

# Tenaga Nasional Bhd

## 2Q19 On Track

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**Strong 1H19 core earnings of RM3.12b came as no surprise, given the seasonality of lower opex and capex recognition while top-line was led by solid demand growth of 4.4%, which may not be repeated in 2H19. Given the limited growth prospects and market fears of industry reform, in our view, MARKET PERFORM is the best call for now with an unchanged target price of RM13.30, supported by decent dividend yield of 3-4%.**

**2Q19 results matched expectations.** At 56% each of house/street's FY19 estimates, 1H19 core profit of RM3.12b came within expectations given traditionally, 1H and especially 1Q of the year are usually stronger as 2H will incur higher opex and capex recognitions. It declared 1<sup>st</sup> interim NDPS of 30.0 sen in 1H19, which is slightly lower than the 30.3 sen paid in 1H18.

**Strong volume-led revenue.** Overall electricity sales in 2Q19 were strong with sales in Peninsular Malaysia rising 6% QoQ to RM11.99b thanks to 5.5% demand growth due partly to hotter weather. However, group revenue fell 3% to RM12.88b, due to 69% or RM943.3m decline in ICPT under-recovery. Meanwhile, 2Q19 core profit fell 6% to RM1.52b owing to higher opex, especially fuel costs which rose 3% or RM175.9m due to higher requirement mix for the expensive LNG as the daily average gas volume increased to 1,059mmbtu from 973mmbtu. 2Q19 interest expense jumped 33% to RM940.1m due to additional adjusted for MFRS 16 Lease. Meanwhile, associate and JV incomes turned profitable at RM88.2m from loss of RM6.1m in 1Q19, mainly due to disposal gain from GMR and better operation performance in Vortex.

**Lower earnings largely due to adjustment for depreciation and interest expenses.** 2Q19 and 1H19 revenues, which grew 3% and 4%, were supported by solid electricity demand growth of 3.6% and 4.4%, respectively, due to the hot weather as mentioned above. However, adjustment for MFRS 16 led interest expense as well as depreciation higher. Meanwhile, higher fuel costs by 7% YoY and 14% YTD-YoY, dragged earnings lower, given the higher requirement mix for the above-mentioned LNG as average LNG prices jumped 15% and 19% to RM35.73/mmbtu and RM36.16/mmbtu, respectively. Furthermore, associate and JV incomes turned profitable at RM82.1m from loss of RM79.1m on the above-mentioned reasons.

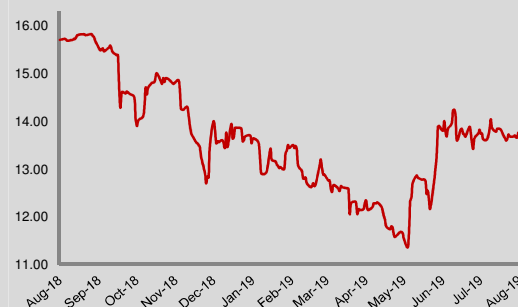
**Looking to weaker 2H19 on seasonality.** We believe the strong 1H19 numbers are unlikely to sustain in 2H19 given that more capex and opex will be spent traditionally in the later part of the year while the strong demand of 4.4% in 1H19 was a climate-driven factor which may not re-occur in 2H19. Therefore, we keep our FY19-FY20 estimates unchanged, which is in-line with management's normalised PAT guidance of RM5.0b-RM5.4b. In addition, under the Incentive Based Regulation (IBR), TENAGA's earnings are expected to be stable with a regulated return of 7.3% in Regulatory Period 2 (RP2) over 2018-2020.

**Limited growth prospects; Maintain MARKET PERFORM.** Given that earnings are largely regulated under IBR with limited growth prospects and fears of industry reform, we believe that MARKET PERFORM is best for now with a fair valuation of -1SD 2-year mean of 13.6x; thus, our target price is maintained at RM13.30. Our recommendation is supported by dividend yield of 3%-4%. Risks to our recommendation are: (i) stronger-than-expected earnings from non-regulated business, and (ii) a higher dividend payout.

## MARKET PERFORM ↔

**Price: RM13.96**  
**Target Price: RM13.40 ↔**

### Share Price Performance



KLCI	1,612.14
YTD KLCI chg	-4.6%
YTD stock price chg	2.6%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TNB MK
Market Cap (RM m)	79,389.0
Shares Outstanding	5,686.9
52-week range (H)	16.00
52-week range (L)	11.24
3-mth avg daily vol:	5,577,402
Free Float	43%
Beta	1.3

### Major Shareholders

Khazanah Nasional Bhd	27.3%
Employees Provident Fund	15.3%
State Street Corp	14.1%

### Summary Earnings Table

FY Dec (RM m)	2018	2019E	2020E
Turnover	50,393	52,017	52,960
EBIT	8,220	9,106	9,001
PBT	5,046	7,367	7,515
<b>Net Profit (NP)</b>	<b>3,724</b>	<b>5,559</b>	<b>5,672</b>
<b>Core Net Profit</b>	<b>5,419</b>	<b>5,559</b>	<b>5,672</b>
Consensus (NP)		5,556	5,729
Earnings Rev. (%)		-	-
Core EPS (sen)	96.3	97.9	99.9
EPS growth (%)	-10.4	1.6	2.0
NDPS (sen)	53.3	49.0	49.9
BV/Share (RM)	10.2	10.7	11.2
NTA/Share (RM)	10.1	10.6	11.1
Core PER (x)	14.5	14.3	14.0
PBV (x)	1.4	1.3	1.2
Price/NTA (x)	1.4	1.3	1.3
Net Gearing (x)	0.51	0.46	0.44
Dividend Yield (%)	3.8	3.5	3.6

03 September 2019

Income Statement								
Y/E Dec (RM m)	2Q FY19	1Q FY19	Q-o-Q Chg	2Q FY18	Y-o-Y Chg	1H FY19	1H FY18	Y-o-Y Chg
Turnover	12,876.0	13,244.8	-3%	12,497.9	3%	26,120.8	24,771.9	5%
EBITDA	3,427.2	4,191.2	-18%	3,787.7	-10%	7,618.4	8,009.3	-5%
Depreciation	(2,457.5)	(2,441.4)	1%	(1,553.0)	58%	(4,898.9)	(3,084.9)	59%
EBIT	969.7	1,749.8	-45%	2,234.7	-57%	2,719.5	4,924.4	-45%
Interest income	133.5	128.3	4%	47.3	182%	261.8	209.0	25%
Interest expense	(940.1)	(704.5)	33%	(380.6)	147%	(1,644.6)	(771.8)	113%
Forex translation gain	(272.2)	263.5	-203%	(169.6)	60%	(8.7)	(80.6)	-89%
Forex transaction gain	(6.7)	(56.0)	-88%	0.7	-1057%	(62.7)	(5.2)	1106%
Associates	88.2	(6.1)	-1546%	(2.1)	-4300%	82.1	(79.1)	-204%
Exceptional items	1,110.4	698.6	59%	(206.5)	-638%	1,809.0	(257.4)	-803%
Pretax profit	1,082.8	2,073.6	-48%	1,523.9	-29%	3,156.4	3,939.3	-20%
Taxation	47.3	(552.4)	-109%	(255.5)	-119%	(505.1)	(554.1)	-9%
Minority interest	(13.9)	35.6	-139%	(31.1)	-55%	21.7	(28.2)	-177%
Net profit	1,116.2	1,556.8	-28%	1,237.3	-10%	2,673.0	3,357.0	-20%
Core net profit	1,516.1	1,605.6	-6%	1,613.4	-6%	3,121.7	3,130.3	0%
EPS (sen)	19.8	27.6	-28%	21.9	-10%	47.4	59.5	-20%
Core EPS (sen)	26.9	28.4	-6%	28.6	-6%	55.3	55.5	0%
NDPS (sen)	30.0	0.0	N/A	30.3	-1%	30.0	30.3	-1%
NTA/share (RM)	10.26	10.12	1%	10.35	-1%	10.26	10.35	-1%
EBITDA margin	27%	32%		30%		29%	32%	
EBIT margin	8%	13%		18%		10%	20%	
Pretax margin	8%	16%		12%		12%	16%	
Effective tax rate	-3%	26%		26%		14%	26%	

Source: Company

Breakdown of Electricity Sales & ICPT								
Y/E Dec (RM m)	2Q FY19	1Q FY19	Q-o-Q Chg	2Q FY18	Y-o-Y Chg	1H FY19	1H FY18	Y-o-Y Chg
Peninsular Malaysia	11,990.2	11,331.3	6%	11,531.0	4%	23,321.5	22,243.5	5%
EGAT	0.0	0.1	-100%	0.4	-100%	0.1	1.7	-94%
SESB	498.6	461.8	8%	469.8	6%	960.4	901.5	7%
UK WIND	20.9	31.3	-33%	20.2	3%	52.2	30.5	71%
LPL	157.6	88.3	78%	81.9	92%	245.9	95.7	157%
	<b>12,667.3</b>	<b>11,912.8</b>	<b>6%</b>	<b>12,103.3</b>	<b>5%</b>	<b>24,580.1</b>	<b>23,272.9</b>	<b>6%</b>
ICPT	425.8	1,369.1	-69%	245.2	74%	1,794.9	879.3	104%

Source: Company

Generation Mix (Peninsula)								
Y/E Dec (RM m)	2Q FY19	1Q FY19	Q-o-Q Chg	2Q FY18	Y-o-Y Chg	1H FY19	1H FY18	Y-o-Y Chg
<b>Fuel Costs</b>								
Gas	2,727.7	2,688.2	1%	2,409.4	13%	5,415.9	4,524.7	20%
LNG	139.6	44.1	217%	19.6	612%	183.7	36.6	402%
Coal	2,841.1	2,786.1	2%	2,905.9	-2%	5,627.2	5,360.0	5%
Dist	1.9	14.0	-86%	23.2	-92%	15.9	35.0	-55%
Oil	3.0	9.3	-68%	6.9	-57%	12.3	14.2	-13%
Solar	42.2	37.9	11%	0.0	N/A	80.1	0.0	N/A
	<b>5,755.5</b>	<b>5,579.6</b>	<b>3%</b>	<b>5,365.0</b>	<b>7%</b>	<b>11,335.1</b>	<b>9,970.5</b>	<b>14%</b>
<b>Unit Generated (Gwh)</b>								
Gas & LNG	13,298.7	13,167.7	1%	12,352.1	8%	26,466.4	24,796.7	7%
Coal	17,721.2	17,176.8	3%	18,460.9	-4%	34,898.0	34,703.1	1%
Dist	0.0	20.7	-100%	21.5	-100%	20.7	26.3	-21%
Oil	2.0	23.9	-92%	22.6	-91%	25.9	36.6	-29%
Hydro	734.1	914.7	-20%	1,096.9	-33%	1,648.8	2,590.8	-36%
Solar	162.8	140.3	16%	0.0	N/A	303.1	0.0	N/A
	<b>31,918.8</b>	<b>31,444.1</b>	<b>2%</b>	<b>31,954.0</b>	<b>0%</b>	<b>63,362.9</b>	<b>62,153.5</b>	<b>2%</b>

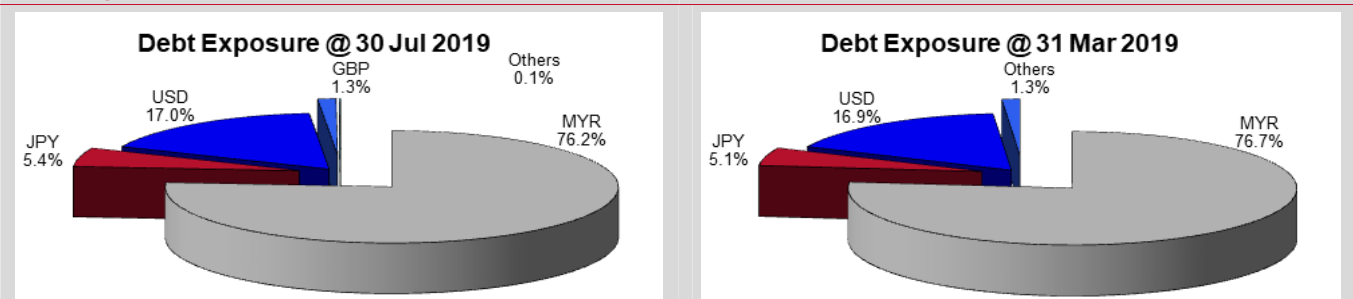
Source: Company

**Breakdown of Operating Expenses**

	2Q	1Q	Q-o-Q	2Q	Y-o-Y	1H	1H	Y-o-Y
Y/E Dec (RM m)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Total IPP Costs	4,496.5	4,835.5	-7%	3,889.6	16%	9,332.0	7,554.2	24%
TNB Fuel Costs	3,092.4	2,511.3	23%	2,736.2	13%	5,603.7	5,218.5	7%
Repair & Maintenance	489.4	460.7	6%	466.1	5%	950.1	899.4	6%
Staff	1,014.0	729.2	39%	875.7	16%	1,743.2	1,814.8	-4%
Depreciation	1,670.5	1,632.8	2%	1,553.0	8%	3,303.3	3,084.9	7%
General Expenses	512.3	494.7	4%	548.4	-7%	1,007.0	1,013.4	-1%
Others	180.8	446.3	-59%	614.4	-71%	627.1	860.2	-27%
<b>Total Operating Expenses</b>	<b>11,455.9</b>	<b>11,110.5</b>	<b>3%</b>	<b>10,683.4</b>	<b>7%</b>	<b>22,566.4</b>	<b>20,445.4</b>	<b>10%</b>
<b>Ave. Coal Price (USD/MT)</b>	82.1	91.8	-11%	91.1	-10%	86.6	91.1	-5%
<b>Ave. Coal Price (RM/MT)</b>	340.5	375.3	-9%	361.4	-6%	356.8	361.4	-1%
<b>Ave. LNG Price (RM/mmbtu)</b>	35.73	36.59	-2%	30.98	15%	36.16	30.51	19%
<b>Ave. Gas Volume (mmscfd)</b>	1,059	973	9%	923	15%	1,016.0	936.0	9%

Source: Company

**Debt Exposure and Forex**



Source: Company

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Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target	Rating
	(RM)	Cap	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
GAS MALAYSIA BHD	2.84	3,646.6	Y	12/2019	2.9%	7.7%	8.2%	2.2%	21.5	19.8	19.4	3.6	3.3	17.3%	4.5%	3.00	MP
MALAKOFF CORP BHD	0.875	4,276.1	Y	12/2019	-0.3%	-0.1%	10.5%	4.5%	19.9	18.0	17.3	0.8	0.8	4.3%	4.4%	1.00	OP
PESTECH INTERNATIONAL BHD	1.37	1,047.1	Y	06/2020	17.3%	10.5%	25.8%	13.5%	14.5	11.5	10.1	2.3	1.9	18.3%	0.0%	1.75	OP
PETRONAS GAS BHD	16.08	31,818.0	Y	12/2019	4.8%	-1.8%	5.7%	-14.7%	17.4	16.5	19.3	2.5	2.3	14.5%	4.2%	15.75	MP
TENAGA NASIONAL BHD	13.96	79,389.0	Y	12/2019	3.2%	1.8%	2.6%	2.0%	14.5	14.2	13.9	1.4	1.3	9.3%	3.5%	13.40	MP
YTL POWER INTERNATIONAL BHD	0.740	5,679.7	N	06/2020	-3.9%	2.2%	8.0%	0.6%	8.6	8.0	8.0	0.4	0.4	5.0%	6.8%	0.820	OP
<b>Simple Average</b>					<b>4.0%</b>	<b>3.4%</b>	<b>10.1%</b>	<b>1.3%</b>	<b>16.1</b>	<b>14.7</b>	<b>14.7</b>	<b>1.8</b>	<b>1.7</b>	<b>11.4%</b>	<b>3.9%</b>		

Source: Bloomberg, Kenanga Research

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03 September 2019

**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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