

Headline	Further rerating for TNB as clarity p m p r r i p < ; i n r n m i n n m o		
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Further rerating for TNB as clarity emerges in coming months

► Recommendation: Buy

TARGET Price: RM15.50
by Maybank Investment Bank
Bhd (July 15)

IT APPEARS there remains some confusion over the potential impact of retail liberalisation, judging by the knee-jerked share price decline following recent news reports on the matter.

This, thus, suggests that the likely benign impact from industry reforms is not yet fully priced-in, and that the stock could rerate further as clarity emerges in the coming months. Reiterate 'Buy' with an unchanged RM15.50 TP.

Industry reforms — so far so good. Recent headlines over the ministry studying a proposal to liberalise electricity retail reaffirms our long-standing view that competition would only be restricted to the retail (or "customer services") segment.

Given the initial knee-jerked share price decline (down 4% on announcement), it appears there remains some confusion over the potential impact. To quantify the immateriality, this

► TENAGA NASIONAL BHD				
FYE MARCH	FY18A	FY19E	FY20E	FY21E
REVENUE (RM mil)	50,393	49,280	50,137	51,010
CORE NET PROFIT (RM mil)	5,419	5,558	5,799	6,099
CORE FDEPS (sen)	95.2	97.6	101.8	107.1
CORE FD P/E (x)	14.3	14.0	13.4	12.8

services-oriented segment currently contributes just c.RM1b of revenue and c.RM20m of NOPAT to Tenaga Nasional Bhd (TNB).

Taking TNB on the road. CEO Amir Hamzah Azizan made his maiden appearance on the road as we hosted a non-deal roadshow for TNB in the UK. TNB was also represented by CFO Nazmi Othman. Topics of discussions revolved mainly around industry regulatory reforms (management similarly expects a benign impact) and TNB's international strategy (management to take a more active and concentrated approach).

Overall, management left a very favourable impression on investors, in our view.

Reiterate 'Buy'. Our earnings forecasts and RM15.50 TP are unchanged. Our TP is derived from a DCF, assuming 7.5% WACC and 1% long-term growth, and implies a 2019 PER of 15.9x. As concerns over reforms eventually dissipate, we expect a rerating of share price to levels that better reflect TNB's earnings stability.

There are several risk factors for our earnings estimates, TP and rating for TNB. Regulatory developments, such as the determination of regulated returns, have direct impact on earnings. Changes in electricity demand patterns or plant outages could also result in loss of earnings for TNB.