraded our target calendar year 2014 price-earnings ratio (PER) slightly to 14.3 times based on five-year average from 14 times previously, which was at the higher end of the PER band in the past four tariff reviews. As such, the new price target for TNB is RM12.33 per share from RM12.07 previously.
— *Kenanga Research, Jan 24*

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Tenaga Nasional Bhd

FYE Aug (RM mil)	2013A	2014F	2015F
Turnover	37,131	41,373	44,609
Ebit	5,889	6,815	7,433
PBT	5,856	6,186	6,886
Net profit (NP)	4,614	4,689	5,214
Core net profit	4,121	4,689	5,214
Consensus (NP)	-	4,707	5,225
Earnings revision (%)	-	-	-
Core EPS (sen)	73.0	83.1	92.4
EPS growth (%)	30.0	13.8	11.2
NDPS (sen)	25.0	27.9	31.0
BV/Share (RM)	6.2	6.9	7.6
NTA/Share (RM)	6.2	6.9	7.6
Core PER (x)	15.8	13.8	12.4
PBV (x)	1.8	1.7	1.5
Price/NTA (x)	1.8	1.7	1.5
Net gearing (x)	0.66	0.49	0.42
Dividend yield (%)	2.2	2.4	2.7

Source: Kenanga Research