

August 30, 2024

Tenaga Nasional (TNB MK)

A strong quarter

Balanced risk-reward

2Q24 results were ahead of our/consensus expectations from better genco performance and lower system loss. In our view, expectations of elevated grid capex and new generation projects have been priced in to a large extent. Maintain HOLD with a higher DCF-based TP of MYR14.00 (+4%) following our earnings revisions. Note that 4Q is usually a weak quarter for TNB's earnings due to the back-loading of general expenses.

Ahead of expectations

Excluding MFRS 16 effects, 2Q24 core net profit of MYR1,493m (+58% YoY, +39% QoQ) brings 1H24 core net profit to MYR2,564m (+22% YoY), 70%/65% of our/consensus full-year forecasts. The beat was due to 1) better-than-expected genco performance (possibly higher capacity payments) and 2) lower-than-expected system loss. MFRS 16 raised 2Q24 EBITDA by MYR937m and lowered net profit by MYR179m. A 25sen DPS was declared, up from 18sen in 2Q23.

Further demand uplift

2Q24 generation units grew by 3.5% QoQ (+5.2% YoY) as demand grew correspondingly by 3.8% QoQ (+6.3% YoY). The proportion of coal generation in 2Q24 increased by 4.7ppt QoQ to 57.2%, as coal prices was down 1% QoQ. Under-recoveries (of generation cost) increased to MYR2.82b (from MYR2.35b in 1Q24). Meanwhile, regulated revenue was at a bigger surplus position (MYR739m) in 2Q24, again a combination of higher realised tariff and higher-than-budgeted demand.

Awaiting briefing updates

Management will host a briefing on 2 Sep 2024. We raise our FY24/25/26 net profit forecasts by 4% each to reflect a lower system loss (from 9% to 8%). Consequently, our TP (DCF-based assuming 7.5% WACC and 2% LT growth) is raised to MYR14.00 (from MYR13.50). We expect TNB's share price to remain generally resilient in the lead up to the announcement of RP4 capex.

FYE Dec (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	73,183	63,665	51,786	52,662	53,554
EBITDA	16,468	14,484	14,955	15,918	16,187
Core net profit	4,703	3,735	3,815	4,515	4,699
Core FDEPS (sen)	81.4	64.4	65.8	77.9	81.1
Core FDEPS growth(%)	(9.0)	(20.9)	2.2	18.3	4.1
Net DPS (sen)	46.0	46.0	46.0	46.0	48.8
Core FD P/E (x)	11.8	15.6	21.2	17.9	17.2
P/BV (x)	0.9	1.0	1.3	1.3	1.3
Net dividend yield (%)	4.8	4.6	3.3	3.3	3.5
ROAE (%)	7.6	5.9	6.4	7.4	7.5
ROAA (%)	2.4	1.8	1.9	2.2	2.3
EV/EBITDA (x)	6.6	7.0	8.2	7.7	7.5
Net gearing (%) (incl perps)	83.4	66.7	65.1	62.3	59.3
Consensus net profit	-	-	4,028	4,657	4,833
MIBG vs. Consensus (%)	-	-	(5.3)	(3.0)	(2.8)

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HOLD

Share Price	MYR 13.94
12m Price Target	MYR 14.00 (+4%)
Previous Price Target	MYR 13.50

Company Description

Tenaga Nasional engages in the generation, transmission, distribution and sale of electricity and the provision of other related services.

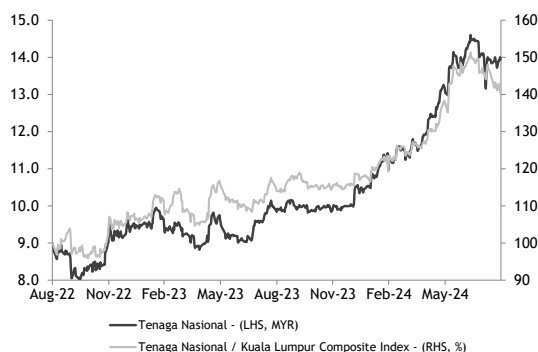
Statistics

52w high/low (MYR)	14.60/9.82
3m avg turnover (USDm)	32.2
Free float (%)	59.3
Issued shares (m)	5,813
Market capitalisation	MYR81.0B
	USD18.8B

Major shareholders:

Khazanah Nasional Bhd	20.9%
Employees Provident Fund	17.2%
Permodalan Nasional Bhd	9.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	6	41
Relative to index (%)	(4)	1	22

Source: FactSet

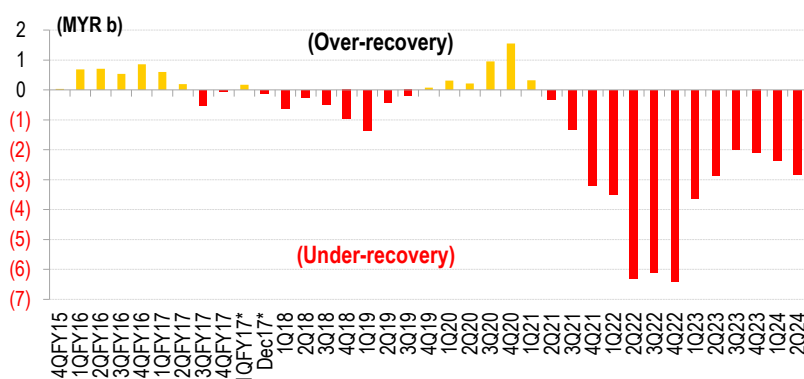
Summary results table - Tenaga Nasional (pre-MFRS 16)

FY Dec (MYR m)	Quarterly					Cumulative		
	2Q24	2Q23	%YoY	1Q24	%QoQ	1H24	1H23	%YoY
Revenue	17,189.0	16,183.4	6.2	15,993.4	7.5	33,182.4	32,441.3	2.3
EBITDA	4,155.7	3,668.2	13.3	3,790.2	9.6	7,945.9	7,478.3	6.3
EBIT	2,082.9	1,731.4	20.3	1,866.8	11.6	3,949.7	3,640.4	8.5
Net interest	(462.1)	(521.5)	(11.4)	(454.6)	1.6	(916.7)	(1,133.9)	(19.2)
Associate & JV income	245.8	(1.7)	N/A	19.6	1154.1	265.4	21.3	1146.0
Pre-tax profit	1,996.8	754.7	164.6	1,235.1	61.7	3,231.9	2,102.4	53.7
Tax	(305.5)	(320.0)	(4.5)	(398.3)	(23.3)	(703.8)	(545.6)	29.0
Minority Interest	(68.3)	57.0	N/A	37.8	N/A	(30.5)	128.4	N/A
Net Profit	1,623.0	491.7	230.1	874.6	85.6	2,497.6	1,685.2	48.2
Recurring pre-tax profit	1,866.6	1,208.2	54.5	1,431.8	30.4	3,298.4	2,527.8	30.5
Recurring net profit	1,492.8	945.2	57.9	1,071.3	39.3	2,564.1	2,110.6	21.5
Recurring EPS (sen)	25.8	16.4	57.1	18.5	39.3	44.3	36.7	20.8
Net DPS (sen)	25.0	18.0	38.9	0.0	N/A	25.0	18.0	38.9
Net cash/(debt)	(39,387.3)	(43,783.2)	(10.0)	(39,981.4)	(1.5)	(39,387.3)	(43,783.2)	(10.0)
Gearing (%)	66.4	75.1		69.0		66.4	75.1	
Capex	2,242.7	1,741.2	28.8	2,099.4	6.8	4,342.1	3,831.3	13.3
Operations								
Average tariff (MYR/kWh)	0.410	0.405	1.3	0.397	3.5	0.403	0.399	1.1
Gas volume (mmscfd)	978.0	840.0	16.4	1,017.0	(3.8)	997.5	873.5	14.2
Coal consumption (mt)	8.7	8.9	(2.2)	7.7	13.0	16.4	16.4	0.2
Coal price (MYR/t)	530.5	623.2	(14.9)	536.3	(1.1)	533.2	694.5	(23.2)
Demand, Pen Msia								
Industrial	11,170.0	10,882.0	2.6	11,210.0	(0.4)	22,380.0	21,764.0	2.8
Commercial	11,641.0	10,699.0	8.8	11,102.0	4.9	22,743.0	20,680.0	10.0
Domestic	9,650.0	8,958.0	7.7	8,932.0	8.0	18,582.0	16,604.0	11.9
Others	660.0	615.0	7.3	655.0	0.8	1,315.0	1,219.0	7.9
Total (GWh)	33,121.0	31,154.0	6.3	31,899.0	3.8	65,020.0	60,267.0	7.9
Generation, Pen Msia								
Gas (GWh)	13,341.0	11,597.7	15.0	13,635.0	(2.2)	26,976.0	24,039.0	12.2
Coal (GWh)	20,505.7	20,470.6	0.2	18,196.6	12.7	38,702.3	37,385.1	3.5
Oil & distillate (GWh)	0.0	67.7	N/A	45.7	N/A	45.7	99.5	(54.1)
Hydro & solar (GWh)	1,981.8	1,928.3	2.8	2,754.8	(28.1)	4,736.6	4,024.4	17.7
Total (GWh)	35,828.5	34,064.3	5.2	34,632.1	3.5	70,460.6	65,548.0	7.5
% Gas	37.2	34.0	3.2	39.4	(2.1)	38.3	36.7	1.6
% Coal	57.2	60.1	(2.9)	52.5	4.7	54.9	57.0	(2.1)
% Oil & distillate	0.0	0.2	(0.2)	0.1	(0.1)	0.1	0.2	(0.1)
% Hydro & solar	5.5	5.7	(0.1)	8.0	(2.4)	6.7	6.1	0.6
Fuel spending, Pen Msia								
Gas (MYR m)	3,013.5	2,495.9	20.7	3,235.0	(6.8)	6,248.5	5,436.6	14.9
Coal (MYR m)	4,605.6	5,640.9	(18.4)	4,201.5	9.6	8,807.1	11,230.2	(21.6)
Oil & distillate (MYR m)	29.5	91.8	(67.9)	72.1	(59.1)	101.6	130.4	(22.1)
Total (MYR m)	7,648.6	8,228.6	(7.0)	7,508.6	1.9	15,157.2	16,797.2	(9.8)
% Gas	39.4	30.3	9.1	43.1	(3.7)	41.2	32.4	8.9
% Coal	60.2	68.6	(8.3)	56.0	4.3	58.1	66.9	(8.8)
% Oil & distillate	0.4	1.1	(0.7)	1.0	(0.6)	0.7	0.8	(0.1)

Note: One-offs comprise mainly of forex and impairments

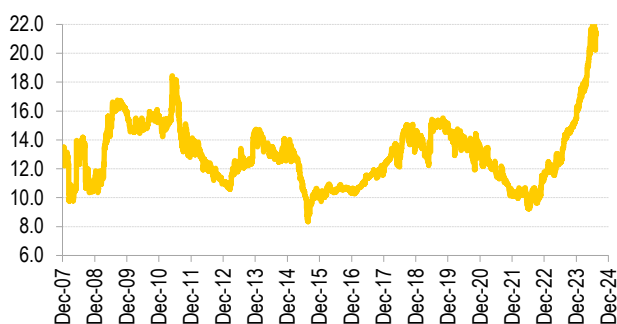
Source: Company, Maybank IBG Research

Generation cost imbalances



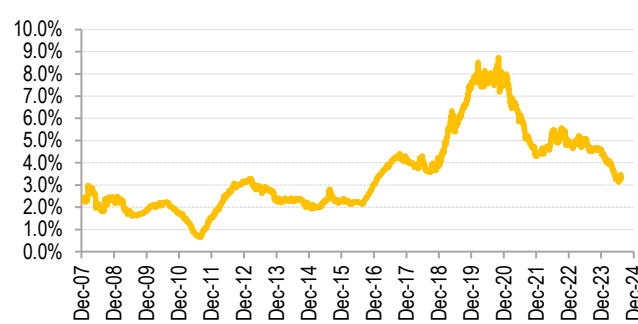
Source: Company. *Change of financial year end from Aug to Dec.

Trailing PER



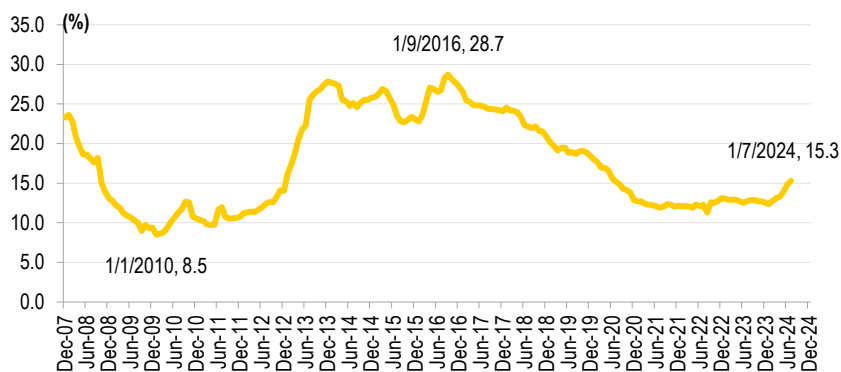
Source: Bloomberg, Maybank IBG Research

Trailing net yield



Source: Bloomberg, Maybank IBG Research

Foreign shareholding



Source: Company

Risk statement

There are several risk factors for our earnings estimates, price target, and rating for Tenaga. 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 Tenaga.

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	11.5	16.1	21.1	17.9	17.2
Core P/E (x)	11.8	15.5	21.1	17.9	17.2
Core FD P/E (x)	11.8	15.6	21.2	17.9	17.2
P/BV (x)	0.9	1.0	1.3	1.3	1.3
P/NTA (x)	2.7	2.5	3.3	3.0	2.8
Net dividend yield (%)	4.8	4.6	3.3	3.3	3.5
FCF yield (%)	1.7	37.4	6.3	6.6	7.0
EV/EBITDA (x)	6.6	7.0	8.2	7.7	7.5
EV/EBIT (x)	12.1	15.1	18.2	15.9	15.3

INCOME STATEMENT (MYR m)

Revenue	73,183.0	63,665.1	51,786.2	52,661.9	53,553.6
EBITDA	16,467.7	14,484.0	14,955.0	15,917.9	16,186.8
Depreciation	(7,526.6)	(7,804.2)	(8,175.7)	(8,230.9)	(8,282.4)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	8,941.1	6,679.8	6,779.3	7,687.0	7,904.4
Net interest income / (exp)	(2,178.6)	(2,199.7)	(2,044.5)	(2,031.1)	(2,007.0)
Associates & JV	97.6	62.4	50.0	50.0	50.0
Exceptionals	(319.3)	(290.6)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	6,540.8	4,251.9	4,784.8	5,705.9	5,947.4
Income tax	(2,063.1)	(974.7)	(1,136.4)	(1,357.4)	(1,415.4)
Minorities	(94.1)	166.7	166.7	166.7	166.7
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	4,383.6	3,443.9	3,815.2	4,515.2	4,698.7
Core net profit	4,702.9	3,734.5	3,815.2	4,515.2	4,698.7

BALANCE SHEET (MYR m)

Cash & Short Term Investments	13,034.4	21,004.6	21,386.9	22,076.0	22,961.0
Accounts receivable	26,818.4	14,965.7	12,769.2	12,985.1	13,205.0
Inventory	3,290.8	2,758.0	2,168.5	2,166.9	2,198.7
Property, Plant & Equip (net)	116,577.1	122,024.7	122,849.0	123,618.2	124,335.7
Intangible assets	37,998.7	35,312.5	35,312.5	35,312.5	35,312.5
Investment in Associates & JVs	1,679.2	1,667.2	1,652.2	1,637.2	1,622.2
Other assets	6,523.7	7,038.7	7,038.7	7,038.7	7,038.7
Total assets	205,922.3	204,771.4	203,177.0	204,834.7	206,673.8
ST interest bearing debt	13,262.2	7,030.6	7,030.6	7,030.6	7,030.6
Accounts payable	11,509.7	12,830.7	10,271.6	10,264.5	10,414.9
LT interest bearing debt	50,620.0	54,739.6	54,739.6	54,739.6	54,739.6
Other liabilities	69,564.0	69,088.0	69,088.0	69,088.0	69,088.0
Total Liabilities	144,956.1	143,688.7	141,129.6	141,122.5	141,272.9
Shareholders Equity	58,517.1	58,825.8	59,981.2	61,836.7	63,716.2
Minority Interest	2,449.1	2,256.9	2,066.2	1,875.5	1,684.8
Total shareholder equity	60,966.2	61,082.7	62,047.4	63,712.2	65,401.0
Total liabilities and equity	205,922.3	204,771.4	203,177.0	204,834.7	206,673.8

CASH FLOW (MYR m)

Pretax profit	6,540.8	4,251.9	4,784.8	5,705.9	5,947.4
Depreciation & amortisation	7,526.6	7,804.2	8,175.7	8,230.9	8,282.4
Change in working capital	(10,977.0)	13,395.0	227.0	(221.6)	(101.2)
Other operating cash flow	5,226.9	5,500.6	(50.0)	(50.0)	(50.0)
Cash flow from operations	9,377.9	32,218.5	14,045.6	14,338.9	14,670.2
Capex	(8,445.3)	(10,571.2)	(9,000.0)	(9,000.0)	(9,000.0)
Free cash flow	932.6	21,647.3	5,045.6	5,338.9	5,670.2
Dividends paid	(2,181.3)	(2,537.5)	(2,659.8)	(2,659.8)	(2,819.2)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	12,061.1	(3,576.6)	0.0	0.0	0.0
Other invest/financing cash flow	(7,012.1)	(7,660.3)	(2,003.5)	(1,990.1)	(1,966.0)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	3,800.3	7,872.9	382.3	689.1	885.0

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	39.1	(13.0)	(18.7)	1.7	1.7
EBITDA growth	7.4	(12.0)	3.3	6.4	1.7
EBIT growth	10.3	(25.3)	1.5	13.4	2.8
Pretax growth	18.2	(35.0)	12.5	19.2	4.2
Reported net profit growth	2.4	(21.4)	10.8	18.3	4.1
Core net profit growth	(8.5)	(20.6)	2.2	18.3	4.1
Profitability ratios (%)					
EBITDA margin	22.5	22.8	28.9	30.2	30.2
EBIT margin	12.2	10.5	13.1	14.6	14.8
Pretax profit margin	8.9	6.7	9.2	10.8	11.1
Payout ratio	60.2	77.1	69.7	58.9	60.0
DuPont analysis					
Net profit margin (%)	6.0	5.4	7.4	8.6	8.8
Revenue/Assets (x)	0.4	0.3	0.3	0.3	0.3
Assets/Equity (x)	3.5	3.5	3.4	3.3	3.2
ROAE (%)	7.6	5.9	6.4	7.4	7.5
ROAA (%)	2.4	1.8	1.9	2.2	2.3
Liquidity & Efficiency					
Cash conversion cycle	55.6	55.4	17.9	18.0	18.5
Days receivable outstanding	100.3	118.1	96.4	88.0	88.0
Days inventory outstanding	15.9	20.7	21.3	18.7	18.6
Days payables outstanding	60.7	83.5	99.8	88.8	88.1
Dividend cover (x)	1.7	1.3	1.4	1.7	1.7
Current ratio (x)	1.2	1.2	1.3	1.3	1.3
Leverage & Expense Analysis					
Asset/Liability (x)	1.4	1.4	1.4	1.5	1.5
Net gearing (%) (incl perps)	83.4	66.7	65.1	62.3	59.3
Net gearing (%) (excl. perps)	83.4	66.7	65.1	62.3	59.3
Net interest cover (x)	4.1	3.0	3.3	3.8	3.9
Debt/EBITDA (x)	3.9	4.3	4.1	3.9	3.8
Capex/revenue (%)	11.5	16.6	17.4	17.1	16.8
Net debt/ (net cash)	50,847.8	40,765.6	40,383.3	39,694.2	38,809.2

Source: Company; Maybank IBG Research

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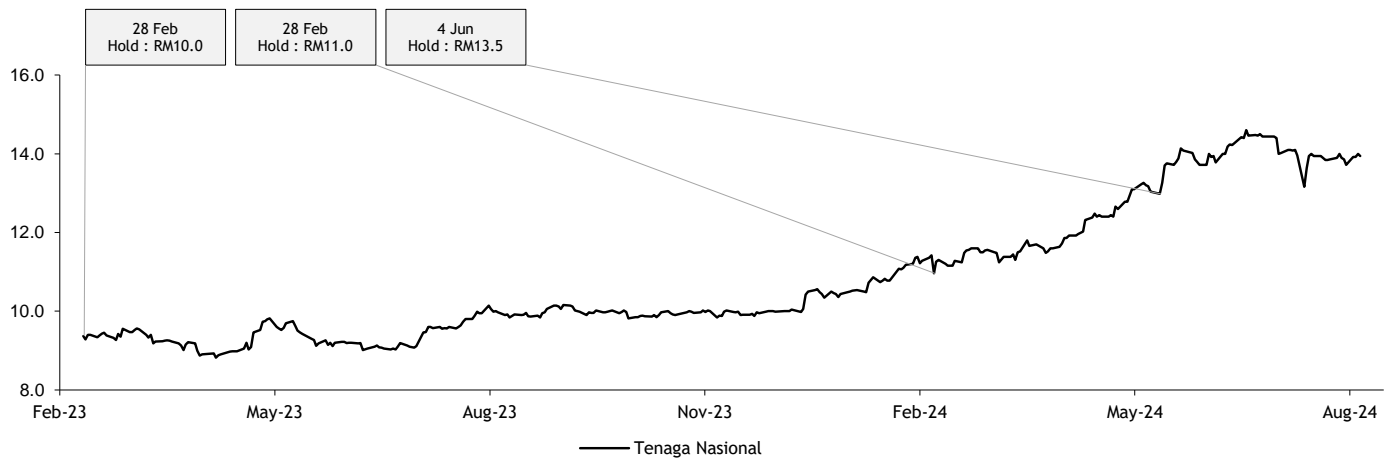
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