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Better earnings growth seen for TNB

PETALING JAYA: Tenaga Nasional Bhd (TNB) is expected to register better earnings growth in the quarters ahead as the effects of the recently announced power tariff hikes kick in, according to analysts.

The national utility, which saw its net profit for the first quarter ended Nov 30, 2013 grow 22% to RM1.73bil, or 30.74 sen per share, has emerged as one of the top picks of analysts, following recent measures by the Government to reform the electricity supply industry.

"The juxtaposition of the Incentive-based Regulation (IBR) and the fuel cost pass-through on TNB suggests improving earnings visibility and cash-flow prowess," Affin Investment Bank Bhd said in its report yesterday.

The local research house said it expects TNB's earnings for the financial year ending Aug 31, 2014, to grow 14%, in view of the stronger earnings before interest, tax, depreciation and amortisation in the coming quarters, given the 2.7% base tariff hike, which took effect on Jan 1.

TNB is one of the top picks of Affin, which considers the former's valuations attractive.

Maybank Investment Bank Bhd (MIB) shares the positive sentiment on TNB.

It explained in its report: "We remain positive on TNB, as we believe the consensus has yet to incorporate the full earnings accretion from the tariff hike."

It added that the reduced earnings risk for TNB under the IBR regime had not been fully priced in yet.

According to MIB, the outperformance of TNB's results for the first quarter was a pleasant surprise, although the drivers behind it were unlikely to be sustainable.

Nevertheless, it pointed out that the first quarter was not a representative quarter, as the new electricity tariffs to end-users were only effective in the beginning of this month.

While AmResearch Sdn Bhd reckons that TNB's strong first quarter results had 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 RM550mil over the next nine months, it cautioned against excessive optimism.

In a report, AmResearch explained that TNB's second-quarter earnings could be lower sequentially, given a one-month timing mismatch between the hike in gas costs this month vis-à-vis revenue recognition from the electricity tariff increase in February due to meter-reading delay and tax rate normalisation.

Also, it said, amid a depreciating ringgit, coal prices had risen above US$80 (RM267) per tonne from US$77 per tonne in the first quarter.

AmResearch, however, said it remains convinced that TNB's earnings revision cycle from the tariff hike, commencing this month, would continue to propel the latter's re-rating focus forward.

"The stock has been trading at a decent price-to-book value of 1.8 times, within the adjusted 1.1 to two times over the past five years.

"TNB also offers a fair 2014 forecast price earnings of 12 times, compared with the stock's three-year average band of 10 to 16 times," AmResearch added.

TNB's shares yesterday closed two sen lower at RM11.48.