LESTARI GEMS

Vol. 13

Reducing Emissions, Raising Renewables

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Featured Report

TENAGA: Energizing the Transition Agenda

Half of global economies past fossil fuel peak

Analysis from think tank Ember Climate has shown that half of the world's economies are already five years past a peak in power generation from fossil fuels. The study showed that power sector emissions in 107 economies, representing 38% of global electricity demand, have fallen by almost 20% in the last decade.

The EU, Oceania and North America are already in period of fossil fuel power decline, with fossil fuel generation dropping by 30%, 20% and 15% respectively.

All but one EU member state has passed the milestone of five years since a peak in fossil fuel power since 2000. Fossil fuel power across Africa appears to have plateaued, with a similar flattening present for Latin America and the Caribbean. The only regions yet to reach a peak are Asia and the Middle East. ─ *ESG Investor*

Singapore 'closely monitoring' but undecided on nuclear power

Singapore is studying the suitability of advanced atomic power hardware such as small reactors that have been touted as safer, cheaper and faster to build. The city-state will work with other countries to learn more about the technology, which Singapore is "closely monitoring", said Trade and Industry Minister Gan Kim Yong.

The statement is yet another signal of the city-state's growing interest in atomic power as pressure builds for countries to find low-carbon alternatives to fossil fuels to power their economies. ─ *Eco-Business*

World far off track on pledges to end deforestation by 2030 – report

The world is moving too slowly to meet pledges to end deforestation by 2030, with the destruction worsening in 2022, according to a report by a coalition of environmental organizations recently.

Over 140 countries pledged at the 2021 UN climate summit in Glasgow to halt and reverse forest loss and degradation by the end of the decade.

Yet deforestation rose 4% worldwide in 2022 compared with 2021, as some 66,000 sq km were destroyed, said the annual *Forest Declaration Assessment*. That means the world is 21% off track to end deforestation by 2030. ─ *Reuters*

Tesla's record carbon credit sales up 94% YoY

While Tesla has missed 2023's 3Q on both earnings and revenue expectations since its 2Q 2019 report, the EV leader reported record-breaking carbon credit sales, continuing its record-breaking 4-year streak. The automaker reported a revenue of USD554m from the 3Q 2023 sale of carbon credits, significantly contributing to its profits.

This record sales made up 29% of Tesla's 3Q net income (USD1,878m). Most notably, its 3Q carbon credit revenue surged 94% year-over-year. ─ *carboncredits.com*

ESG CALENDAR

ASEAN Wind Energy 2023
Date: 30−31 Oct 2023
Venue: The Adora Center Ho Chi Minh City, Vietnam
Type: In Person, Free
Register here

ICEC (Intelligent Cities Exhibition & Conference) 2023
Date: 30−31 Oct 2023
Venue: Dusit Thani Lakeview Cairo, Egypt
Type: In Person, Paid
Register here

Demystifying ESG Reporting: TCFD, ISSB & TNFD Essentials
Date: 31 Oct 2023
Time: 2.30−4.30pm
Venue: UNGCMYB HQ, Petaling Jaya
Type: In Person (members)
Register here

Transform Food USA 2023
Date: 2−3 Nov 2023
Venue: Minneapolis, MN
Type: In Person, Paid
Register here

10th Sustainable Development Conference (SDC2023)
Date: 5−7 Nov 2023
Venue: Bangkok, Thailand
Type: In Person, Paid
Register here

Smart City Expo World Congress
Date: 7−9 Nov 2023
Venue: Barcelona, Spain
Type: Hybrid, Paid
Register here

ESG Rating 4 stars

Company	F4GBM Index	Rating	TP (RM)
ABMB	Yes	OP	4.30
CIMB	Yes	OP	6.30
PBBANK	Yes	OP	4.75
KLK	Yes	OP	24.50
IOI CORP	Yes	MP	3.80
PPB	Yes	OP	19.30
MISC	Yes	MP	7.60
YINSON	Yes	OP	3.79
CTOS	Yes	OP	1.80
SUNCON		OP	2.39
GAMUDA		OP	5.45
SAMAIDEN		OP	1.51

ESG Rating 2 stars

Company	F4GBM Index	Rating	TP (RM)
ARMADA	Yes	OP	0.60
TAANN		MP	3.40
KOSSAN		MP	1.28
SUPERMAX		MP	0.85

Tenaga Nasional

Energizing the Transition Agenda

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

OUTPERFORM ↔

Price : RM9.85

Target Price : RM11.90 ↑

TENAGA is key to the success of the government's National Energy Transition Roadmap (NETR). Two essential targets of the NETR are: (1) 70% renewable energy (RE) installed capacity share by 2050 (55GW); and (2) no new coal power plant. In a recent engagement, TENAGA updated us on its ESG performance and the progress in key areas encompassed within its own energy transition strategy. Post-engagement, we felt assured that the company is translating its deep commitment in accelerating energy transition into firm and consistent actions, ensuring that its goals on renewable energy growth and emission reduction are within reach, in line with the NETR targets. We raise our ESG rating on TENAGA to 3 stars, thus upgrade TP to RM11.90 (from RM11.30). Maintain OUTPERFORM.

TENAGA's Sustainability Pathway 2050 (SP2050), developed in 2021, set three key targets i.e. (1) increasing RE capacity to 8,300MW by 2025, (2) reducing emission intensity by 35% by 2035 and net zero emissions by 2050, and (3) reducing coal capacity by 50% by 2035 and 100% by 2050. Here are the key highlights of TENAGA's ESG update:

1. **RE capacity.** In FY2022, TENAGA's managed to raise its RE capacity to 3,780MW (+8% vs. FY2021's 3,441.62MW), representing 46% of FY2025's target. As of June 2023, it achieved 48% of the 8.3GW target, exceeding the 4GW mark. While acknowledging the substantial gap, TENAGA is confident of reaching the target with a steady pipeline of RE projects coming onstream and potential acquisitions of RE assets overseas via its New Energy Division (NED) with Vantage RE focusing on the UK and European markets and TNB Renewables on the domestic and Southeast Asian markets.

   Vantage RE, which focuses on solar, onshore wind and battery storage, is making significant inroads into the UK's RE market. Its total gross capacity stands at 632MW and TENAGA plans to develop solar projects and co-located battery energy storage systems, including the acquisition of a ready-to-build (RTB) stage 102MW solar and 65MW of co-located battery storage facilities.

   In Southeast Asia, it is looking at developing seven new hydro projects and 10 hydro acquisitions in Lao and Indonesia. TENAGA is also exploring potential projects in Asia Pacific and Oceania (Australia, South Korea and Taiwan) to help it achieve its 2025 RE target. NED is expected to install 9.9GW in 2040 and 14.3GW in 2050 with an estimated investment of RM30b. On the domestic front, NED is looking to add 1.2GW of RE capacity by 2025 and 3GW (through three flagship projects under the NETR) by 2040.

   On the floating solar PV projects, TENAGA is expected to invest around RM2b. It is already working on two such projects near its hydro dam sites in Sg Perak and Kenyir in Terengganu with the possibility of another one in Nenggiri. Currently, TENAGA has a small floating solar PV (105kWp) in its ash pool at its power plant in Manjung, Perak. The 175ha pond has the potential to house a floating PV to generate at least 100MW. It is reportedly planning a 780kW floating solar plant off Pulau Tioman, scheduled for completion in 2025.

   In a move to further spur investments and accelerate the development of more RE assets, TENAGA plans to start the trading of renewable energy certificates (RECs) via TNBX's Green

Share Price Performance

KLCI	1,435.65
YTD KLCI chg	-4.0%
YTD stock price chg	2.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TNB MK Equity
Market Cap (RM m)	57,005.2
Shares outstanding	5,787.3
52-week range (H)	10.20
52-week range (L)	8.21
3-mth avg daily vol:	6,109,689
Free Float	33%
Beta	0.8

Major Shareholders

Khazanah Nasional Bhd	22.6%
Employees Provident	16.5%
Amanah Saham Nasional	15.5%

Summary Earnings Table

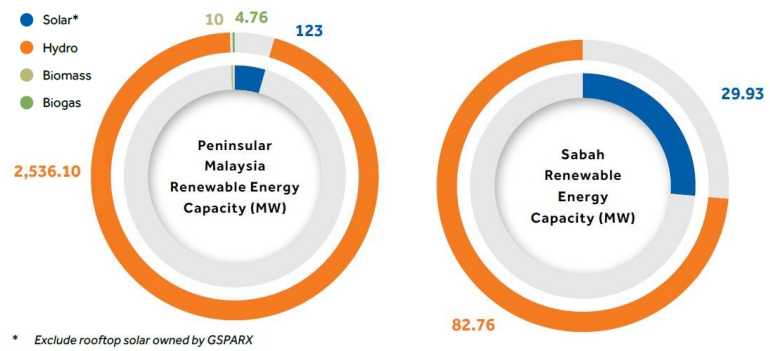
FY Dec (RM m)	2022A	2023F	2024F
Turnover	50,868	51,792	52,714
EBIT	9,410	9,095	9,897
PBT	5,349	5,293	6,392
Net Profit (NP)	**3,463**	**4,102**	**4,831**
Core Net Profit	**3,840**	**4,102**	**4,831**
Consensus (NP)	-	4,084	4,610
Earnings Revision (%)	-	-	-
Core EPS (sen)	67.1	71.6	84.4
Core EPS growth (%)	-20.1	6.8	17.8
NDPS (sen)	46.0	35.8	42.2
BV/Share (RM)	10.22	10.53	10.95
NTA/Share (RM)	10.12	10.45	10.87
Core PER (x)	14.4	13.8	11.7
Price/BV (x)	0.97	0.94	0.90
Price/NTA (x)	0.97	0.94	0.91
Net Gearing (x)	0.87	0.66	0.59
Net Dvd.Yield (%)	4.8	3.6	4.3

Attribute Tracking System (mGATS) by 1Q 2024. Launched back in 2019, mGATS is the national REC marketplace. Currently, TENAGA awards mRECs through its Green Electricity Tariff (GET) scheme at a fixed price (21.8 sen/kWh from 1 Aug to 31 Dec 2023). The full list of RE plants registered with mGATS is available here.

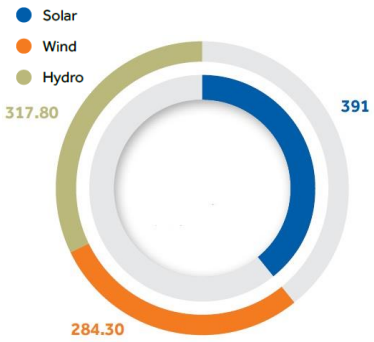
One mREC represents the delivery of 1MWh of RE to the grid, and all associated environmental benefits of displacing 1MWh of conventional power. It can be used to offset a company's Scope 2 emissions (from grid electricity). GET customers receive their certificates after the end of a calendar year, validating the total green electricity consumed throughout their subscription period and thus retired.

According to TNBX, the auction of RECs will be open to all (including non-GET subscribers or other green energy tariff schemes). mGATS transactions comply with international standards such as CDP, GHG Protocol and RE100. As RECs are globally recognized, these present a clear value proposition for both project developers (they can generate additional revenue for each MWh of RE produced) and companies (they can meet their sustainability goals). All in, TENAGA now has a strong pipeline of 4.4GW of RE capacity globally that are at different stages of exploration.

Domestic Installed RE Capacity in FY2022



International Installed RE Capacity

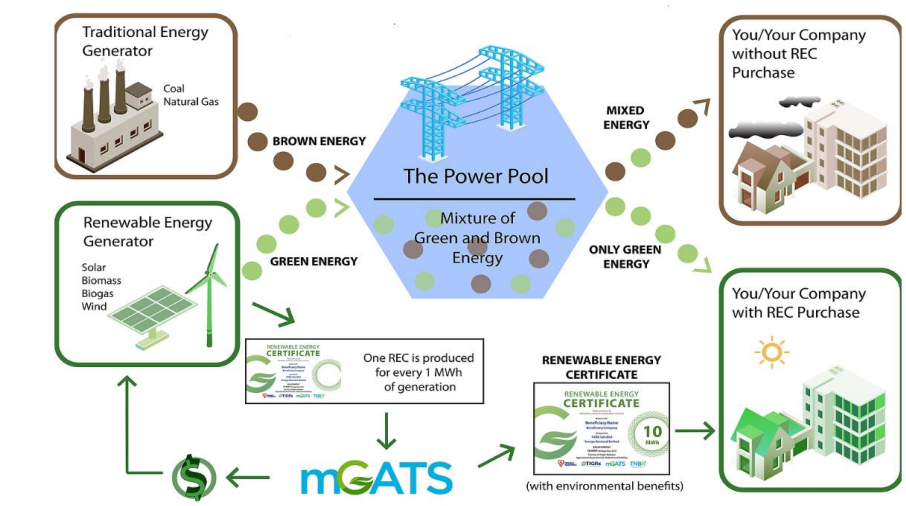


Source: Tenaga Nasional

RE Projects under NETR	Capacity (MW)	Operation Date
Large-Scale Solar Parks (five sites of 100MW each)	500	TBC
Hydro Floating Solar PV (Includes 230MW installation at Temenggor & Chenderoh hydro plants)	2,500	2023-2040

Source: Tenaga Nasional

Renewable Energy Certificate (REC) Mechanism



Source: TNBX

2. **GHG emissions and coal capacity.** TENAGA has set a 35% reduction target in GHG emission intensity (Scope 1 & 2) by 2035 and net zero by 2050 against the 2020 baseline. It recorded 2.5% lower GHG emissions of 38.90m tCO2e in FY2022 against 39.99m tCO2e in FY2021 resulting in no change in its GHG emission intensity at 0.55 tCO2e/MWh. The decrease in its Scope 1 and 2 emissions was due to higher operation of its gas and hydro power plants. The company is assessing its Scope 3 emission and will commence its disclosure in FY2023.

   While this represented a mere 2% decrease against the 2020 baseline, we believe that the 35% reduction target is achievable as GHG reductions gain momentum due to the following reasons: (1) the scheduled retirement or even earlier than the expiration of its coal-powered plants' power purchase agreements (PPAs) starting from 2029 until 2033 with no new coal plants being built; (2) growing RE capacity replacing coal; and (3) investments in new clean energy such as hydrogen, ammonia co-firing and carbon capture, usage and storage (CCUS).

   Our optimism is premised on the scheduled retirement of four coal plants with a total installed capacity of 7,044MW from 2029 to 2033 i.e. the 1,474MW Kapar Energy Ventures (KEV) U3-U6 PPA expiring in 2029, 2,070MW TNB Janamanjung in 2030, 2,100MW Tanjung Bin Power in 2031 and 1,400MW Jimah Energy Ventures in 2033. TENAGA is hopeful that these plants could be retired one to two years earlier than expected. With the PPA of its last new coal plant Jimah East Power (70%-owned) expiring in 2044, TENAGA should be coal-free by 2050.

   At the same time, TENAGA will repower the retired plants with natural gas (cleaner fuel), added with hydrogen co-firing capability. This is an important step to reduce the risks of low fuel supply, thus ensuring energy stability. TENAGA has received a letter of intent (LOI) from the Natural Resources, Environment and Climate Change Ministry for the development of a 2.1 GW combined-cycle power plant in Kapar, slated for commercial operation by 2031.

   Meanwhile, it has also obtained an LOI to repower the retired 1,400MW Paka gas-powered plant, with plans to turn it hydrogen-ready by 2030. TENAGA has said that it planned a similar move for other coal plants in Manjung, Perak, as well as Jimah East power plants in Negeri Sembilan.

Scheduled Retirement of Malaysia Coal-Powered Plants

Year	Plant	MW	Year	Plant	MW
2029	KEV Coal U3-U6	1,474	2040	Manjung 4	1,010
2030	TNB Janamanjung	2,070	2041	Tanjung Bin Energy	1,000
2031	Tanjung Bin Power	2,100	2042	Manjung 5	1,000
2033	Jimah Energy Ventures	1,400	2044	Jimah East Power	2,000

Source: Energy Commission, Companies

Estimated GHG Avoidance of RE and Repowered Plants

Project	Capacity (MW)	Operation Date	GHG avoidance (million tonnes CO2e/year)
Bukit Selambau 2 (solar)	50	2023	0.08
Solar Greenfield development, UK (Vantage RE)	102	2024	0.05
Sg Perak Hydro Extension Scheme	650.75	2025	0.5
Nenggiri Hydro Project	300	2Q 2027	0.3
Paka New Combined Cycle Power Plant	1,400	2030	3.2
Kapar New Combined Cycle Power Plant	2,100	2031	4.7

Source: Tenaga Nasional

3. **New technology.** TENAGA's commitment to being net zero by 2050 is further strengthened by initiatives in new technologies such as carbon capture utilisation and storage (CCUS) and co-firing with hydrogen, ammonia, and biomass via partnerships. Feasibility studies of coal plants co-firing with hydrogen, ammonia, biomass and coal are ongoing for Jimah East Power (2,000MW), KEV (2,200MW) and Janamanjung (4,080MW) in collaboration with Petronas, Mitsui & Co and Chugoku.

   TENAGA has also teamed up with Petronas for research on CCUS as well as the emerging **hydrogen** economy, focusing on green hydrogen. This powerful synergy of expertise is a timely boost for Malaysia's commitment to net zero while driving investment and business opportunities in the development of the hydrogen economy, particularly in transportation, manufacturing and power generation.

   On CCUS, TENAGA has completed seven projects using the direct carbon utilisation from flue gas emission through microalgae photosynthesis process, producing biomass as by-product. It has successfully conducted the first pilot algae bio-CCU technology in Malaysia tested with actual flue gas from a coal-fired power plant where four local marine species of microalgae have been identified with the ability to capture CO2. Captured CO2 in turn can be used to produce chemicals, fuels and construction materials.

4. **Grid of the future.** Strengthening the grid and expanding interconnections within ASEAN are pivotal to Malaysia's energy security as well as the region's decarbonisation. In August 2023, TENAGA formed two strategic partnerships i.e. with Indonesia and Singapore to intensify efforts towards a seamless ASEAN Power Grid (APG). A memorandum of understanding (MOU) with PT Perusahaan Listrik Negara (PLN) and the ASEAN Centre for Energy (ACE) was signed to undertake a feasibility study on the potential for a cross-border interconnection linking Sumatra, Indonesia, and Peninsular Malaysia.

   Simultaneously, TENAGA is partnering with Singapore's SP Power Assets (SPPA) to explore the technical feasibility of a second interconnection facility between Peninsular Malaysia and Singapore. This followed the milestone achievement of the Lao PDR-Thailand-Malaysia-Singapore Power Integration Project (LTMS-PIP), which has enabled Singapore to start importing hydropower from Lao (up to 100MW) via Thailand and Malaysia in June this year. This also marked the first time that four ASEAN countries engaged in multilateral cross-border electricity trade, bringing the APG closer to reality. The success of the LTMS-PIP was the result of the successful upgrade of the first Malaysia-Singapore electricity interconnector in August 2022, which doubled the bidirectional electricity flow capacity to about 1,000MW. Next, TENAGA plans to expand interconnection collaboration to Thailand.

   Future-proofing the grid means ensuring a power grid that goes beyond energy transfer. The network must also be able to accommodate the increasing penetration of RE and be smart enough to allow users to distribute excess energy back to the grid, providing new sustainable energy sources to those that need it. Monitoring, provision of real-time energy generation and consumption data, control and uninterrupted supply are features of the smart grid initiatives.

   TENAGA plans to invest over RM90b over the next six years for its grid infrastructure, allocating 40% of it on energy transition-related capex to enhance its network readiness and reliability. Towards this end TENAGA has embarked on the installation of smart meters at customer premises (since 2018) and distribution automation (DA) systems. Smart meters enable automated billing and provide detailed information on customers' electricity usage. DA systems ensure quick restoration of power in the event of an outage. 2022 saw 800k smart meters installed, bringing the total number to over 2.6m meters, surpassing its target of 2.4m. TENAGA aims to install 9m meters by 2029. DA systems were commissioned in 3,541 substations in FY2022, more than 3,520 in FY2021.

   TENAGA scored 71.4% in the Smart Grid Index (SGI) 2022, in second place (together with Vietnam's EVN HCMC) in ASEAN behind Singapore's SP Group (75%). The SGI benchmarks 94 utilities across 39 countries/markets, measuring the smartness of power grids globally (seven key dimensions) in delivering better value to customers. TENAGA aims to raise its SGI to 85% by 2025 and this will be achieved by the continued progress in installing smart meters and DA systems to the grid.

   On the progress of electric vehicles (EV) charging network, TENAGA is set to achieve the target of 10 DC chargers by the end of this year. Three are already operational while seven are scheduled to be ready soon, all located along the north-south and east coast highways. To further support the development of the EV ecosystem, its training academy ILSAS established an EV training hub in 2023 and is expected to train about 400 participants for EV and the battery storage system with internationally-certified training starting 2QFY2023.

Raising our ESG rating. Following the meeting, we reassess our scoring for the 12 criteria, and upgrade TENAGA's ESG rating to three stars from two stars previously.

Earnings Sustainability & Quality – We increase to 3 stars from 2 stars given that the normalisation of fuel cost is positive to TENAGA as it brings down the ICPT receivables. The shrinking ICPT receivables will result in lower working capital requirement and hence lower interest expenses, and better earnings going forward. TENAGA has been generating 7.3% regulated asset base (RAB) returns in Regulatory Period (RP) 2 and 3 over 2018−2021 and 2022−2024. With higher transmission and distribution (T&D) capex for the T&D of RE, it will raise TENAGA's RAB, resulting in higher absolute earnings in RP4 over 2025 to 2027.

Community Investment – Maintained at 3 stars. TENAGA has committed to 1% profit-after-tax (PAT) allocation towards environmental and community-related programmes. In FY2022, it invested RM12.2m on community programmes compared to RM39.57m in FY2021. The lower amount was due to a reprioritising of initiatives after FY2021's elevated spending as it conducted a higher number of physical events post-Covid. On top of this, TENAGA contributed RM107.81m to various scholarships and convertible loans programmes, benefitting over 5,000 students in 2022.

Workers Safety & Wellbeing – We raise to 4 stars from a 3-star grading. TENAGA managed to lower its lost time injury frequency (LTIF) rate to 0.82 in FY2022, achieving its target of <1.00 LTIF from 1.03 in FY2021 while the fatality rate fell to two from eight in FY2021. TENAGA has a zero-fatality target. It invested a higher amount of RM161m in learning and development in FY2022 compared to RM65.53m previously. Its employee engagement score also rose to 86.6% from 85% in FY2021 while retaining a low turnover rate of 3.93%. TENAGA continued to see an increase of women in senior management roles to 103 people from 100 in FY2021 as well as promote equal pay for men and women based on their roles and responsibilities, with a basic salary and remuneration ratio of 1:1.

Corporate Governance – No change to our 4-star rating as TENAGA continues to maintain a structured and clear governance structure that incorporates climate-related matters into its corporate governance system with oversight from the management and board of directors. In terms of disclosure, TENAGA's efforts are commendable. According to the

Global ESG Monitor 2022 report, TENAGA scored 72 points (out of 100), ranking it 42nd in the overall international ranking of 350 companies surveyed.

Anti-Corruption & Ethical Practices – 3 stars retained. TENAGA continues to observe the zero-tolerance rule towards bribery and corruption. It has put in place a corporate integrity management system (TCIMS) to drive an integrity-based culture and a high level of compliance with local and international anti-bribery standards. It covers policies on anti-bribery, gifts, hospitality and related benefits, conflicts of interest, whistleblowing and integrity pact & committee integrity pledges. All employees must sign an Integrity pledge and attend an ethical standard training annually which also includes an integrity e-learning module for contractors and vendors. In FY2022, there were 16,588 participants clocking 77,095 hours.

Emissions Management – We upgrade to 2 stars from one star. Despite recording only slightly lower total GHG emissions at 0.55 tCO2e/MWh in FY2022 and an unchanged 2% reduction against baseline in 2020 in emission intensity, TENAGA's has been aggressively rolling out numerous initiatives on multiple fronts to ensure that it can meet the GHG emission intensity reduction target of 35% (Scope 1 & 2) by 2035 and achieve net zero by 2050. Momentum will pick up as four coal plants with a total installed capacity of 7,044MW start to retire from 2029 to 2033 and new RE capacities come onstream both domestically and internationally. Acquisitions can cut its emissions quickly and significantly.

Transition to Renewables – We award 2.5 stars from one star previously as TENAGA is making steady progress in ramping up its RE capacity in tandem with its emissions management initiatives. We are optimistic that it will achieve the target of 8.3GW RE capacity by 2025 (from over 4GW currently) as 1.2GW is slated to be installed (domestic) by 2025 and a pipeline of 4.4GW globally at different stages of exploration. At the same time, it is also building up battery storage to address the intermittency of RE although TENAGA's high margin reserve, projected to be above 40% until 2027, is more than enough to cushion any intermittency.

Reliable Energy & Fair Tariff – We bump up our score to 3 stars from 2 stars previously due to improving reliability. FY2022 recorded an equivalent availability factory (EAF) of 83.2%, up from 82.9% and lower system average interruption duration index (SAIDI) of 45.06 minutes/customer from 45.25 in FY2021 while maintaining a system availability of 99.79%. This is in part also due to its smart grid initiatives which have resulted in an improved Smart Grid Index (SGI) score of 71.4% from the 67.9% achieved in 2021.

The energy tariff is determined by the government through the Energy Commission via the Incentive-Based Regulation (IBR) mechanism (base tariff + ICPT), which ensures the price of electricity remains fair. While the base tariff is fixed for 3 years (Peninsular Malaysia is now in RP2 1 Jan 2023−31 Dec 2025), the ICPT is reviewed every six months, adjusted based on global fuel costs.

Effluent/Waste Management – Remains at 3 stars. TENAGA monitors its scheduled waste (hazardous waste that negatively affects the environment and public health as stated by the Department of Environment) directed to and diverted from disposal regularly. The scheduled waste is disposed of through licensed waste contractors. In FY2022, TENAGA generated 74,150 tonnes of scheduled waste, a jump from 47,829. This is due to an increase in operational activities post-Covid. The company has put in place an e-waste (electronic waste) policy in FY2022 where those categorised under SW110 will be managed and disposed of in accordance with the DOE's regulatory requirements. It is also building an online reporting system to track e-waste inventory. TENAGA's new headquarters TNB Platinum Campus is equipped with an automated waste management system (AWCS) to ensure safe and efficient waste disposal.

Supply Chain Management – Stays at 3 stars. TENAGA continues to increase the percentage of local suppliers at 96.6% (3,816 suppliers) in FY2022 from 96.4% with total spend of RM10.38b (96.5% of total procurement). Digitalisation is key to TENAGA's goal of having a transparent supply chain, improving the procurement and other business processes, thus managing suppliers' risk and performance. In FY2022, it deployed a digital management platform that facilitates the end-to-end workflow for the entire procurement and supply chain. In greening the supply chain, TENAGA is helping its suppliers, especially the SMEs to develop their capabilities in reducing emissions via the Vendor Management Programme, in line with its aim of establishing and cutting its Scope 3 emissions.

Customer Satisfaction – No change to our 3-star rating. On top of meeting customers' energy-related needs, TENAGA is committed to the best service delivery. For two consecutive years (2021, 2022), TENAGA has scored 87% in its Customer Satisfaction Index. In FY2022, myTNB app had 6.3m subscribers from 5.6m in FY2021, representing 63% of its customers. It achieved a Customer Interaction Index of 90.76% compared to 89.90% in FY2021It will continue to enhance customers' experience focusing on four areas i.e. electrification, energy efficiency, prosumers and digital platforms.

Upgrade TP to RM11.90 from RM11.30 after removing 5% discount (due to its earlier 2-star ESG rating) to our DCF-driven valuation of RM11.90 (WACC: 6.7%; TG: 2%). We continue to like TENAGA for: (i) its dominance 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.

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	3.22	3.30	2.5%	4,134.5	Y	12/2023	27.1	25.2	-11.5%	-6.8%	11.9	12.8	3.0	26.2%	19.0	5.9%
MALAKOFF CORP BHD	MP	0.600	0.630	5.0%	2,932.2	Y	12/2023	(6.9)	5.4	-182.4%	-21.9%	N.A.	11.1	0.6	-6.5%	3.0	5.0%
PETRONAS GAS BHD	MP	17.12	17.45	1.9%	33,875.9	Y	12/2023	95.8	97.2	9.8%	1.4%	17.9	17.6	2.5	14.3%	81.5	4.8%
SAMAIDEN GROUP BHD	OP	1.15	1.51	31.3%	470.1	Y	06/2024	4.5	5.3	45.6%	17.6%	25.4	21.6	4.0	17.0%	0.0	0.0%
TENAGA NASIONAL BHD	OP	9.85	11.30	14.7%	57,005.2	Y	12/2023	71.6	84.4	6.8%	17.8%	13.8	11.7	0.9	6.9%	35.8	3.6%
YTL POWER INTERNATIONAL BHD	OP	2.00	2.50	25.0%	16,204.3	N	06/2024	26.5	25.3	9.7%	-4.9%	7.5	7.9	0.9	12.7%	6.0	3.0%
Sector Aggregate					**114,622.1**					**-2.2%**	**15.2%**	**14.0**	**12.2**	**2.0**	**11.7%**		**3.7%**

Source: Kenanga Research

Appendix

Stock ESG Rating:

	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.***

Published by:

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