

01 March 2021

Tenaga Nasional Bhd

4QFY20 In Line; Earnings To Normalise

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

FY20 core profit of RM3.80b met expectations with no more COVID-19-related financial impact in 4QFY20. With earnings expected to start normalising, we remain optimistic given its earnings resiliency. Having said that, the stock trading at -2.5SD to 3-year mean is unwarranted, on top of decent >4% dividend yield. We continue to rate the stock an OP with a higher TP of RM12.72.

4QFY20 matched forecast with core profit dipping slightly by 1% QoQ to RM976.1m as FY20 core profit of RM3.80b came 3% above our forecast but fell 12% short of market consensus. We believe the discrepancy between actual result and consensus could be due to the differences of adjustments for the COVID-19 impact. It declared a total NDPS of 58.0 sen (including 40.0 sen special) in 4QFY20, totalling F20 NDPS to 80.0 sen (including 40.0 sen special), higher than our forecast of 32.4 sen, against 100.0 sen paid in FY19 (including 50.0 sen special).

No COVID-19 impact in 4QFY20... 4QFY20 revenue fell 7% QoQ to RM10.32b largely due to a 63% jump in ICPT over-recovery while electricity sales in Peninsular grew slightly by 1% which could be due to better sales mix as demand dipped 1%. 4QFY20 core profit fell merely 1% QoQ as there was no COVID-19-related earnings impact as against our previous assumption of RM300m, against RM425.8m reported in 3QFY20. Meanwhile, total operating expenses declined 7% to RM8.89b led by 17% contraction in total fuel costs as gas fuel costs plummeted 30% with the average reference market price for gas/LNG falling 33%. There was a RM310.2m tax credit in 4QFY20, as opposed to RM280.8m tax charges, owing to reinvestment allowance incentive claims.

...but it hit FY20 results badly. YoY, 4QFY20 core profit rose 11% from RM880.1m in 4QFY19 partly as there was a share of associate loss of RM59.2m previously to share of associate profit of RM38.7m this quarter owing to the reversal of deferred tax at GMR arising from a change in taxation law in India. YTD, FY20 core profit tumbled 27% to RM3.80b from RM5.19b mainly due to the COVID-19 impact of RM1.13b in 2QFY20 and RM703.8m in 3QFY20 on its non-regulated business plus sales discount and contribution. Operationally, Peninsular electricity sales fell 4% as demand slid 5%. Total fuel costs declined 29% on the back of falling fuel prices besides a 3% decline in generation. This led to RM3.03b ICPT over-recovery in FY20 from under-recovery of RM1.92b last year. This also contributed to the decline in group revenue which plunged 14% over the year.

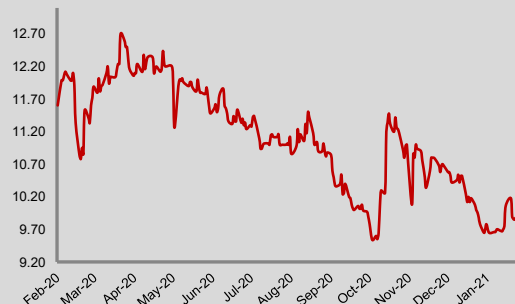
COVID-19 impact is likely over. We have imputed RM500m COVID-19 impact in 1HFY21 in our forecast. With there was none in 4QFY20 with no government announcement so far, we believe there is likely to be no more sales discount and contribution in FY21. However, we prefer to keep our FY21 forecast unchanged for at least one more quarter before adding back the RM500m assumption. Nonetheless, we remain optimistic on its earnings prospects post-COVID pandemic as its earnings resiliency remains high. With this, we launched a normalised FY22 net profit forecast of RM5.27b with unchanged dividend pay-out ratio of 50%.

Reiterate OP with higher TP of RM12.72 from RM12.40 as we roll over valuation base to FY22E based on unchanged -1SD to 3-year mean at 13.7x FY22E PER. At current price, TENAGA is trading at closer to -2.5SD to 3-year PER mean which we believe is unwarranted given its earnings profile and heavyweight index stock status. In addition, it also offers fairly decent yield of >4% based on regular payout. **Downside risk to our recommendation** is weaker-than-expected earnings from non-regulated business.

OUTPERFORM ↔

Price: **RM10.10**
Target Price: **RM12.72** ↑

Share Price Performance



KLCI 1,577.75
YTD KLCI chg -3.0%
YTD stock price chg -3.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TNB MK
Market Cap (RM m)	57,617.0
Shares Outstanding	5,704.7
52-week range (H)	13.10
52-week range (L)	9.50
3-mth avg daily vol:	6,803,713
Free Float	30%
Beta	0.9

Major Shareholders

Khazanah Nasional Bhd	25.7%
Employees Provident Fund	17.9%
Amanah Saham Nasional	14.9%

Summary Earnings Table

FY Dec (RM m)	2020	2021E	2022E
Turnover	43,976	50,389	50,886
EBIT	7,359	9,667	10,100
PBT	4,235	6,404	6,972
Net Profit (NP)	3,593	4,840	5,272
Core Net Profit	3,804	4,840	5,272
Consensus (NP)	4,334	4,913	5,126
Earnings Rev. (%)	-	-	New
Core EPS (sen)	67.0	85.2	92.8
EPS growth (%)	-26.8	27.2	8.9
NDPS (sen)	80.0	42.6	46.4
BV/Share (RM)	9.83	10.26	10.72
NTA/Share (RM)	9.76	10.18	10.64
Core PER (x)	15.1	11.8	10.9
PBV (x)	1.0	1.0	0.9
Price/NTA (x)	1.0	1.0	0.9
Net Gearing (x)	0.65	0.60	0.53
Dividend Yield (%)	7.9	4.2	4.6

01 March 2021

Income Statement								
Y/E Dec (RM m)	4Q FY20	3Q FY20	Q-o-Q Chg	4Q FY19	Y-o-Y Chg	12M FY20	12M FY19	Y-o-Y Chg
Turnover	10,324.3	11,106.4	-7%	12,177.1	-15%	43,976.0	50,939.7	-14%
EBITDA	4,216.0	4,473.9	-6%	4,664.5	-10%	17,981.2	19,409.7	-7%
Depreciation	-2,761.0	-2,616.1	6%	-2,764.7	0%	-10,622.4	-10,318.9	3%
EBIT	1,455.0	1,857.8	-22%	1,899.8	-23%	7,358.8	9,090.8	-19%
Interest income	48.2	76.4	-37%	122.6	-61%	317.7	525.1	-39%
Interest expense	-935.2	-917.0	2%	-956.4	-2%	-3,668.7	-3,382.7	8%
Forex translation gain	245.9	158.2	55%	276.6	-11%	71.6	200.6	-64%
Forex transaction gain	-25.9	-8.6	201%	-5.2	398%	-45.4	-86.7	-48%
Associates	38.7	6.8	469%	-59.2	-165%	76.5	52.6	45%
Exceptional items	64.9	109.1	-41%	-503.4	-113%	124.9	-922.0	-114%
Pretax profit	891.6	1,282.7	-30%	774.8	15%	4,235.4	5,477.7	-23%
Taxation	310.2	-280.8	-210%	-190.7	-263%	-619.0	-1,032.7	-40%
Minority interest	10.1	7.7	31%	69.2	-85%	-23.7	84.2	-128%
Net profit	1,211.9	1,009.6	20%	653.3	86%	3,592.7	4,529.2	-21%
Core net profit	976.1	986.8	-1%	880.1	11%	3,804.3	5,194.2	-27%
EPS (sen)	21.5	17.9	20%	11.6	86%	63.7	80.3	-21%
Core EPS (sen)	17.3	17.5	-1%	15.6	11%	67.4	92.0	-27%
NDPS (sen)	58.0	0.0	N/A	70.0	-17%	80.0	100.0	-20%
NTA/share (RM)	9.76	9.02	8%	10.17	-4%	9.76	10.17	-4%
EBITDA margin	41%	40%		38%		41%	38%	
EBIT margin	14%	17%		16%		17%	18%	
Pretax margin	9%	12%		6%		10%	11%	
Effective tax rate	-53%	28%		19%		15%	17%	

Source: Company

Breakdown of Electricity Sales & ICPT								
Y/E Dec (RM m)	4Q FY20	3Q FY20	Q-o-Q Chg	4Q FY19	Y-o-Y Chg	12M FY20	12M FY19	Y-o-Y Chg
Peninsular Malaysia	11,410.3	11,311.3	1%	11,453.4	0%	44,435.4	46,486.1	-4%
Sales Discount	-375.7	-623.2	-40%	0.0	N/A	-2,752.5	0.0	N/A
Accrued Revenue	-31.4	171.6	-118%	0.0	N/A	-75.7	-104.2	-27%
EGAT	0.1	0.1	0%	0.0	N/A	0.9	0.1	800%
SESB	445.3	467.0	-5%	474.2	-6%	1,828.3	1,910.7	-4%
UK WIND	32.4	23.8	36%	29.0	12%	120.7	103.3	17%
Vortex	21.8	17.8	22%	0.0	N/A	39.6	0.0	N/A
LPL	35.4	142.1	-75%	130.7	-73%	340.0	516.8	-34%
	11,538.2	11,510.5	0%	12,087.3	-5%	43,936.7	48,912.8	-10%
ICPT	-1,555.3	-956.8	63%	-80.8	1825%	-3,034.5	1,917.9	-258%

Source: Company

Generation Mix (Peninsula)								
Y/E Dec (RM m)	4Q FY20	3Q FY20	Q-o-Q Chg	4Q FY19	Y-o-Y Chg	12M FY20	12M FY19	Y-o-Y Chg
Fuel Costs								
Gas	1,110.7	1,592.4	-30%	2,851.2	-61%	6,223.6	11,215.8	-45%
LNG	0.7	0.0	N/A	45.0	-98%	0.7	260.0	-100%
Coal	2,047.2	2,209.1	-7%	2,256.9	-9%	9,075.2	10,047.2	-10%
Dist	17.2	14.0	23%	16.8	2%	47.2	46.2	2%
Oil	5.1	1.0	410%	25.2	-80%	10.3	42.3	-76%
	3,180.9	3,816.5	-17%	5,195.1	-39%	15,357.0	21,611.5	-29%
Unit Generated (Gwh)								
Gas & LNG	9,322.2	8,839.9	5%	13,164.8	-29%	36,541.2	53,531.0	-32%
Coal	20,207.2	21,169.4	-5%	16,835.0	20%	81,103.4	68,124.3	19%
Dist	0.0	0.0	0%	11.4	-100%	0.0	32.4	-100%
Oil	-6.7	0.0	N/A	52.0	-113%	6.2	93.6	-93%
Hydro	1,526.4	1,417.0	8%	1,462.7	4%	4,659.6	3,921.4	19%
Solar	217.9	203.5	7%	193.2	13%	866.1	697.1	24%
	31,267.0	31,629.8	-1%	31,719.1	-1%	123,176.5	126,399.8	-3%

Source: Company

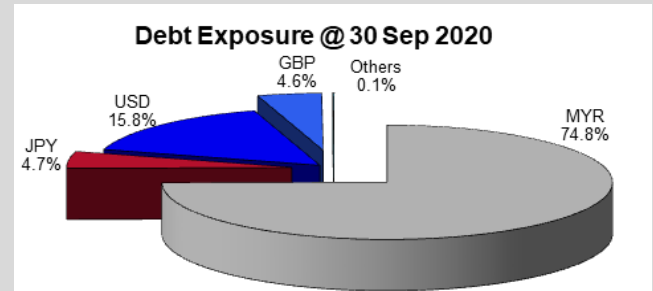
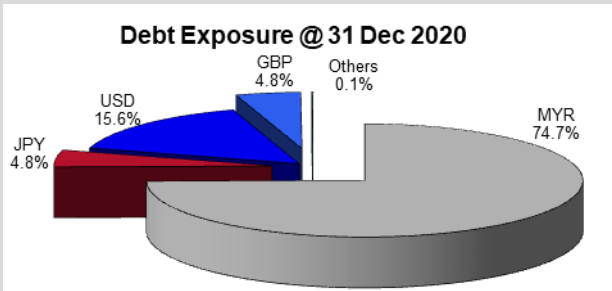
Breakdown of Operating Expenses

	4Q	3Q	Q-o-Q	4Q	Y-o-Y	12M	12M	Y-o-Y
Y/E Dec (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Total IPP Costs	1,877.8	2,038.9	-8%	3,237.5	-42%	8,271.3	13,564.6	-39%
TNB Fuel Costs	1,868.1	2,365.6	-21%	2,606.6	-28%	9,313.8	10,577.8	-12%
Repair & Maintenance	648.5	497.3	30%	693.1	-6%	2,100.8	2,173.8	-3%
Staff	917.2	1,056.3	-13%	1,012.7	-9%	3,832.4	3,752.0	2%
Depreciation	2,761.0	2,616.1	6%	2,764.7	0%	10,622.4	10,188.9	4%
General Expenses	615.4	539.8	14%	839.1	-27%	1,936.3	2,349.2	-18%
Others	206.0	441.2	-53%	139.4	48%	1,055.4	955.2	10%
Total Operating Expenses	8,894.0	9,555.2	-7%	11,293.1	-21%	37,132.4	43,561.5	-15%
Ave. Coal Price (USD/MT)	57.8	54.6	6%	70.2	-18%	60.6	79.3	-24%
Ave. Coal Price (RM/MT)	238.8	229.8	4%	291.9	-18%	255.6	326.3	-22%
Gas Ref Mkt Price(RM/mmbtu)	16.9	25.1	-33%	*	N/A	26.1	**	N/A
Ave. Gas/LNG Vol (mmscfd)	744.0	680.0	9%	1,011.0	-26%	712.3	1,046.0	-32%

Note: * average LNG price: RM32.75; average piped gas price: RM28.70
 ** average LNG price: RM34.20; average piped gas price: RM28.70

Source: Company

Debt Exposure and Forex



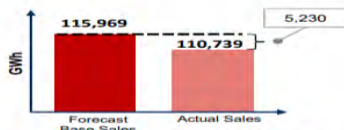
Source: Company

Regulatory Adjustment

Revenue Cap (Transmission, Dist. Net, GSO & SBO)

- The allowed annual revenue for revenue cap entities is based on 1.8-2% demand growth. Any shortfall is recovered through revenue adjustment mechanism.
- For FY'20, lower actual sales leads to lower revenue earned by the revenue cap entities.

FY'20 Variations in Sales (in GWh)

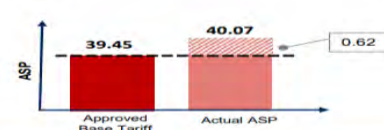


Business Entities	Allowed Tariff (sen/kWh)	Variations in Sales (GWh)	Adjustment (RM mil)
Revenue Cap Entities	11.36	5,230	594.3*

Price Cap (Customer Service/Retail)

- Any excess revenue earned due to higher Average Selling Price (ASP) compared to Base Tariff must be passed-through to the customers via cost and revenue adjustment mechanism.
- For FY'20, the ASP is recorded higher than the Base Tariff.

FY'20 Variations in ASP (sen/kWh)



Business Entities	Actual Sales (GWh)	Variations in ASP (sen/kWh)	Adjustment (RM mil)
Price Cap Entity	110,739	0.62	(691.0)*

Source: Company

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	2.63	3,376.9	Y	12/2021	14.3%	7.3%	-7.7%	8.0%	15.1	16.4	15.2	3.1	3.1	18.9%	5.5%	2.91	OP
MALAKOFF CORP BHD	0.810	3,958.4	Y	12/2021	25.1%	0.3%	26.8%	3.0%	16.0	12.6	12.2	0.8	0.8	6.0%	6.3%	1.05	OP
PESTECH INTERNATIONAL BHD	1.18	898.2	Y	06/2021	19.2%	5.3%	33.5%	8.3%	16.2	12.1	11.2	1.7	1.5	13.2%	0.0%	1.46	OP
PETRONAS GAS BHD	16.40	32,451.2	Y	12/2021	0.6%	0.9%	-2.9%	1.4%	16.2	16.7	16.5	2.6	2.5	15.2%	5.1%	16.97	MP
TENAGA NASIONAL BHD	10.10	57,617.0	Y	12/2021	14.6%	1.0%	27.2%	8.9%	14.1	11.8	10.9	1.0	1.0	8.5%	4.2%	12.72	OP
YTL POWER INTERNATIONAL BHD	0.750	6,076.6	N	06/2021	5.9%	-5.4%	105.3%	-1.6%	25.8	12.6	12.8	0.4	0.4	3.6%	6.7%	0.720	MP
Simple Average					13.3%	1.6%	30.4%	4.7%	17.2	13.7	13.1	1.6	1.5	10.9%	4.6%		

Source: Bloomberg, Kenanga Research

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01 March 2021

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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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