

# Tenaga Nasional Bhd

## 3QFY21 - No Surprises

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**9MFY21 results are on track with expectations with core profit of RM3.89b, partly attributed to higher monsoon-driven hydro revenue in 1HFY21. Meanwhile, with COVID-19 now an endemic, we believe the hit last year is unlikely to repeat this year and also next year. As such, we are still optimistic on its earnings resiliency while the heavy discount on ESG concerns could be overdone. OP maintained at RM11.41 with a decent >4% dividend yield.**

**3QFY21 in line.** At 80%/82% of house/street's FY21 estimates, 9MFY21 core profit leapt 38% to RM3.89b, which we deem as inline given that the higher revenue generated from hydropower plant due to the monsoon season in 1HFY21 is unlikely to sustain owing to an energy payment cap quota annually for hydropower plant. No dividend was declared during the quarter as expected as it usually pays half-yearly dividend.

**A weaker sequential result partly on lower electricity sales...** 3QFY21 core profit fell 20% QoQ to RM1.08b, despite revenue rising 4%, partly due to the MCO 3.0 which led a 4.4% decline in electricity sales coupled with a higher sales discount of RM394.6m from RM45.1m previously. However, the higher group revenue was largely due to a big 318% jump in ICPT over-recovery of RM1.31b from RM0.31b as fuel cost rocketed. 3QFY21 total fuel costs surged 23% to RM5.45b from RM4.42b as average coal cost jumped 35% to USD124.1/MT from USD92.0/MT while average gas reference market price grew 13% to RM21.4m/mmbtu from RM18.9/mmbtu previously.

**... but still a solid quarter YoY.** YoY, 3QFY21 core profit rose 9% from RM986.8m last year, on the back of 17% expansion in revenue, owing to: (i) 37% decline sales discount and (ii) ICPT over-recovery of RM1.31b vs. ICPT under-recovery of RM0.96b on a surge in fuel costs. However, electricity revenue in Peninsular fell 8% as demand contracted 6.7%. YTD, 9MFY21 core profit leapt 38% to RM3.89b from RM2.82b while revenue rose 10% for the same reason above as the COVID-19-led sales discount fell sharply by 81% to RM0.46b from RM2.38b for the same period last year. In general, total fuel costs rose 11% which was mainly led by 59% jump in average coal prices.

**On track to meet FY21 forecast and a better FY22.** We expect a comparable sequential result in 4QFY21 as the higher hydro revenue in 1HFY21 is not sustainable. On the other hand, with COVID-19 now treated as endemic, new drastic lockdowns are unlikely; thus, we do not expect further COVID-19 impact in FY22. As such, we remain optimistic on its earnings prospects post-COVID pandemic as its earnings resiliency remains solid. Post 3QFY21 results, we keep our FY21 forecast unchanged but cut FY22 estimates slightly by 3% to reflect the one-off prosperity tax.

**Attractive valuation; OP maintained.** Share price is still lacklustre given the ESG concerns but heavy selling is somewhat abating. It has RE expansion plan and is committed to be coal-free by 2050 to address the ESG issue. Thus, its forward FY22E PER of 10x seems fairly attractive which values the stocks at 1.5SD below its 3-year mean. As such, we continue to rate the stock an OUTPERFORM with revised TP of RM11.41 from RM11.80, which embedded a RM2.05 ESG discount from its mean valuation of RM13.46. It is also supported by a decent dividend yield of >4% with potential special dividend. **Downside risk to our recommendation** is weaker-than-expected earnings from non-regulated businesses.

## OUTPERFORM ↔

Price: **RM10.30**  
Target Price: **RM11.41** ↓

### Share Price Performance



KLCI	1,517.60
YTD KLCI chg	-6.7%
YTD stock price chg	-6.5%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TNB MK
Market Cap (RM m)	53,710.7
Shares Outstanding	5,726.1
52-week range (H)	10.71
52-week range (L)	9.29
3-mth avg daily vol:	4,188,340
Free Float	31%
Beta	0.8

### Major Shareholders

Khazanah Nasional Bhd	25.6%
Employees Provident Fund	16.6%
Amanah Saham Nasional	15.1%

### Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Turnover	43,976	50,389	50,886
EBIT	7,359	9,861	10,305
PBT	4,235	6,404	6,970
<b>Net Profit (NP)</b>	<b>3,593</b>	<b>4,840</b>	<b>5,120</b>
<b>Core Net Profit</b>	<b>3,804</b>	<b>4,840</b>	<b>5,120</b>
Consensus (NP)		4,703	4,866
Earnings Rev. (%)		-	-2.9
Core EPS (sen)	66.7	84.8	89.8
EPS growth (%)	-26.8	27.2	5.8
NDPS (sen)	80.0	42.4	44.9
BV/Share (RM)	9.79	10.21	10.66
NTA/Share (RM)	9.71	10.13	10.58
Core PER (x)	15.8	11.1	10.5
PBV (x)	0.96	0.92	0.88
Price/NTA (x)	0.97	0.93	0.89
Net Gearing (x)	0.65	0.60	0.53
Dividend Yield (%)	7.6	4.5	4.8

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Income Statement

	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
Y/E Dec (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Turnover	12,975.4	12,441.0	4%	11,106.4	17%	36,894.4	33,651.7	10%
EBITDA	4,461.8	4,735.5	-6%	4,473.9	0%	14,172.1	13,765.2	3%
Depreciation	-2,623.5	-2,612.2	0%	-2,616.1	0%	-7,882.7	-7,861.4	0%
EBIT	1,838.3	2,123.3	-13%	1,857.8	-1%	6,289.4	5,903.8	7%
Interest income	47.7	64.0	-25%	76.4	-38%	159.7	269.5	-41%
Interest expense	-921.1	-978.6	-6%	-917.0	0%	-2,831.6	-2,733.5	4%
Forex translation gain	45.7	-59.9	-176%	158.2	-71%	-71.0	-174.3	-59%
Forex transaction gain	-12.6	26.4	-148%	-8.6	47%	-27.9	-19.5	43%
Associates	50.0	48.4	3%	6.8	635%	121.0	37.8	220%
Exceptional items	59.7	-21.5	-378%	109.1	-45%	147.5	60.0	146%
Pretax profit	1,107.7	1,202.1	-8%	1,282.7	-14%	3,787.1	3,343.8	13%
Taxation	-59.0	-352.1	-83%	-280.8	-79%	-914.9	-929.2	-2%
Minority interest	-44.9	-28.5	58%	7.7	-683%	-88.2	-33.8	161%
Net profit	1,003.8	821.5	22%	1,009.6	-1%	2,784.0	2,380.8	17%
Core net profit	1,075.0	1,343.2	-20%	986.8	9%	3,892.0	2,828.2	38%
EPS (sen)	17.8	14.6	22%	17.9	-1%	49.3	42.2	17%
Core EPS (sen)	19.0	23.8	-20%	17.5	9%	69.0	50.1	38%
NDPS (sen)	0.0	22.0	-100%	0.0	0%	22.0	22.0	0%
NTA/share (RM)	9.60	9.65	0%	9.02	6%	9.60	9.02	6%
EBITDA margin	34%	38%		40%		38%	41%	
EBIT margin	14%	17%		17%		17%	18%	
Pretax margin	9%	10%		12%		10%	10%	
Effective tax rate	6%	27%		28%		25%	27%	

Source: Company

Breakdown of Electricity Sales & ICPT

	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
Y/E Dec (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Peninsular Malaysia	10,365.8	11,795.5	-12%	11,311.3	-8%	33,100.4	33,025.1	0%
Sales Discount	-394.6	-45.1	775%	-623.2	-37%	-460.6	-2,376.8	-81%
Accrued Revenue	342.6	-536.3	-164%	171.6	100%	-50.0	-44.3	13%
EGAT	0.1	0.2	-50%	0.1	0%	0.3	0.8	-63%
SESB	460.8	483.0	-5%	467.0	-1%	1,375.5	1,383.0	-1%
UK WIND	16.1	20.7	-22%	23.8	-32%	70.1	88.3	-21%
Vortex	96.4	101.8	-5%	17.8	442%	231.3	17.8	1199%
LPL	136.9	99.4	38%	142.1	-4%	290.0	304.6	-5%
	<b>11,024.1</b>	<b>11,919.2</b>	<b>-8%</b>	<b>11,510.5</b>	<b>-4%</b>	<b>34,557.0</b>	<b>32,398.5</b>	<b>7%</b>
ICPT	1,313.5	314.6	318%	-956.8	-237%	1,290.8	-1,479.2	-187%

Source: Company

Generation Mix (Peninsula)

	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
Y/E Dec (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
<b>Fuel Costs</b>								
Gas	1,513.1	1,476.6	2%	1,592.4	-5%	3,995.0	5,112.9	-22%
Coal	3,922.4	2,938.6	33%	2,209.1	78%	9,485.8	7,028.0	35%
Dist	11.7	8.7	34%	14.0	-16%	58.2	30.0	94%
Oil	0.6	0.3	100%	1.0	-40%	1.3	5.2	-75%
	<b>5,447.8</b>	<b>4,424.2</b>	<b>23%</b>	<b>3,816.5</b>	<b>43%</b>	<b>13,540.3</b>	<b>12,176.1</b>	<b>11%</b>
<b>Unit Generated (Gwh)</b>								
Gas & LNG	10,099.7	11,803.5	-14%	8,839.9	14%	31,320.8	27,219.0	15%
Coal	18,612.7	17,701.3	5%	21,169.4	-12%	55,413.6	60,896.2	-9%
Dist	0.0	0.0	0%	0.0	0%	47.0	0.0	N/A
Oil	31.0	0.0	N/A	0.0	N/A	31.0	12.9	N/A
Hydro	1,538.6	1,564.5	-2%	1,417.0	9%	5,132.3	3,133.2	64%
Solar	284.7	284.0	0%	203.5	40%	854.4	648.2	32%
	<b>30,566.7</b>	<b>31,353.3</b>	<b>-3%</b>	<b>31,629.8</b>	<b>-3%</b>	<b>92,799.1</b>	<b>91,909.5</b>	<b>1%</b>

Source: Company

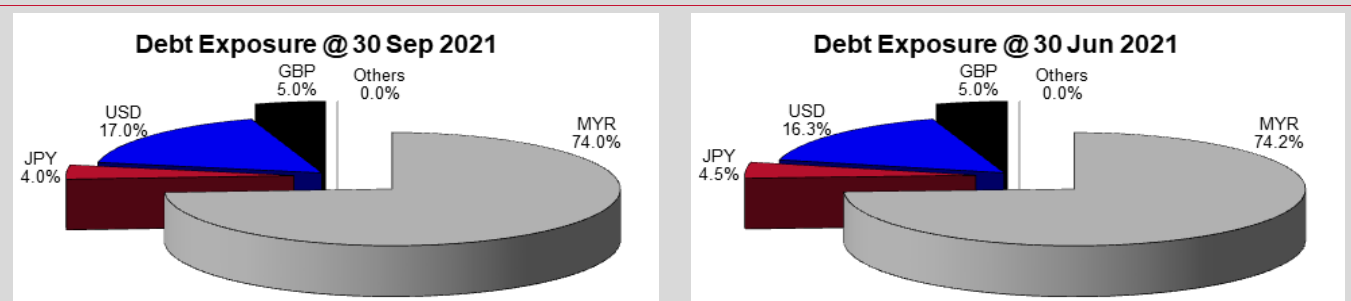
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Breakdown of Operating Expenses

	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
Y/E Dec (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Total IPP Costs	2,018.9	1,945.5	4%	2,038.9	-1%	5,620.4	6,393.5	-12%
TNB Fuel Costs	4,088.4	3,088.0	32%	2,365.6	73%	9,720.3	7,445.7	31%
Repair & Maintenance	471.8	480.1	-2%	497.3	-5%	1,410.0	1,452.3	-3%
Staff	902.4	993.3	-9%	1,056.3	-15%	2,851.1	2,915.2	-2%
Depreciation	2,623.5	2,612.2	0%	2,616.1	0%	7,882.7	7,861.4	0%
General Expenses	328.2	408.2	-20%	539.8	-39%	1,096.1	1,320.9	-17%
Others	388.4	530.5	-27%	441.2	-12%	1,445.3	849.4	70%
<b>Total Operating Expenses</b>	<b>10,821.6</b>	<b>10,057.8</b>	<b>8%</b>	<b>9,555.2</b>	<b>13%</b>	<b>30,025.9</b>	<b>28,238.4</b>	<b>6%</b>
<b>Ave. Coal Price (USD/MT)</b>	124.1	92.0	35%	54.6	127%	97.8	61.6	59%
<b>Ave. Coal Price (RM/MT)</b>	520.5	379.8	37%	229.8	127%	403.5	261.6	54%
<b>Gas Ref Mkt Price(RM/mmbtu)</b>	21.4	18.9	13%	25.1	-15%	18.6	26.1	-29%
<b>Ave. Gas/LNG Vol (mmscfd)</b>	731.0	817.0	-11%	680.0	8%	778.0	698.0	11%

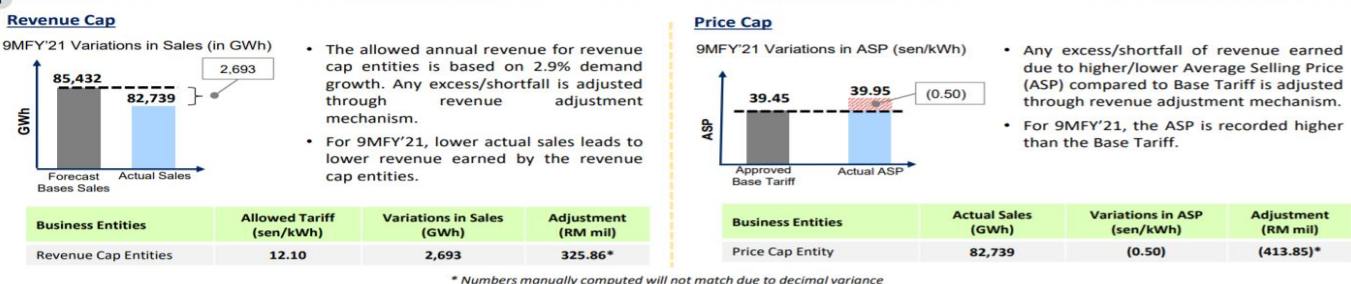
Source: Company

Debt Exposure and Forex



Source: Company

Regulatory Adjustment



Source: Company

Valuation

	RM m	Remarks
Net book value of generators	48,829	FY20A PPE
Value attributed to coal	23,438	Based on 48% coal generation mix 50% discount to book value
Value penalised for CO2 emission	11,719	
Issued share (m)	5,704.7	
Penalised value per share	2.05	
Mean valuation	13.46	3-year mean PER of 15.0x
ESG discount	-2.05	
Target price	RM11.41	

Source: Company/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	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	2.65	3,402.6	Y	12/2021	-11.9%	8.6%	7.8%	-7.7%	15.2	14.1	15.3	3.2	3.1	22.0%	6.4%	3.00	OP
MALAKOFF CORP BHD	0.755	3,689.7	Y	12/2021	-8.0%	0.4%	24.9%	3.3%	14.9	11.9	11.5	0.7	0.7	5.9%	6.8%	1.06	OP
PESTECH INTERNATIONAL BHD	1.06	806.8	Y	06/2022	12.4%	5.0%	4.7%	14.9%	11.2	10.7	9.3	1.4	1.2	12.2%	0.0%	1.39	OP
PETRONAS GAS BHD	16.30	32,253.3	Y	12/2021	0.7%	1.4%	3.5%	-5.8%	16.1	15.6	16.5	2.6	2.5	16.2%	5.5%	17.02	MP
TENAGA NASIONAL BHD	9.38	53,710.7	Y	12/2021	14.6%	1.0%	27.2%	5.8%	14.1	11.1	10.5	1.0	0.9	8.5%	4.5%	11.41	OP
YTL POWER INTERNATIONAL BHD	0.645	5,225.9	N	06/2022	-4.8%	1.6%	-15.7%	21.2%	11.4	13.5	11.1	0.4	0.4	3.0%	7.8%	0.890	OP
<b>Simple Average</b>					<b>0.5%</b>	<b>3.0%</b>	<b>8.7%</b>	<b>5.3%</b>	<b>13.8</b>	<b>12.8</b>	<b>12.4</b>	<b>1.5</b>	<b>1.5</b>	<b>11.3%</b>	<b>5.1%</b>		

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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