

28 November 2019

Tenaga Nasional Bhd

Strong 3QFY19 On Lower Fuel Costs

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3QFY19 results beat expectations thanks to lower generation costs as coal prices declined. In addition, solid demand growth of 3.2% in 9MFY19 kept earnings sustainable. With declining coal price, 4QFY19 could enjoy further lower generation costs but this could result in a lower effective tariff rate in 1HFY20. Given limited earnings growth and market fears of industry reform, we keep the stock at MP with revised TP of RM14.30.

9MFY19 above expectation slightly. At 80% each of house/street's FY19 estimates, 9MFY19 core profit of RM4.49b came in slightly above expectations given the lower-than-expected opex which saw 3QFY19 total opex falling 4% QoQ, largely led by generation costs that contracted 6% as fuel costs declined while non-generation opex was generally flattish. Meanwhile, no dividend was declared during the quarter as expected as it usually pays half-yearly dividend.

Lower opex led earnings lower. 3QFY19 core profit contracted 10% QoQ to RM1.37b on the back of 2% dip in revenue. The drop in revenue was driven by a 2.7% decline in demand growth while the decline in earnings was attributable to: (i) higher taxation at RM336.9m against a positive tax of RM47.3m in 2QFY19 which was due to reversal of over-provision of tax for FY18, and (ii) higher depreciation charges by 3% or RM83.9m. However, at EBITDA level, earnings jumped 10% primarily due to the abovementioned lower generation costs. Average coal price dropped 11% to RM301.9/MT from RM340.5m while average LNG price fell 8% to RM32.75/mmbtu from RM35.73/mmbtu. The daily average gas volume declined 8% to 973mmscfd from 1,059mmscfd which mean it required less expensive LNG. Meanwhile, associate income declined to RM29.7m from RM88.2m as the preceding quarter reported a recovery from coal cost pass-through at GMR.

Volume growth led yearly earnings growth. YoY, 3QFY19 and 9MFY19 core profit leapt 43% and 12% to RM1.37b and RM4.01b respectively partly thanks to higher electricity demand by 1.1% and 3.2%. While lower generation opex by 6% or RM417.0m in 3QFY19 as mentioned above also attributed to higher YoY earnings, higher generation opex by 9% or RM1.75b in 9MFY19 capped YTD earnings from growing higher. This was due to higher requirement mix for the expensive LNG as gas volume rose 7% for 9MFY19 to 1,030mmscfd with average LNG price jumping 13% to RM35.03/mmbtu. On the other hand, coal prices were generally on the downtrend with average coal costs falling 29% YoY in 3QFY19 and 11% YoY in 9MFY19.

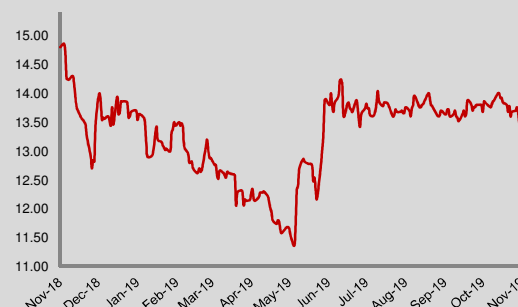
Lower fuel costs will pass through in 1HFY20. With fuel prices trending downward especially coal which fell 11% YoY in 9MFY19, TENAGA is likely to register lower generation costs in the coming 4QFY19 which could post resilient numbers although 2H is traditionally a weaker period. However, the benefit of lower fuel costs would result in a lower effective tariff rate in 1HFY20 under the ICPT mechanism. Post-results, we raised FY19-FY20 earnings estimates by 4%-2% as we adjusted for lower generation costs in FY19 and fine-tuned interest cost/depreciation charges for both years. NDPS is also upgraded proportionally based on 50% payout.

Still MARKET PERFORM. With the new earnings guidance of c.RM5.5b since Feb 2019, we believe market has already adjusted to the lower earnings base. Thus, we decided to value the stock based on 3-year mean instead of -1SD 2-year mean. This increases our TP to RM14.30 based on 14x FY20 PER from RM13.40 at 13.6x FY20 PER. Our MP recommendation is supported by >3% yield. Upside risks to our recommendation are: (i) stronger-than-expected earnings from non-regulated business, and (ii) a higher dividend payout.

MARKET PERFORM ↔

Price: RM13.56
Target Price: RM14.30 ↑

Share Price Performance



KLCI 1,587.18
YTD KLCI chg -6.1%
YTD stock price chg -0.3%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker TNB MK
Market Cap (RM m) 77,114.2
Shares Outstanding 5,686.9
52-week range (H) 14.88
52-week range (L) 11.24
3-mth avg daily vol: 3,179,973
Free Float 43%
Beta 1.2

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	8,271	10,154	10,552
PBT	5,046	7,624	7,687
Net Profit (NP)	3,724	5,754	5,802
Core Net Profit	5,470	5,754	5,802
Consensus (NP)		5,572	5,736
Earnings Rev. (%)		+3.5	+2.3
Core EPS (sen)	96.3	101.3	102.2
EPS growth (%)	-10.4	5.2	0.8
NDPS (sen)	53.3	50.7	51.1
BV/Share (RM)	10.2	10.7	11.2
NTA/Share (RM)	10.1	10.7	11.2
Core PER (x)	14.1	13.4	13.3
PBV (x)	1.3	1.3	1.2
Price/NTA (x)	1.3	1.3	1.2
Net Gearing (x)	0.51	0.43	0.35
Dividend Yield (%)	3.9	3.7	3.8

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Income Statement

Y/E Dec (RM m)	3Q FY19	2Q FY19	Q-o-Q Chg	3Q FY18	Y-o-Y Chg	9M FY19	9M FY18	Y-o-Y Chg
Turnover	12,641.8	12,876.0	-2%	13,073.8	-3%	38,762.6	37,845.7	2%
EBITDA	3,741.8	3,411.1	10%	3,438.9	9%	11,360.2	11,448.2	-1%
Depreciation	(2,525.3)	(2,441.4)	3%	(1,621.7)	56%	(7,424.2)	(4,706.6)	58%
EBIT	1,216.5	969.7	25%	1,817.2	-33%	3,936.0	6,741.6	-42%
Interest income	140.7	133.5	5%	73.9	90%	402.5	282.9	42%
Interest expense	(781.7)	(940.1)	-17%	(429.9)	82%	(2,426.3)	(1,201.7)	102%
Forex translation gain	(67.3)	(272.2)	-75%	(166.7)	-60%	(76.0)	(247.3)	-69%
Forex transaction gain	(18.8)	(6.7)	181%	(8.4)	124%	(81.5)	(13.6)	499%
Associates	29.7	88.2	-66%	(91.0)	-133%	111.8	(170.1)	-166%
Exceptional items	1,027.4	1,110.4	-7%	(291.5)	-452%	2,836.4	(548.9)	-617%
Pretax profit	1,546.5	1,082.8	43%	903.6	71%	4,702.9	4,842.9	-3%
Taxation	(336.9)	47.3	-812%	(392.2)	-14%	(842.0)	(946.3)	-11%
Minority interest	(6.7)	(13.9)	-52%	(10.4)	-36%	15.0	(38.6)	-139%
Net profit	1,202.9	1,116.2	8%	501.0	140%	3,875.9	3,858.0	0%
Core net profit	1,366.9	1,516.1	-10%	959.2	43%	4,488.6	4,009.6	12%
EPS (sen)	21.3	19.8	8%	8.9	140%	68.7	68.4	0%
Core EPS (sen)	24.2	26.9	-10%	17.0	43%	79.5	71.0	12%
NDPS (sen)	0.0	30.0	N/A	0.0	0%	30.0	30.3	-1%
NTA/share (RM)	10.06	10.26	-2%	10.16	-1%	10.06	10.16	-1%
EBITDA margin	30%	26%		26%		29%	30%	
EBIT margin	10%	8%		14%		10%	18%	
Pretax margin	12%	8%		7%		12%	13%	
Effective tax rate	20%	-3%		35%		16%	28%	

Source: Company

Breakdown of Electricity Sales & ICPT

Y/E Dec (RM m)	3Q FY19	2Q FY19	Q-o-Q Chg	3Q FY18	Y-o-Y Chg	9M FY19	9M FY18	Y-o-Y Chg
Peninsular Malaysia	11,711.2	11,990.2	-2%	11,512.8	2%	35,032.7	33,756.3	4%
EGAT	0.0	0.0	0%	0.0	0%	0.1	1.7	-94%
SESB	476.1	498.6	-5%	466.6	2%	1,436.5	1,368.1	5%
UK WIND	22.1	20.9	6%	19.2	15%	74.3	49.7	49%
LPL	140.2	157.6	-11%	161.6	-13%	386.1	257.3	50%
	12,349.6	12,667.3	-3%	12,160.2	2%	36,929.7	35,433.1	4%
ICPT	203.8	425.8	-52%	479.6	-58%	1,998.7	1,358.9	47%

Source: Company

Generation Mix (Peninsula)

Y/E Dec (RM m)	3Q FY19	2Q FY19	Q-o-Q Chg	3Q FY18	Y-o-Y Chg	9M FY19	9M FY18	Y-o-Y Chg
Fuel Costs								
Gas	2,948.7	2,727.7	8%	2,649.0	11%	8,364.6	7,173.7	17%
LNG	31.3	139.6	-78%	60.7	-48%	215.0	97.3	121%
Coal	2,163.1	2,841.1	-24%	3,225.6	-33%	7,790.3	8,585.6	-9%
Dist	13.5	1.9	611%	0.7	1829%	29.4	35.7	-18%
Oil	4.8	3.0	60%	0.7	586%	17.1	14.9	15%
Solar	45.7	42.2	8%	0.0	N/A	125.8	0.0	N/A
	5,207.1	5,755.5	-10%	5,936.7	-12%	16,542.2	15,907.2	4%
Unit Generated (Gwh)								
Gas & LNG	13,899.8	13,298.7	5%	13,760.3	1%	40,366.2	38,557.0	5%
Coal	16,391.3	17,721.2	-8%	17,669.7	-7%	51,289.3	52,372.8	-2%
Dist	0.3	0.0	N/A	0.0	N/A	21.0	26.3	-20%
Oil	15.7	2.0	685%	1.7	824%	41.6	38.3	9%
Hydro	809.9	734.1	10%	1,080.3	-25%	2,458.7	3,671.1	-33%
Solar	200.8	162.8	23%	0.0	N/A	503.9	0.0	N/A
	31,317.8	31,918.8	-2%	32,512.0	-4%	94,680.7	94,665.5	0%

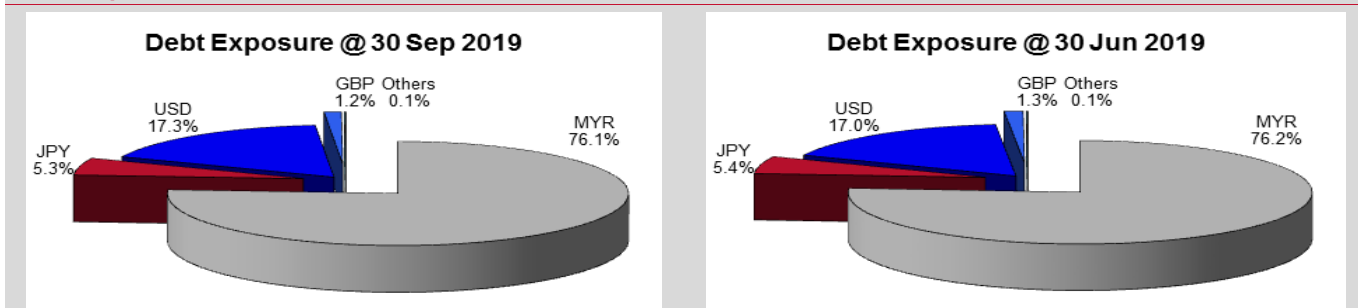
Source: Company

Breakdown of Operating Expenses

	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
Y/E Dec (RM m)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Total IPP Costs	4,746.0	4,496.5	6%	4,255.2	12%	14,078.0	11,809.4	19%
TNB Fuel Costs	2,367.5	3,092.4	-23%	3,275.3	-28%	7,971.2	8,493.8	-6%
Repair & Maintenance	530.6	489.4	8%	566.8	-6%	1,480.7	1,466.2	1%
Staff	996.1	1,014.0	-2%	1,084.5	-8%	2,739.3	2,899.3	-6%
Depreciation	1,718.8	1,670.5	3%	1,621.7	6%	5,022.1	4,706.6	7%
General Expenses	503.1	512.3	-2%	508.4	-1%	1,510.1	1,521.8	-1%
Others	188.7	180.8	4%	479.0	-61%	815.8	1,339.2	-39%
Total Operating Expenses	11,050.8	11,455.9	-4%	11,790.9	-6%	33,617.2	32,236.3	4%
Ave. Coal Price (USD/MT)	72.4	82.1	-12%	102.5	-29%	81.7	94.8	-14%
Ave. Coal Price (RM/MT)	301.9	340.5	-11%	422.6	-29%	337.6	379.9	-11%
Ave. LNG Price (RM/mmbtu)	32.75	35.73	-8%	31.63	4%	35.03	30.89	13%
Ave. Gas Volume (mmscfd)	973	1,059	-8%	1,016	-4%	1,030.0	963.0	7%

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	2.71	3,479.6	Y	12/2019	5.2%	7.7%	5.9%	4.4%	20.5	19.3	18.5	3.4	3.3	17.4%	4.6%	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	1.30	993.6	Y	06/2020	17.3%	10.5%	25.8%	13.5%	13.7	10.9	9.6	2.2	1.8	18.3%	0.0%	1.75	OP
PETRONAS GAS BHD	15.98	31,620.1	Y	12/2019	4.8%	-1.8%	5.7%	-14.7%	17.3	16.4	19.2	2.4	2.3	14.5%	4.3%	15.75	MP
TENAGA NASIONAL BHD	13.56	77,114.2	Y	12/2019	3.2%	1.8%	5.2%	0.8%	14.1	13.4	13.3	1.3	1.3	9.7%	3.7%	14.30	MP
YTL POWER INTERNATIONAL BHD	0.685	5,257.6	N	06/2020	-12.9%	1.9%	-21.5%	-1.4%	8.0	10.2	10.3	0.4	0.4	3.8%	7.3%	0.700	MP
Simple Average					2.9%	3.3%	5.3%	1.2%	15.6	14.7	14.7	1.8	1.7	11.3%	4.1%		

Source: Bloomberg, Kenanga Research

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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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