

24 September 2019

Tenaga Nasional

More Clarity On MESI 2.0

By Teh Kian Yeong | tehky@kenanga.com.my

We gained better clarity on MESI 2.0 post a company visit yesterday. There is potentially fuel saving arbitrage should it manage procurement efficiently while fees from the new TPA should have neutral impact, being covered under the RAB regime. We still see little impact from the opening up of the retail segment which makes up only <3% of group's earnings. New broadband venture is insignificant too. On lack of catalysts, MP retained along with TP of RM13.40.

TENAGA can benefit from fuel savings too. We met up with management yesterday to obtain further details on the MESI 2.0 for which guidelines were approved by the Cabinet recently. We understand that besides IPPs, TENAGA will also get to benefit from fuel savings should fuel costs fall below the benchmark price. Currently, all coal and gas fuel procurements are handled by TENAGA, with cost pass-through under PPA for IPPs, and ICPT for TENAGA. In the future, IPPs are allowed to source for their own fuel to optimise cost and lock in profit from fuel cost savings. Otherwise, the IPPs can continue to source from TENAGA which similarly can book in profit from any fuel savings. MyPower is expected to come up with draft on rules, incentive mechanisms and amendments to regulatory control by 3Q20 before EC's approval in 4Q20. It is expected to have pilot trial in 1Q21 and full roll-out in 2Q21.

Shorter PPA tenure without lock-in energy payment. In the future, new IPPs will see shorter PPA tenure with only capacity payments, as opposed to existing 21-year for gas-fired and 25-year for coal-fired plant, moving toward capacity market with EC holding first auction in end-2023. Eventually, generators with excess capacity or with expired PPAs can utilise the improved New Enhanced Dispatch Arrangement platform (NEDA+) to sell energy via spot contract to single buyer. MyPower is expected to draft the design and rules from now till 4Q21 before EC's approval in 2022. EC will roll out the NEDA+ by 3Q20. By 2029, it will mark the entry of the capacity market, and the beginning of the hybrid market till 2045.

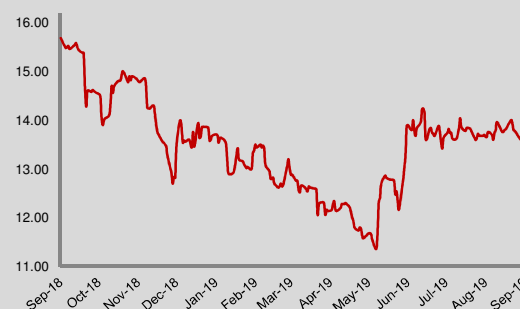
TPA and retail market to start in RP3. A 3rd Party Access (TPA) framework and network charges should be ready in time for RP3 in 2021 for grid to allow for 3rd party usage of the infrastructures. This is to allow trading of green energy, future export of electricity under ASEAN Power Grid, and to open market up for non-RE power producers. As such, TENAGA will be paid a certain network charges, which is covered under IBR. On the other hand, MyPower will detail and complete a retail regulatory framework to be approved by EC by 4Q20 before the pilot opening up of retail in 2Q21. Meanwhile, the single buyer and grid system operator should start in 1Q21. On the other hand, management indicated that its venture into the wholesale broadband sector in Melaka is not going to have material impact to the group's earnings with targeted return of at least 7.3%. It had completed setting up 1,100 homes with capex of RM4m in Jasin, and expects to roll out another 15,000 homes in Jasin, Alor Gajah and Melaka Tengah, all in Melaka. TENAGA is only involved in the wholesale sector in the areas which are currently without broadband service.

More clarity but MP for now. We take comfort with the better clarity on MESI 2.0 where its earnings' certainty remains high with potential earnings accretion from fuel saving arbitrage while other business segments like GenCo and RetailCo will work on the merit of efficiencies and the T&Ds are covered under RAB. However, the lack of near-term catalyst coupled with expected weak 2H19 earnings compelled us to keep our MP call on the stock with unchanged TP of RM13.40 based on 1SD below its 2-year mean, at FY20 PER of 13.6x. Risks to our recommendation are: (i) the stronger-than-expected earnings from non-regulated business as well as (ii) a higher dividend payout.

MARKET PERFORM ↔

Price : **RM13.64**
Target Price : **RM13.40** ↔

Share Price Performance



KLCI 1,592.93
YTD KLCI chg -5.8%
YTD stock price chg 0.3%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker TNB MK
Market Cap (RM m) 77,569.2
Shares outstanding 5,686.9
52-week range (H) 15.74
52-week range (L) 11.24
3-mth avg daily vol: 4,419,795
Free Float 44%
Beta 1.3

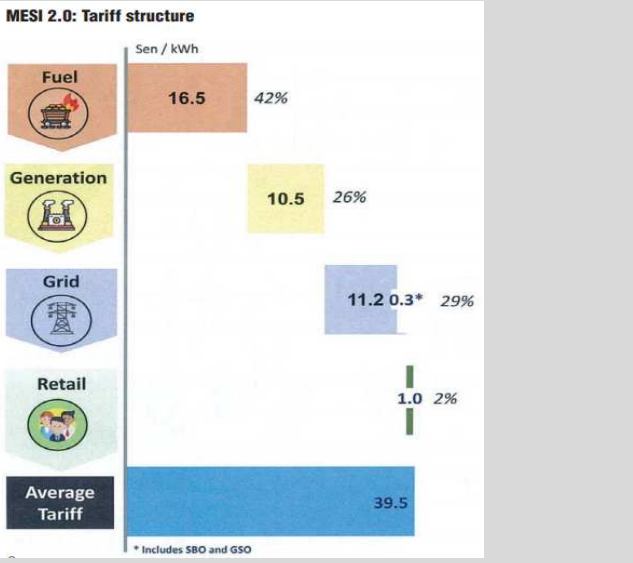
Major Shareholders

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

Summary Earnings Table

FYE Dec (RM m)	2018	2019E	2020E
Turnover	50,393	52,017	52,960
EBIT	8,271	9,106	9,001
PBT	5,046	7,367	7,515
Net Profit (NP)	3,724	5,559	5,672
Core Net Profit	5,470	5,559	5,672
Consensus (NP)		5,576	5,744
Earnings Revision (%)		-	-
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)	14.2	13.9	13.7
PBV (x)	1.3	1.3	1.2
Price/NTA (x)	1.3	1.3	1.2
Net Gearing (x)	0.51	0.46	0.44
Net Yield (%)	3.9	3.6	3.7

MESI 2.0: Tariff Structure



Source: JPPET 2018/Company/Financial Daily

MESI 2.0: Driving Efficiency Across Value Chain

MESI 2.0: Driving efficiency across value chain



- Single Buyer and GSO ring-fenced within TNB
- Transmission and Distribution owned by TNB

RF: Ring-fenced
ISB: Independent Single Buyer
IGSO: Independent Grid System Operator

- Fuel supplies, generation segment and retail services may evolve to be under competitive environment
- New SB and GSO act as independent functions as part of level-playing field objective
- Transmission and distribution wires remain natural monopoly and regulated
- Green choices

Source: MyPower Corp/Company/Financial Daily

24 September 2019

Income Statement

FY Dec (RM m)	Aug-17	Dec-17	2018	2019E	2020E
Revenue	47417	15827	50393	52017	52960
EBITDA	15469	5199	14762	15855	16080
Depreciation	-6105	-2050	-6491	-6749	-7079
Operating Profit	9364	3149	8271	9106	9001
Other Income	238	134	424	348	398
Interest Expense	-1456	-576	-1689	-1887	-1683
Associate	128	-37	-189	-200	-200
Excep. Items	0	0	-1354	0	0
PBT	8282	2979	5046	7367	7515
Taxation	-1370	-235	-1301	-1768	-1804
Minority Interest	-8	12	-21	-40	-40
Net Profit	6904	2756	3724	5559	5672
Core Net Profit	6067	2036	5470	5559	5672

Balance Sheet

FY Dec (RM m)	Aug-17	Dec-17	2018	2019E	2020E
Fixed Assets	103084	104808	111446	114696	117617
Intangible Assets	211	211	241	240	240
Other FA	11197	11522	11259	11450	11450
Inventories	829	885	1296	991	1010
Receivables	9104	10510	10381	8733	8891
Other CA	12532	10927	10722	10780	10780
Cash	5056	5415	8370	7423	5902
Total Assets	142012	144277	153714	154313	155891
Payables	11335	10198	10995	11124	11343
ST Borrowings	1808	1745	3928	1846	1820
Other ST Liability	2183	2311	6948	6930	6921
LT Borrowings	37038	39698	43905	43734	41940
Other LT Liability	32063	32195	28886	28808	29138
Minorities Int.	473	925	1214	1253	1276
Net Assets	57111	57205	57838	60617	63453
Share Capital	11125	11200	11446	11446	11446
Reserves	45987	46005	46392	49171	52007
Equity	57111	57205	57838	60617	63453

Cashflow Statement

FY Dec (RM m)	Aug-17	Dec-17	2018	2019E	2020E
Operating CF	11631	1526	11666	15794	13076
Investing CF	-12842	-2008	-10414	-10000	-10000
Financing CF	2295	843	402	-6792	-4596
Change In Cash	1084	361	1655	-998	-1521
Free CF	-1211	-482	1253	5794	3076

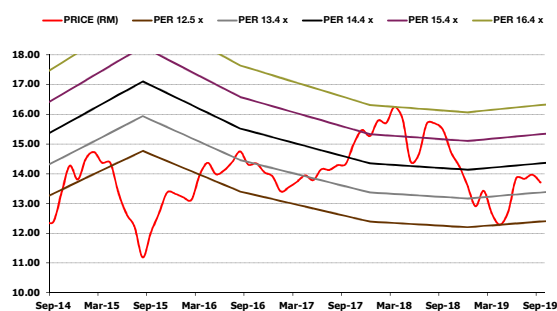
Financial Data & Ratios

FY Dec (RM m)	Aug-17	Dec-17	2018	2019E	2020E
Growth					
Turnover (%)	6.5	0.1	6.1	3.2	1.8
EBITDA (%)	4.6	0.8	-5.3	7.4	1.4
Operating Profit (%)	3.2	0.9	-12.4	10.1	-1.2
PBT (%)	2.7	7.9	-43.5	46.0	2.0
Net Profit (%)	-6.3	19.7	-55.0	49.3	2.0
Core Net Profit (%)	-9.3	0.7	-10.4	1.6	2.0
Profitability (%)					
EBITDA Margin	32.6	32.8	29.3	30.5	30.4
Operating Margin	19.7	19.9	16.4	17.5	17.0
PBT Margin	17.5	18.8	10.0	14.2	14.2
Net Margin	14.6	17.4	7.4	10.7	10.7
Core Net Margin	12.8	12.9	10.9	10.7	10.7
Effective Tax Rate	40.9	26.8	23.6	25.8	24.0
ROE	11.1	10.7	9.5	12.8	9.1
ROA	5.5	5.5	4.8	6.4	4.7
DuPont Analysis					
Net Margin (%)	14.6	17.4	7.4	10.7	10.7
Assets Turnover (x)	0.3	0.1	0.3	0.3	0.3
Leverage Factor (x)	2.5	2.5	2.7	2.5	2.5
ROE (%)	12.1	4.8	6.4	9.2	8.9
Leverage					
Debt/Asset (x)	0.3	0.3	0.3	0.3	0.3
Debt/Equity (x)	0.7	0.7	0.8	0.8	0.7
Net Cash/(Debt)	-21568	-25539	-29528	-28158	-27858
Net Debt/Equity (x)	0.38	0.45	0.51	0.46	0.44
Valuations					
EPS (sen)	106.8	35.9	96.3	97.9	99.9
NDPS (sen)	61.0	21.4	53.3	49.0	49.9
BV/share (RM)	10.1	10.1	10.2	10.7	11.2
NTA/share (RM)	10.0	10.0	10.1	10.6	11.1
PER (x)	12.8	12.7	14.2	13.9	13.7
Net Yield (%)	4.5	1.6	3.9	3.6	3.7
P/BV (x)	1.4	1.4	1.3	1.3	1.2
P/NTA (x)	1.4	1.4	1.3	1.3	1.2
EV/EBITDA (x)	6.4	6.5	7.4	6.7	4.8

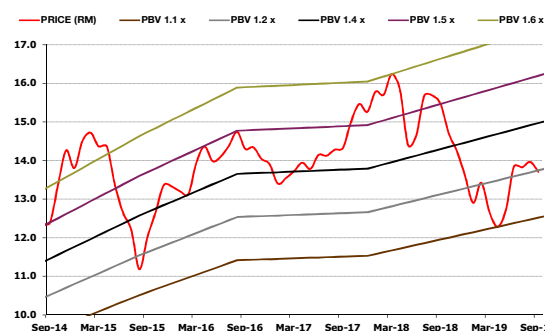
Note: old YE was Aug; New YE is Dec; Dec-17 was from Sep 2017 to Dec 201

Source: Kenanga Research

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target Price (RM)	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.	1-Yr. Fwd.	
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	0.840	4,105.0	Y	12/2019	-0.3%	-0.1%	10.5%	4.5%	19.1	17.3	16.6	0.7	0.7	4.3%	4.6%	1.00	OP
PESTECH INTERNATIONAL BHD	1.18	901.9	Y	06/2020	17.3%	10.5%	25.8%	13.5%	12.5	9.9	8.7	2.0	1.7	18.3%	0.0%	1.75	OP
PETRONAS GAS BHD	16.42	32,490.8	Y	12/2019	4.8%	-1.8%	5.7%	-14.7%	17.8	16.8	19.7	2.5	2.4	14.5%	4.1%	15.75	MP
TENAGA NASIONAL BHD	13.64	77,569.2	Y	12/2019	3.2%	1.8%	1.6%	2.0%	14.2	13.9	13.7	1.3	1.3	9.3%	3.6%	13.40	MP
YTL POWER INTERNATIONAL BHD	0.745	5,718.1	N	06/2020	-3.9%	2.2%	8.0%	0.6%	8.7	8.1	8.0	0.4	0.4	5.0%	6.7%	0.820	OP
Simple Average					4.0%	3.4%	10.0%	1.3%	15.6	14.3	14.3	1.8	1.6	11.4%	3.9%		

Source: Bloomberg, Kenanga Research

This section is intentionally left blank

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my