

25 October 2022

Tenaga Nasional Bhd

Green Journey Continues

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Last week, TENAGA announced two power plant projects, a repowering of its Sg Perak hydro power plant and a greenfield 2,100MW combined cycle gas-fired power plant in Kapar, to accelerate its Energy Transition agenda in achieving its net zero 2050 emission aspiration. While it is earning-neutral to the group, it demonstrates the commitment of TENAGA towards ESG-compliance. Maintain **OUTPERFORM** and TP of RM10.17, having reflected a 5% discount on a 2-star ESG rating as appraised by us.

TENAGA announced two power plant projects last week, i.e.,

- On Thursday, it released the New Clean Energy Program: Hydro Life Extension Program for Sg Perak Hydroelectric Power Plants Scheme. This project, with total capex of RM5.8b, is to uprate and upgrade the Sg Perak Hydroelectric Scheme which consists of five Stesen Janaelektrik (SJ) with a total of 18 generating units with the latest technology. The project, with installed capacity of 650.75MW, will commence in 3QFY24 with COD for first unit in 3QFY25 under a new 40-year PPA.
- On Friday, TNB GenCo received a Letter of Intent from the Ministry of Energy and Natural Resources for the development of a 2,100 MW combined cycle gas-fired power plant in Kapar with hydrogen-fired combustion capability and the expected COD is in 2031. This is a greenfield project with capex of RM9.5b that will be constructed on TNB GenCo-owned land, located to the north of the existing 2,420MW Kapar Energy Venture's (KEV) Power Plant. TENAGA owns 60% equity stake in KEV.

Replacement of existing generating assets. These two assets are expected to replace two other existing assets, i.e., the existing PPA of Sg Perak Hydroelectric Power Plants with capacity of 649.10MW which has been extended for five years till Aug 2027 while PPA for KEV Coal U3-U6 (1,474MW) will be expiring in 2029. Although impact to earnings is immaterial, this is a good move especially for the new Kapar plant as KEV is a problematic plant as its triple fuel (coal, gas and oil) firing capability is rife with technical issue. This new asset will eliminate the unwanted coal fuel component and at the same time with potential of turning it into a green tech asset. This would help to improve TENAGA's ESG rating further in the future.

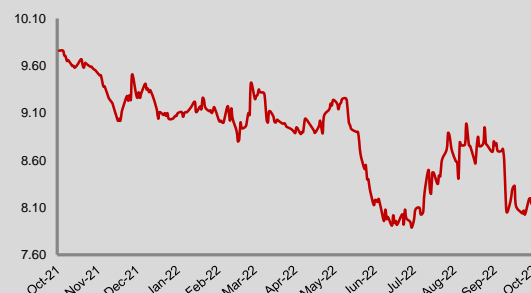
OUTPERFORM maintained. We are positive with its RE expansion plan and commitment to be coal-free by 2050 and address lingering ESG concerns which have been clouding its share price for the past 2-3 years. On the other hand, we are also optimistic on its earnings resiliency as the ballooning under-recovery of fuel costs will eventually be recovered under the IRB framework with a 6-month lag. Nonetheless, we keep our 2-star ESG rating unchanged as new the Kapar plant does not change TENAGA's power plant portfolio much, with effective coal asset reduced by 11.5% or 884MW only from 7,678MW currently. As such, our TP is maintained at RM10.17 which is based on a 5% discount (due to 2-star ESG rating) to our DCF-derived valuation of RM10.70. **OUTPERFORM** maintained.

Risks to our recommendation: (i) ballooning under-recovery of fuel costs, straining its cash flow, (ii) a global recession hurting demand for electricity, and (iii) non-compliance of ESG standards set by various stakeholders.

OUTPERFORM ↔

Price : **RM8.33**
Target Price : **RM10.17** ↔

Share Price Performance



| | |
|---------------------|----------|
| KLCI | 1,446.42 |
| YTD KLCI chg | -7.7% |
| YTD stock price chg | -10.8% |

Stock Information

| | |
|----------------------|-----------|
| Shariah Compliant | Yes |
| Bloomberg Ticker | TNB MK |
| Market Cap (RM m) | 47,923.1 |
| Shares outstanding | 5,753.1 |
| 52-week range (H) | 9.86 |
| 52-week range (L) | 7.89 |
| 3-mth avg daily vol: | 2,537,600 |
| Free Float | 32% |
| Beta | 0.9 |

Major Shareholders

| | |
|-----------------------|-------|
| Khazanah Nasional Bhd | 25.5% |
| Employees Provident | 15.7% |
| Amanah Saham Nasional | 15.1% |

Summary Earnings Table

| FY Jun (RM m) | 2021 | 2022F | 2023F |
|------------------------|--------------|--------------|--------------|
| Turnover | 52,630 | 70,886 | 66,792 |
| EBIT | 7,862 | 9,988 | 9,848 |
| PBT | 4,609 | 6,502 | 6,929 |
| Net Profit (NP) | 3,662 | 4,350 | 5,240 |
| Core Net Profit | 4,808 | 4,350 | 5,240 |
| Consensus (NP) | | 4,425 | 4,849 |
| Earnings Revision (%) | | - | - |
| Core EPS (sen) | 84.0 | 76.0 | 91.5 |
| Core EPS growth (%) | 26.4 | -9.5 | 20.4 |
| NDPS (sen) | 40.0 | 38.0 | 45.8 |
| BV/Share (RM) | 9.89 | 10.27 | 10.72 |
| NTA/Share (RM) | 9.81 | 10.19 | 10.64 |
| Core PER (x) | 11.1 | 11.0 | 9.1 |
| Price/BV (x) | 0.84 | 0.81 | 0.78 |
| Price/NTA (x) | 0.85 | 0.82 | 0.78 |
| Net Gearing (x) | 0.75 | 0.69 | 0.57 |
| Net Yields (%) | 4.3 | 4.6 | 5.5 |

Repower Sg Perak Hydroelectric Power Plant

Overview of the Project

- The project is to upgrade and upgrade the Sungai Perak Hydroelectric Scheme consists of Stesen Janaelektrik (SJ) Temengor, SJ Bersia, SJ Kenening, SJ Chenderoh and SJ Sungai Piah with a total number of eighteen (18) generating units with the latest technology.
- The project will commence in Q3 of year 2024. The first unit will be in commercial operation in 2025 under a new 40-year Power Purchase Agreement ("PPA").
- The existing PPA of Sungai Perak Hydroelectric Power Plants with capacity of 646.10MW has been extended for five years starting from 1 Sep 2022 until 24 Aug 2027 as the interim tariff.

Key functions and benefits

| | | |
|---|---|---|
| <p>Continue to serve and increase local employment and business opportunities</p> <p>SDG 1 NO POVERTY</p> | <p>Clean water supply and irrigation</p> <p>SDG 6 CLEAN WATER AND SANITATION</p> | <p>Contributes towards the increase of renewable energy capacity by 8,300/39,2025</p> <p>SDG 7 AFFORDABLE AND CLEAN ENERGY</p> |
| <p>Uplift socio-economic and living standard</p> <p>SDG 8 DECENT WORK AND ECONOMIC GROWTH</p> | <p>Flood control / mitigation capabilities with ability to forecast inflows and plan water discharge</p> <p>SDG 13 CLIMATE ACTION</p> | <p>Temengor reservoir is part of the gazetted Royal Decree Prohibitions for forest and fauna conservation</p> <p>SDG 15 LIFE ON LAND CLIMATE ACTION</p> |

Source: Company

Highlights of the Project

Projections

650.75 MW
COD 1st Unit: Q3 2025

Emission Avoidance
0.5 million tCO₂-e/ year
(Equivalent to CO₂ emission of ~100,000 cars per year)

Project Cost
RM 5.8 billion

Average EBIT
RM ~200 million/year

CO₂: Commercial operation date

Proposed New Combined Cycle Power Plant in Kapar

Overview of the Project

- TNB Power Generation Sdn Bhd (TNB Genco), has received a **Letter of Intent (LoI)** from the Ministry of Energy and Natural Resources for the development of a 2,100 megawatts (MW) combined cycle gas-fired power plant with hydrogen-fired combustion capability.



- This is a **greenfield project** that will be constructed on TNB Genco-owned land, located to the north of the existing Sultan Salahuddin Abdul Aziz Power Station.

- The development of this gas-fired power project will be carried out by TNB Genco in collaboration with Widad Business Group Sdn Bhd.

- This project **marked our second combined cycle gas-fired power plant** with potential hydrogen-fired combustion capability that TNB has secured this year. This is part of our ongoing drive to demonstrate our commitment in accelerating Energy Transition in achieving our Net Zero 2050 aspiration.

Source: Company

Highlights of the Project (Projections)

2,100 MW
Expected COD: 2031

Emission Avoidance
4.7 million tCO₂-e/ year
(Equivalent to CO₂ emission of ~1,000,000 cars per year)

Project Cost
RM 9.5 billion

Average EBIT
RM ~400 million/year

CO₂: Commercial operation date

Valuation

| (RM m) | RM m | RM/Share | % | Remarks |
|-------------------------|-----------------|--------------|---------------|-----------------|
| PV of FCF for FY22-FY31 | 45,193.2 | 7.89 | 73.8% | 7.1% WACC |
| PV of FCF in Perpetuity | 51,315.2 | 8.96 | 83.7% | 7.1% WACC, g=2% |
| Net Cash/(Debt) | -35,235.2 | -6.15 | -57.5% | estimated FY22 |
| | 61,273.3 | 10.70 | 100.0% | |
| Issued share (m) | 5,726.1 | | | |
| DCF per share | RM10.70 | | | |

Source: Kenanga Research

25 October 2022

| Income Statement | | | | | | Financial Data & Ratios | | | | | |
|-------------------|--------|--------|--------|--------|--------|--------------------------|--------|--------|--------|--------|--------|
| FY Dec (RM m) | 2019 | 2020 | 2021 | 2022F | 2023F | FY Dec | 2019 | 2020 | 2021 | 2022F | 2023F |
| Revenue | 50940 | 43976 | 52630 | 70886 | 66792 | Growth (%) | | | | | |
| EBITDA | 19410 | 17981 | 18554 | 21363 | 21811 | Revenue | 1.1 | -13.7 | 19.7 | 34.7 | -5.8 |
| Depreciation | -10319 | -10622 | -10692 | -11375 | -11963 | EBITDA | 31.5 | -7.4 | 3.2 | 15.1 | 2.1 |
| EBIT | 9091 | 7359 | 7862 | 9988 | 9848 | Operating Income | 9.9 | -19.1 | 6.8 | 27.0 | -1.4 |
| Interest Income | 525 | 318 | 222 | 212 | 419 | Pre-tax Income | 8.6 | -22.7 | 8.8 | 41.1 | 6.6 |
| Interest Expense | -3383 | -3669 | -3793 | -3848 | -3537 | Net Income | 21.6 | -20.7 | 1.9 | 18.8 | 20.4 |
| Associate | 53 | 77 | 194 | 150 | 200 | Core Net Income | -5.0 | -26.8 | 26.4 | -9.5 | 20.4 |
| Exceptional | -922 | 125 | 202 | 0 | 0 | Profitability (%) | | | | | |
| PBT | 5478 | 4235 | 4609 | 6502 | 6929 | EBITDA Margin | 38.1 | 40.9 | 35.3 | 30.1 | 32.7 |
| Taxation | -1033 | -619 | -744 | -2125 | -1663 | Operating Margin | 17.8 | 16.7 | 14.9 | 14.1 | 14.7 |
| Minority Interest | 84 | -24 | -203 | -26 | -27 | PBT Margin | 10.8 | 9.6 | 8.8 | 9.2 | 10.4 |
| Net Profit | 4529 | 3593 | 3662 | 4350 | 5240 | Net Margin | 8.9 | 8.2 | 7.0 | 6.1 | 7.8 |
| Core Net Profit | 5194 | 3804 | 4808 | 4350 | 5240 | Core Net Margin | 10.2 | 8.7 | 9.1 | 6.1 | 7.8 |
| | | | | | | Effective Tax Rate | 29.3 | 16.8 | 19.6 | 36.4 | 32.7 |
| | | | | | | ROE | 9.0 | 6.7 | 8.6 | 7.5 | 8.7 |
| | | | | | | ROA | 5.2 | 4.1 | 4.7 | 4.5 | 4.7 |
| | | | | | | DuPont Analysis | | | | | |
| | | | | | | Net margin (%) | 8.9 | 8.2 | 7.0 | 6.1 | 7.8 |
| | | | | | | Assets Turnover (x) | 0.3 | 0.2 | 0.3 | 0.4 | 0.4 |
| | | | | | | Leverage Factor (x) | 3.1 | 3.2 | 3.2 | 3.1 | 3.1 |
| | | | | | | ROE (%) | 7.8 | 6.4 | 6.5 | 7.4 | 8.5 |
| | | | | | | Leverage | | | | | |
| | | | | | | Debt/Asset (x) | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| | | | | | | Debt/Equity (x) | 0.8 | 0.9 | 0.9 | 0.8 | 0.8 |
| | | | | | | Net Debt/(Cash) | -31160 | -36037 | -42559 | -40581 | -35235 |
| | | | | | | Net Debt/Equity (x) | 0.54 | 0.65 | 0.75 | 0.69 | 0.57 |
| | | | | | | Valuations | | | | | |
| | | | | | | Core EPS (sen) | 90.7 | 66.4 | 84.0 | 76.0 | 91.5 |
| | | | | | | NDPS (sen) | 100.0 | 80.0 | 40.0 | 38.0 | 45.8 |
| | | | | | | BV/share (RM) | 10.1 | 9.8 | 9.9 | 10.3 | 10.7 |
| | | | | | | NTA/share (RM) | 10.1 | 9.7 | 9.8 | 10.2 | 10.6 |
| | | | | | | Core PER (x) | 14.6 | 15.8 | 11.1 | 11.0 | 9.1 |
| | | | | | | Net Div. Yield (%) | 7.5 | 7.6 | 4.3 | 4.6 | 5.5 |
| | | | | | | PBV (x) | 0.90 | 0.82 | 0.85 | 0.84 | 0.81 |
| | | | | | | P/NTA (x) | 0.83 | 0.86 | 0.85 | 0.82 | 0.78 |
| | | | | | | EV/EBITDA (x) | 4.1 | 4.7 | 4.9 | 4.1 | 3.8 |

Source: Kenanga Research

Peer Table Comparison

| Name | Rating | Last Price (RM) | Target Price (RM) | Upside (%) | Market Cap (RM'm) | Shariah Compliant | Current FYE | Core EPS (sen) | | Core EPS Growth | | PER (x) - Core Earnings | | PBV (x) | ROE (%) | Net Div. (sen) | Net Div Yld (%) |
|------------------------------|--------|-----------------|-------------------|------------|-------------------|-------------------|-------------|----------------|-------------|-----------------|--------------|-------------------------|-------------|------------|--------------|----------------|-----------------|
| | | | | | | | | 1-Yr. Fwd. | 2-Yr. Fwd. | 1-Yr. Fwd. | 2-Yr. Fwd. | 1-Yr. Fwd. | 2-Yr. Fwd. | 1-Yr. Fwd. | 1-Yr. Fwd. | 1-Yr. Fwd. | 1-Yr. Fwd. |
| Stocks Under Coverage | | | | | | | | | | | | | | | | | |
| GAS MALAYSIA BHD | MP | 3.33 | 3.43 | 3.00% | 4,275.7 | Y | 12/2022 | 27.3 | 25.4 | 39.4% | -7.0% | 12.2 | 13.1 | 3.7 | 30.6% | 24.6 | 7.4% |
| MALAKOFF CORP BHD | OP | 0.620 | 0.900 | 45.16% | 3,029.9 | Y | 12/2022 | 5.6 | 6.3 | -12.6% | 11.8% | 11.0 | 9.9 | 0.6 | 5.2% | 4.5 | 7.3% |
| PESTECH INTERNATIONAL BHD | MP | 0.315 | 0.350 | 11.11% | 310.1 | Y | 06/2023 | 3.5 | 4.7 | 368.1% | 32.0% | 8.9 | 6.8 | 0.5 | 5.2% | 0.0 | 0.0% |
| PETRONAS GAS BHD | MP | 17.20 | 17.00 | -1.16% | 34,034.2 | Y | 12/2022 | 90.1 | 95.4 | -11.9% | 5.8% | 19.1 | 18.0 | 2.4 | 13.1% | 76.6 | 4.5% |
| SAMAIDEN GROUP BHD | OP | 0.740 | 0.860 | 16.22% | 284.9 | Y | 06/2023 | 4.7 | 5.5 | 16.9% | 15.9% | 15.7 | 13.6 | 2.3 | 15.5% | 0.0 | 0.0% |
| TENAGA NASIONAL BHD | OP | 8.33 | 10.17 | 22.09% | 47,923.1 | Y | 12/2022 | 76.0 | 91.5 | -9.5% | 20.5% | 11.0 | 9.1 | 0.8 | 7.5% | 38.0 | 4.6% |
| YTL POWER INTERNATIONAL BHD | OP | 0.670 | 0.970 | 44.78% | 5,428.4 | N | 06/2023 | 4.5 | 4.8 | 41.3% | 7.9% | 15.0 | 13.9 | 0.4 | 2.8% | 5.0 | 7.5% |
| Simple Average | | | | | | | | 30.2 | 33.4 | 61.7% | 12.4% | 13.3 | 12.0 | 1.5 | 11.4% | | 4.4% |

Source: Kenanga Research

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Stock ESG Ratings:

| | Criterion | Rating | | | | |
|-----------------|-----------------------------------|--------|---|---|---|--|
| GENERAL | Earnings Sustainability & Quality | ★ | ★ | | | |
| | Corporate Social Responsibility | ★ | ★ | ★ | | |
| | Management/Workforce Diversity | ★ | ★ | ★ | | |
| | Accessibility & Transparency | ★ | ★ | ★ | ★ | |
| | Corruption-Free Pledge | ★ | ★ | ★ | | |
| | Carbon-Neutral Initiatives | ★ | | | | |
| SPECIFIC | Renewable Energy Source | ★ | | | | |
| | Resource Efficiency | ★ | ★ | | | |
| | Digital Transformation | ★ | ★ | ☆ | | |
| | Waste Disposal/Pollution Control | ★ | ★ | ★ | | |
| | Safety, Health & Wellbeing | ★ | ★ | ★ | | |
| OVERALL | | ★ | ★ | | | |

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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