

30 May 2023

Tenaga Nasional

ICPT Recovery Gaining Momentum

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TENAGA's 1QFY23 results met expectations. It guided for a 26% QoQ decline in Imbalance Cost Pass-Through (ICPT) receivables to RM10.2b in 2QFY23 which will eventually be recovered under the Incentive Based Regulation (IBR) framework, with an estimated RM9b in 2HFY23. We keep our forecasts, TP of RM10.64 and OUTPERFORM call.

1QFY23 core profit of RM1.02b met expectations, making up 21% each of both our full-year forecast and the full-year consensus estimate. No dividend was declared as expected as it pays half-yearly dividend.

YoY. 1QFY23 revenue rose 4% on higher units sold and sales of electricity mainly from commercial sector (+6%). Its core profit jumped 13% mainly attributable to higher revenue coupled with lower taxation by 74% or RM489m which was due to: (i) higher reinvestment allowance, and (ii) the one-off Prosperity Tax impact in 1QFY22. Meanwhile, total fuel costs grew 8% as average coal cost jumped 12% to RM779.5/MT while average gas reference market price for Tier 2 surged 68% to RM62.1/mmbtu. As such, its generation cost per unit increased to 27.2 sen/kWh from 24.8 sen/kWh last year.

QoQ. 1QFY23 top line dipped by 2% due to lower units sold and sales of electricity from industrial (-3%) and commercial sectors (-1%). However, core profit more than doubled as total fuel costs contracted 21% led mainly by the fall in coal costs by 24% but gas price leapt 21%. With the lower fuel costs, its generation cost per unit fell to 27.2 sen/kWh from 33.9 sen/kWh in 4QFY22.

Forecasts. Maintained.

We expect its earnings to improve further in the coming quarters on the back of tapering fuel costs which would contribute to a lower actual fuel costs incurred vs. fuel cost entitled under the ICPT mechanism due to timing difference.

TENAGA guided for a lower ICPT receivable of RM10.2b by 2QFY23 from RM13.8b in 1QFY23 and a peak at RM16.9b in 4QFY22. As such, TENAGA forecasted RM9.0b ICPT cost recovery to be recovered in 2HFY23. So far, TENAGA has received RM5.3b ICPT cost recovery claims out of RM10.4b cost recovery for the period of 1HFY23 from the government. The balance will be fully recovered by Jun 2023. This shows the government's commitment to the IBR framework.

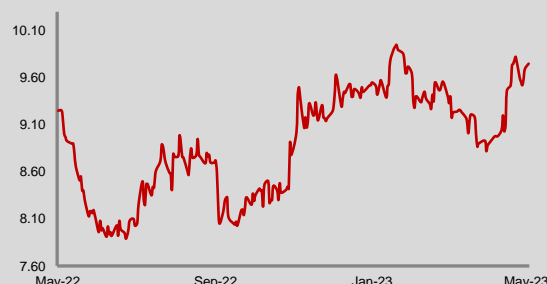
We continue to like TENAGA for: (i) its dominant position in power generation, transmission and distribution in Malaysia, (ii) its defensive earnings backed a resilient domestic economy and assets that are largely regulated, and (iii) its heavyweight index-linked stock status. In addition, its dividend yield is decent at >4%. Maintain OP with unchanged DCF-derived TP of RM10.64 (WACC: 6.7%; TG: 2%), based on a 5% discount (due to its 2-star ESG rating) to our DCF-derived valuation of RM11.20.

Risks to our recommendation include: (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: RM9.75
Target Price: RM10.64 ↔

Share Price Performance



KLCI 1,404.93
YTD KLCI chg -6.1%
YTD stock price chg 1.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TNB MK Equity
Market Cap (RM m)	56,092.5
Shares Outstanding	5,753.1
52-week range (H)	10.00
52-week range (L)	7.89
3-mth avg daily vol:	3,836,570
Free Float	31%
Beta	0.8

Major Shareholders

Khazanah Nasional Bhd	24.5%
Employees Provident Fund	16.2%
Amanah Saham Nasional	15.6%

Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Turnover	50,868	66,792	67,714
EBIT	9,410	9,745	9,897
PBT	5,349	6,303	6,392
Net Profit (NP)	3,463	4,763	4,831
Core Net Profit	3,840	4,763	4,831
Consensus (NP)	-	4,764	4,857
Earnings Rev. (%)	-	-	-
Core EPS (sen)	67.1	83.2	84.4
EPS growth (%)	-20.1	24.1	1.4
NDPS (sen)	46.0	41.6	42.2
BV/Share (RM)	10.22	10.59	11.01
NTA/Share (RM)	10.12	10.51	10.93
Core PER (x)	14.4	11.7	11.6
PBV (x)	0.95	0.92	0.89
Price/NTA (x)	0.96	0.93	0.89
Net Gearing (x)	0.87	0.66	0.58
Dividend Yield (%)	4.8	4.3	4.3



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Income Statement

	1Q	4Q	Q-o-Q	1Q	Y-o-Y	3M	3M	Y-o-Y
FYE Dec (RM m)	FY23	FY22	Chg	FY22	Chg	FY23	FY22	Chg
Turnover	12,625.6	12,915.1	-2%	12,153.1	4%	12,625.6	12,153.1	4%
EBITDA	4,883.7	4,497.8	9%	5,137.8	-5%	4,883.7	5,137.8	-5%
Depreciation	-2,801.6	-2,997.8	-7%	-2,768.2	1%	-2,801.6	-2,768.2	1%
EBIT	2,082.1	1,500.0	39%	2,369.6	-12%	2,082.1	2,369.6	-12%
Interest income	98.6	97.8	1%	46.2	113%	98.6	46.2	113%
Interest expense	-1,119.6	-1,142.6	-2%	-1,003.0	12%	-1,119.6	-1,003.0	12%
Forex translation gain	28.1	358.8	-92%	42.7	-34%	28.1	42.7	-34%
Forex transaction gain	-1.5	2.0	->100%	0.3	->100%	-1.5	0.3	->100%
Associates	23.0	-4.9	-569%	36.0	-36%	23.0	36.0	-36%
Exceptional items	-8.0	5.6	-243%	40.2	-120%	-8.0	40.2	-120%
Pretax profit	1,102.7	816.7	35%	1,532.0	-28%	1,102.7	1,532.0	-28%
Taxation	-171.8	-8.8	1852%	-660.8	-74%	-171.8	-660.8	-74%
Minority interest	71.4	1.2	5850%	21.9	226%	71.4	21.9	226%
Net profit	1,002.3	809.1	24%	893.1	12%	1,002.3	893.1	12%
Core net profit	1,021.4	472.2	116%	904.0	13%	1,021.4	904.0	13%
EPS (sen)	17.8	14.3	24%	15.8	12%	17.8	15.8	12%
Core EPS (sen)	18.1	8.4	116%	16.0	13%	18.1	16.0	13%
NDPS (sen)	0.0	26.0	N/A	0.0	0%	0.0	0.0	0%
NTA/share (RM)	10.00	10.12	-1%	9.81	2%	10.00	9.81	2%
EBITDA margin	39%	35%		42%		39%	42%	
EBIT margin	16%	12%		19%		16%	19%	
Pretax margin	9%	6%		13%		9%	13%	
Effective tax rate	16%	2%		46%		16%	46%	

Source: Company

Breakdown of Electricity Sales & ICPT

	1Q	4Q	Q-o-Q	1Q	Y-o-Y	3M	3M	Y-o-Y
FYE Dec (RM m)	FY23	FY22	Chg	FY22	Chg	FY23	FY22	Chg
Peninsular Malaysia	11,443.6	11,735.3	-2%	11,290.1	1%	11,443.6	11,290.1	1%
Sales Discount	0.0	0.0	0%	-2.2	N/A	0.0	-2.2	N/A
Accrued Revenue	197.8	-20.4	>100%	153.0	29%	197.8	153.0	29%
EGAT	0.1	0.2	-50%	0.3	-67%	0.1	0.3	-67%
SESB	478.8	492.3	-3%	468.3	2%	478.8	468.3	2%
UK WIND	35.5	34.4	3%	37.1	-4%	35.5	37.1	-4%
Vortex	34.8	26.0	34%	46.7	-25%	34.8	46.7	-25%
CEI UK Ltd	64.9	70.6	-8%	0.0	N/A	64.9	0.0	N/A
	12,255.5	12,338.4	-1%	11,993.3	2%	12,255.5	11,993.3	2%
ICPT	3,632.3	6,397.7	-43%	3,505.4	4%	3,632.3	3,505.4	4%

Source: Company

Generation Mix (Peninsula)

	1Q	4Q	Q-o-Q	1Q	Y-o-Y	3M	3M	Y-o-Y
FYE Dec (RM m)	FY23	FY22	Chg	FY22	Chg	FY23	FY22	Chg
Fuel Costs								
Gas	2,940.7	2,721.0	8%	2,601.4	13%	2,940.7	2,601.4	13%
Coal	5,589.3	8,099.8	-31%	5,038.4	11%	5,589.3	5,038.4	11%
Dist	37.0	60.1	-38%	209.7	-82%	37.0	209.7	-82%
Oil	1.6	34.3	-95%	66.4	-98%	1.6	66.4	-98%
	8,568.6	10,915.2	-21%	7,915.9	8%	8,568.6	7,915.9	8%
Unit Generated (Gwh)								
Gas & LNG	12,441.3	11,779.5	6%	12,452.1	0%	12,441.3	12,452.1	0%
Coal	16,914.5	17,690.5	-4%	17,232.1	-2%	16,914.5	17,232.1	-2%
Dist	31.8	200.6	-84%	339.2	-91%	31.8	339.2	-91%
Oil	0.0	0.1	N/A	0.0	0%	0.0	0.0	0%
Hydro	1,591.4	1,977.5	-20%	1,543.4	3%	1,591.4	1,543.4	3%
Solar	504.7	469.0	8%	302.0	67%	504.7	302.0	67%
	31,483.7	32,117.2	-2%	31,868.8	-1%	31,483.7	31,868.8	-1%

Source: Company

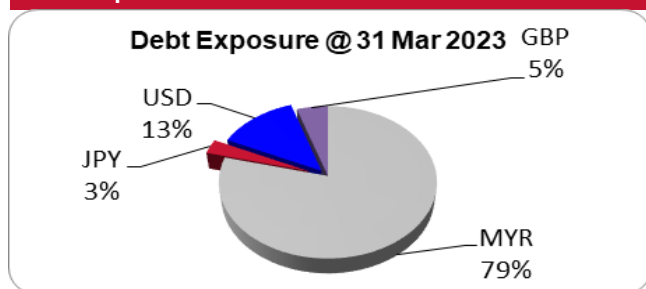
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Breakdown of Operating Expenses

	1Q	4Q	Q-o-Q	1Q	Y-o-Y	3M	3M	Y-o-Y
FYE Dec (RM m)	FY23	FY22	Chg	FY22	Chg	FY23	FY22	Chg
Total IPP Costs	3,708.3	5,097.7	-27%	3,440.6	8%	3,708.3	3,440.6	8%
TNB Fuel Costs	5,491.1	6,955.1	-21%	4,926.5	11%	5,491.1	4,926.5	11%
Repair & Maintenance	621.1	692.5	-10%	475.1	31%	621.1	475.1	31%
Staff	938.3	979.1	-4%	922.1	2%	938.3	922.1	2%
Depreciation	2,801.6	2,997.8	-7%	2,768.2	1%	2,801.6	2,768.2	1%
General Expenses	412.4	694.9	-41%	445.7	-7%	412.4	445.7	-7%
Others	470.3	685.8	-31%	453.6	4%	470.3	453.6	4%
Total Operating Expenses	14,443.1	18,102.9	-20%	13,431.8	8%	14,443.1	13,431.8	8%
Ave. Coal Price (USD/MT)	177.5	222.4	-20%	165.5	7%	177.5	165.5	7%
Ave. Coal Price (RM/MT)	779.4	1,028.1	-24%	696.3	12%	779.4	696.3	12%
Gas Ref Mkt Price(RM/mmbtu)								
- Tier 1	30.0	30.0	0%	30.0	0%	30.0	30.0	0%
- Tier 2	62.1	51.2	21%	36.9	68%	62.1	36.9	68%
Ave. Gas/LNG Vol (mmscfd)	907.0	866.0	5%	912.0	-1%	907.0	912.0	-1%

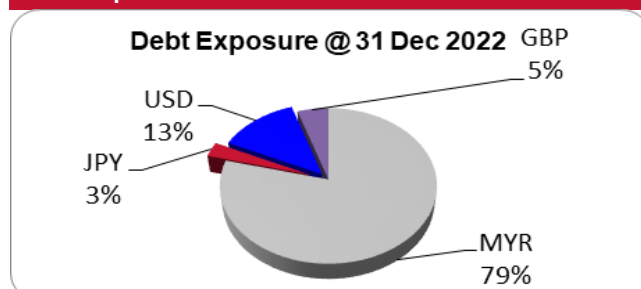
Source: Company

Debt Exposure & Forex



Source: Company

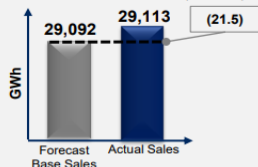
Debt Exposure & Forex



Source: Company

Regulatory Adjustment

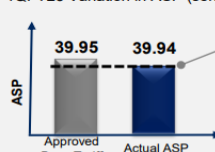
1QFY23 Variation in Sales (in GWh)



- The allowed annual revenue for revenue cap entities is based on 19.4TWh demand growth. Any excess/shortfall is adjusted through revenue adjustment mechanism.
- For 1QFY23, higher actual sales has led to amount to be returned via revenue adjustment mechanism.

Business Entities	Allowed Tariff (sen/kWh)	Variation in Sales (GWh)	Adjustment (RM mil)
Revenue Cap Entities	12.60	(21.5)	(2.7)*

1QFY23 Variation in ASP (sen/kWh)



- Any excess/shortfall of revenue earned due to higher/lower Average Selling Price (ASP) compared to Base Tariff is adjusted through revenue adjustment mechanism.
- For 1QFY23, the ASP recorded was lower than the Base Tariff, leading to recovery adjustment via revenue adjustment mechanism.

Business Entities	Actual Sales (GWh)	Variation in ASP (sen/kWh)	Adjustment (RM mil)
Price Cap Entity	29,113	0.01	1.3*

Source: Company

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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	3.13	3.54	13.10%	4,018.9	Y	12/2023	27.1	25.2	-11.5%	-6.8%	11.5	12.4	2.9	26.2%	19.0	6.1%
MALAKOFF CORP BHD	OP	0.610	0.800	31.15%	2,981.0	Y	12/2023	4.2	6.0	-50.2%	43.4%	14.6	10.2	0.5	3.7%	3.3	5.4%
PETRONAS GAS BHD	MP	16.80	17.13	1.96%	33,242.7	Y	12/2023	95.8	97.2	9.8%	1.4%	17.5	17.3	2.5	14.3%	81.5	4.9%
SAMAIEN GROUP BHD	OP	0.900	1.15	27.78%	348.7	Y	06/2023	3.2	4.4	0.5%	35.0%	27.8	20.6	3.5	13.5%	0.0	0.0%
TENAGA NASIONAL BHD	OP	9.75	10.64	9.13%	56,092.5	Y	12/2023	83.2	84.4	24.1%	1.4%	11.7	11.6	0.9	8.0%	41.6	4.3%
YTL POWER INTERNATIONAL BHD	OP	1.30	1.48	13.85%	10,532.8	N	06/2023	15.0	12.3	374.2%	-18.3%	8.6	10.6	0.7	8.3%	5.0	3.8%
Sector Aggregate					107,216.6					27.2%	-0.7%	12.7	12.8	1.8	12.3%		4.1%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★			
	Community Investment	★	★	★		
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★	★	
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★				
SPECIFIC	Transition to Renewables	★				
	Reliable Energy & Fair Tariff	★	★			
	Effluent/Waste Management	★	★	★		
	Ethical Practices	★	★	★		
	Supply Chain Management	★	★	★		
	Customer Satisfaction	★	★	★		
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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