



Flash Note

Refer to important disclosures at the end of this report

AllianceDBS Research, Malaysia Equity

17 Dec 2018

Tenaga Nasional (TNB MK) : HOLD

Mkt. Cap: US\$18,017m | **3m Avg. Daily Val:** US\$20.1m

Last Traded Price (14 Dec 2018): RM13.26

Price Target 12-mth: RM14.20 (7% upside) (Prev RM15.00)

Shariah Compliant: Yes

Analyst

QUAH He Wei, CFA +603 2604 3966; hewei@alliancedbs.com

Cost pass-through in full force

- One-off staggered implementation of ICPT to mitigate impact of higher electricity tariff
- 1.35 sen/kWh surcharge for Jan-Feb 2019 before rising to 2.55 sen/kWh for Mar-Jun 2019
- Impact expected to be earnings-neutral
- Maintain Hold with lower TP of RM14.20

Forecasts and Valuation

FY Dec (RMm)	2017A	2018F	2019F	2020F
Revenue	47,417	48,647	49,577	50,441
EBITDA	15,619	15,119	15,648	15,824
Pre-tax Profit	8,282	7,475	7,776	7,799
Net Profit	6,904	5,887	6,166	6,181
Net Pft (Pre Ex.)	6,918	5,887	6,166	6,181
Net Pft Gth (Pre-ex) (%)	(10.8)	(14.9)	4.7	0.2
EPS (sen)	122	104	109	109
EPS Pre Ex. (sen)	123	104	109	109
EPS Gth Pre Ex (%)	(11)	(15)	5	0
Diluted EPS (sen)	122	104	109	109
Net DPS (sen)	61.3	51.8	54.3	54.4
BV Per Share (sen)	1,012	1,058	1,112	1,166
PE (X)	10.8	12.8	12.2	12.2
PE Pre Ex. (X)	10.8	12.8	12.2	12.2
P/Cash Flow (X)	6.0	5.0	5.9	5.8
EV/EBITDA (X)	6.2	6.3	6.1	6.0
Net Div Yield (%)	4.6	3.9	4.1	4.1
P/Book Value (X)	1.3	1.3	1.2	1.1
Net Debt/Equity (X)	0.4	0.3	0.3	0.3
ROAE (%)	12.6	10.0	10.0	9.6

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

What's New

Tenaga Nasional (TNB) announced that the Malaysian government has approved the continued implementation of the Imbalance Cost Pass-Through (ICPT) mechanism for Jan-Jun 2019. There is an additional RM1.82bn generation cost for Jul-Dec 2018 as a result of higher fuel and generation cost. This will be passed through to customers. TNB's coal price is expected to be US\$90.92/MT and US\$104.75/MT in 3Q18 and 4Q18 respectively, compared to the benchmark of US\$75/MT in base tariff for Regulatory Period 2 (RP2).

The surcharge will be implemented in the following manner:

- RM308m surcharge for domestic customers to be funded by Kumpulan Wang Industri Elektrik (KWIE).
- Part of RM564m surcharge for non-domestic customers to be funded from cost and revenue adjustments for FY18 as per the Incentive Based Regulation (IBR) framework in RP2 (2018-2020).
- Remaining RM948m surcharge to be recovered from ICPT mechanism on a staggered basis with 1.35 sen/kWh for Jan-Feb 2019 and 2.55 sen/kWh for Mar-Jun 2019

The electricity tariff is expected to reach 42 sen/kWh in 1H2019, representing a 3% increase from 40.80 sen/kWh in 2H2018.

IBR framework in full force. The staggered ICPT surcharge is expected to be a one-off implementation to provide an adequate transition period to non-domestic customers. Nevertheless, we believe that KWIE would be exhausted by

Flash Note

1H2019, after which the government's direct subsidy would be required for future surcharges for domestic customers, should fuel cost remain high going forward.

Regulated returns. As per the IBR framework, excess revenue generated will have to be passed-through to customers due to the revenue cap and price cap models implemented for TNB's entities. Higher revenue arising from higher-than-projected electricity volume sales or average selling prices will be returned to customers by offsetting higher generation cost.

Cut FY18-20F earnings by 1%/2%/3%. We revise down our earnings projection marginally by 1-3% to account for lower effective electricity sales as TNB will have to return excess revenue. We cut our DCF-derived TP (7.4% WACC, 1.5% TG) to RM14.20 following the earnings revision. We reiterate our Hold rating on TNB.

Tariff revisions

Effective date	Jan14	Mar15	Jun15	Jan16	Jul16	Jan17	Jul17	Jan18	Jul18	Jan19
Tariff (sen/kWh)	38.5	36.28	36.28	37.01	37.01	37.01	37.01	37.01	40.80	42.00
% change	15%	-6%	0%	2%	0%	0%	0%	0%	10%	3%
Gas price (RM/mmbtu)	15.2	15.2	16.7	18.2	19.7	21.2	22.7	24.2	25.7	27.2
% change	10.9%	0.0%	9.9%	9.0%	8.2%	7.6%	7.1%	6.6%	6.2%	5.8%

Source: AllianceDBS, Company

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	27 Dec 17	15.12	15.80	BUY
2:	19 Jan 18	15.82	15.80	HOLD
3:	29 Jan 18	15.84	15.80	HOLD
4:	01 Mar 18	15.70	15.80	HOLD
5:	02 Mar 18	15.70	15.80	HOLD
6:	28 May 18	14.78	15.80	HOLD
7:	02 Jul 18	14.60	15.80	BUY
8:	03 Sep 18	15.70	15.80	HOLD
9:	25 Oct 18	14.00	15.80	BUY
10:	28 Nov 18	14.26	15.00	HOLD

Note : Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: QUAH He Wei, CFA

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

Flash Note

DISCLAIMER

This report has been prepared for information purposes only by AllianceDBS Research Sdn Bhd ("ADBSR"), a subsidiary of Alliance Investment Bank Berhad ("AIBB") and an associate of DBS Vickers Securities Holdings Pte Ltd ("DBSVH"). DBSVH is a wholly-owned subsidiary of DBS Bank Ltd. This report is strictly confidential and is meant for circulation to clients of ADBSR, AIBB and DBSVH only or such persons as may be deemed eligible to receive such research report, information or opinion contained herein. Receipt and review of this report indicate your agreement not to distribute, reproduce or disclose in any other form or medium (whether electronic or otherwise) the contents, views, information or opinions contained herein without the prior written consent of ADBSR.

This report is based on data and information obtained from various sources believed to be reliable at the time of issuance of this report and any opinion expressed herein is subject to change without prior notice and may differ or be contrary to opinions expressed by ADBSR's affiliates and/or related parties. ADBSR does not make any guarantee, representation or warranty (whether express or implied) as to the accuracy, completeness, reliability or fairness of the data and information obtained from such sources as may be contained in this report. As such, neither ADBSR nor its affiliates and/or related parties shall be held liable or responsible in any manner whatsoever arising out of or in connection with the reliance and usage of such data and information or third party references as may be made in this report (including, but not limited to any direct, indirect or consequential losses, loss of profits and damages).

The views expressed in this report reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendation(s) or view(s) in this report. ADBSR prohibits the analyst(s) who prepared this report from receiving any compensation, incentive or bonus based on specific investment banking transactions or providing a specific recommendation for, or view of, a particular company.

This research report provides general information only and is not to be construed as an offer to sell or a solicitation to buy or sell any securities or other investments or any options, futures, derivatives or other instruments related to such securities or investments. In particular, it is highlighted that this report is not intended for nor does it have regard to the specific investment objectives, financial situation and particular needs of any specific person who may receive this report. Investors are therefore advised to make their own independent evaluation of the information contained in this report, consider their own individual investment objectives, financial situations and particular needs and consult their own professional advisers (including but not limited to financial, legal and tax advisers) regarding the appropriateness of investing in any securities or investments that may be featured in this report.

ADBSR, AIBB, DBSVH and DBS Bank Ltd, their directors, representatives and employees or any of their affiliates or their related parties may, from time to time, have an interest in the securities mentioned in this report. AIBB, DBSVH and DBS Bank Ltd, their affiliates and/or their related persons may do and/or seek to do business with the company(ies) covered in this report and may from time to time act as market maker or have assumed an underwriting commitment in securities of such company(ies), may sell or buy such securities from customers on a principal basis and may also perform or seek to perform significant investment banking, advisory or underwriting services for or relating to such company(ies) as well as solicit such investment, advisory or other services from any entity mentioned in this report.

AIBB, DBSVH, DBS Bank Ltd (which carries on, inter alia, corporate finance activities) and their activities are separate from ADBSR. AIBB, DBSVH and DBS Bank Ltd may have no input into company-specific coverage decisions (i.e. whether or not to initiate or terminate coverage of a particular company or securities in reports produced by ADBSR) and ADBSR does not take into account investment banking revenues or potential revenues when making company-specific coverage decisions.

ADBSR, AIBB, DBSVH, DBS Bank Ltd and/or other affiliates of DBS Vickers Securities (USA) Inc ("DBSVUSA"), a U.S.-registered broker-dealer, may beneficially own a total of 1% or more of any class of common equity securities of the subject company mentioned in this report. ADBSR, AIBB, DBSVH, DBS Bank Ltd and/or other affiliates of DBSVUSA may, within the past 12 months, have received compensation and/or within the next 3 months seek to obtain compensation for investment banking services from the subject company. DBSVUSA does not have its own investment banking or research department, nor has it participated in any investment banking transaction as a manager or co-manager in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this report should contact DBSVUSA exclusively. DBS Vickers Securities (UK) Ltd is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Services Authority. Research distributed in the UK is intended only for institutional clients.

In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the overriding issue of confidentiality, available upon request to enable an investor to make their own independent evaluation of the information contained herein.



Wong Ming Tek, Executive Director

Published by
AllianceDBS Research Sdn Bhd (128540 U)

19th Floor, Menara Multi-Purpose, Capital Square, 8 Jalan Munshi Abdullah, 50100 Kuala Lumpur, Malaysia.

Tel.: +603 2604 3333 Fax: +603 2604 3921 email : general@alliancedbs.com