# Tenaga Nasional

## Riding on Wind Advantage

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# OUTPERFORM ↔

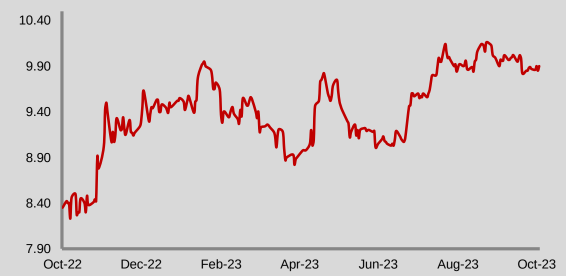
**Price :** **RM9.90**
**Target Price :** **RM11.90** ↔

**TENAGA's 100%-owned United Kingdom-based Vantage RE is its key to renewable energy (RE) expansion plan. The unit is expected to meet one-third of the group's target RE asset portfolio of 8.3GW by 2025. Vantage RE is open to both greenfield and brownfield expansions focusing on offshore wind and battery energy storage. We maintain our forecasts, TP of RM11.90 and OUTPERFORM rating.**

Recently, we held a virtual engagement session with TENAGA's United Kingdom (UK) unit, Vantage RE Ltd to obtain updates on the company as well as the overall UK and EU renewable energy (RE) landscape. The key highlights are as follows:

1. TENAGA started investing in the UK in 2017 and Vantage RE was set up in 2021 as a growth vehicle to drive sustainable growth in the UK and Europe's RE markets via acquisitions of operating assets as well as those under development. Its current asset portfolio consists of solar farms, onshore and offshore wind farms, all in the UK.
2. It currently has 855MW of operating assets comprising those under construction and secured development rights of certain projects. Vantage RE aims to expand its RE asset portfolio up to 2.5GW by end-2025 and it is confident of achieving the target. Details of the projects will be made available as they come onstream with more clarity on the growth trajectory in a year's time.
3. Offshore wind farms and battery energy storage are the key areas that will drive future growth. Due to the nature of the UK's weather, an offshore wind farm (45%−60% efficiency) is able to generate 6x more than a solar farm (11%−12% efficiency). Hence, battery energy storage is critical to stabilise the grid and the focus now is on co-location storage.
4. Vantage RE prefers greenfield expansion due to the higher returns although it is also looking at brownfield projects, especially in new markets such as Ireland, France, Spain and possibly Italy. In terms of financing, it sees good access, riding on TENAGA's strong balance sheet and the keen interest from many Japanese banks in the UK that are aggressively funding RE projects. The average cost of a solar farm is GBP500k−600k/MW, GBP1m−1.2m/MW for an onshore wind farm and GBP2m−3m/MW for an offshore wind farm.
5. The UK's energy policies are generally supportive of RE as various policies and schemes are in place to achieve the country's net-zero target by 2050. The UK's total RE installed capacity is expected to hit 87.2GW by 2030, making up 74% of its power generation mix with offshore wind (41%) being the largest generation asset followed by onshore wind (17%). As at 2022, the UK has 53.5GW of RE generation capacity, accounting for 41% of the country's total energy generation mix with offshore wind comprising 15% and offshore wind 12%.
6. The UK has several schemes to support RE growth. Two of the schemes are: (i) contracts for difference (CfD) subsidy scheme which enables RE developers to receive a "top-up" payment from the government when the market reference price falls below the strike price. The CfD scheme is currently in its fourth round, with a total budget of GBP285m a year, (ii) RE Guarantees of Origin (REGO), which are certificates that track the generation of renewable electricity from a specific RE source, thus providing transparency to consumers who purchase RE from their suppliers. REGO prices have been climbing from GBP1/MW when it started in 2009 to GBP15/MW currently. Vantage Solar and CEI UK have locked in record high REGO prices with expected upside over the next five years.

### Share Price Performance




| | |
|---|---|
| KLCI | 1,439.77 |
| YTD KLCI chg | -3.7% |
| YTD stock price chg | 2.8% |

### Stock Information

| | |
|---|---|
| Shariah Compliant | Yes |
| Bloomberg Ticker | TNB MK Equity |
| Market Cap (RM m) | 57,294.6 |
| Shares outstanding | 5,787.3 |
| 52-week range (H) | 10.20 |
| 52-week range (L) | 8.21 |
| 3-mth avg daily vol: | 5,332,224 |
| 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) | 0.98 | 0.95 | 0.91 |
| Net Gearing (x) | 0.87 | 0.66 | 0.59 |
| Net Dvd.Yield (%) | 4.8 | 3.6 | 4.3 |

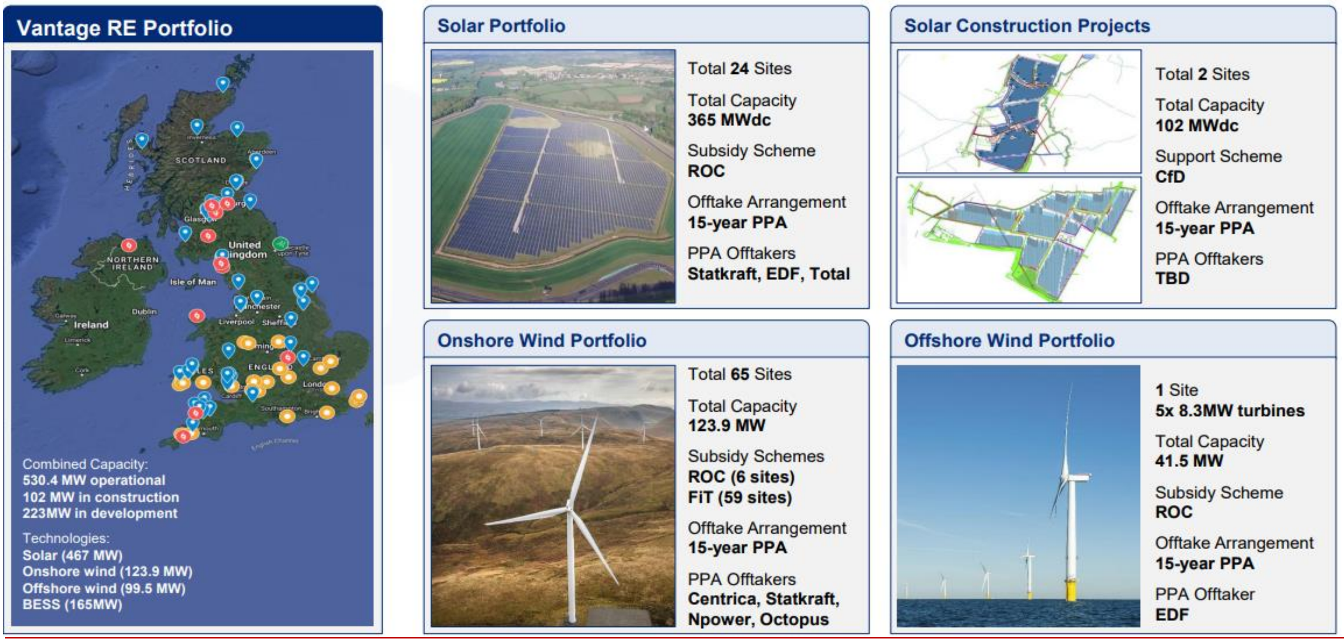
7. There are four route-to-market options for RE generators in the UK, which range from traditional PPAs (including merchant/utility PPAs and corporate PPAs) to CfD and private wire. Vantage RE's portfolio currently is a mix of CfD and corporate PPAs.

**Forecasts.** Maintained.

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. In addition, its dividend yield is decent at c.4%. Maintain OP at unchanged DCF-derived TP of RM11.90 (WACC: 6.7%; TG: 2%). There is no adjustment to our TP based on our ESG 3-star rating (see Page 6).

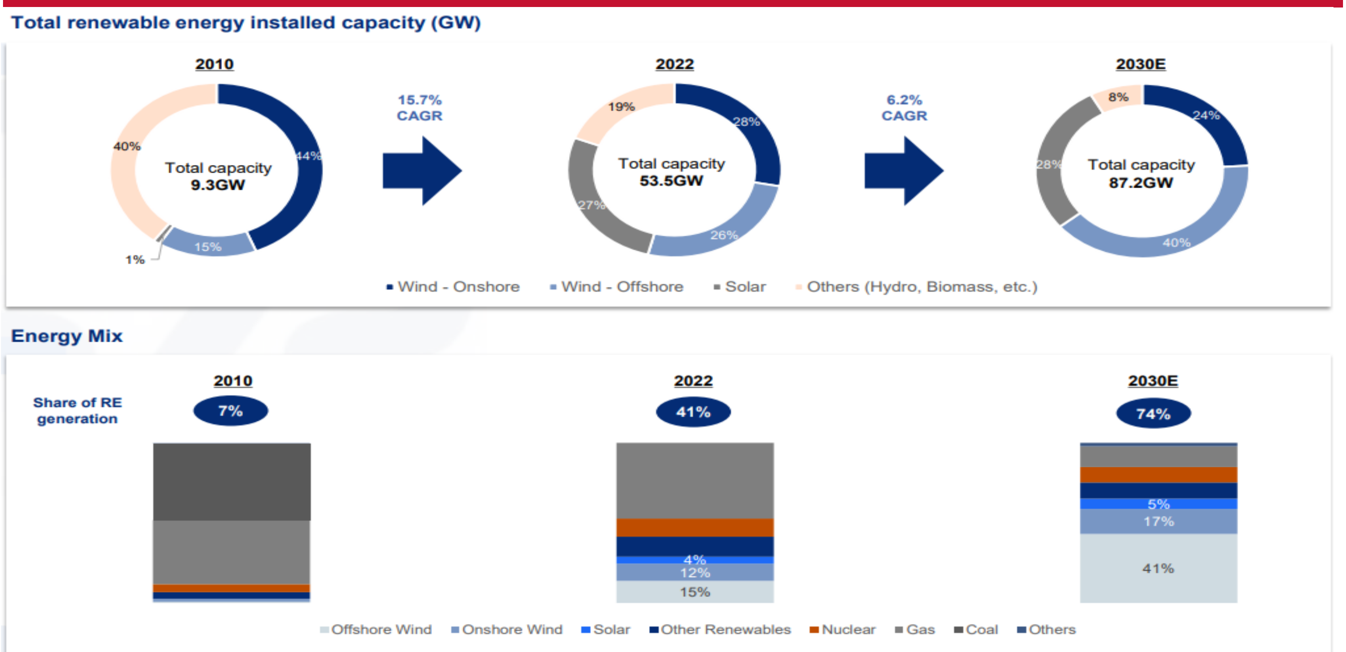
**Risks to our recommendation include:** (i) ballooning under-recovery of fuel costs straining its cash flows, (ii) a global recession hurting demand for electricity, and (iii) non-compliance of ESG standards set by various stakeholders.

## Vantage RE Asset Portfolio




*Source: Company*

## UK Installed Capacity Growth Forecast




*Source: Company/Baringa Forecast*

## UK Subsidy Schemes for RE

| Renewables Obligation ("RO") from 2002-2017 | Feed-in-tariff ("FiT") from 2010-2017 | Contracts for Difference ("CfD") from 2014-Present |
|---|---|---|
| • Original subsidy regime for renewable generators with >5MW capacity<br>• Requires suppliers to source a regulated fraction of electricity from renewables which are accredited by this scheme<br>• Renewable generators receive a top-up payment for electricity sold through the RO<br>• Typical support length of 20 years | • FiT is a long-term premium payment for small scale renewables (>50kW and <5MW)<br>• Generators paid a generation tariff rate per kWh produced and an export tariff for each kWh exported to grid<br>• Support for 20-25 years | • Enables renewable developers to receive a "top-up" payment equal to the difference between an awarded strike price and market reference price<br>• Typical contract length of 15 years<br>• There have been four competitive auctions with fifth round currently ongoing |

| Renewable Energy Guarantees of Origin ("REGO") from 2009-present |
|---|
| • As part of the Renewable Energy Directive 2009 (2009/28/EC), all EU member states were required to set up a Guarantees of Origins (GoOs) scheme to provide transparency to consumers who purchase renewable electricity from their suppliers.<br>• Renewable generators of any size in Great Britain and Northern Ireland can apply for the Renewable Energy Guarantees of Origin (REGO) scheme which is administered through OFGEM on behalf of BEIS. |

*Source: Company*

## UK Route-to-Market Overview

| | Contract for Difference (CfD) | Merchant / Utility PPA (UPPA) | Corporate PPA (CPPA) | Private Wire |
|---|---|---|---|---|
| **Description** | • Support mechanism that provides a financial contract under which a generator is topped up to an agreed strike price (if there is a shortfall) | • Agreement with a supplier (fixed or floating price)<br>• This is the most common form of PPA | • Agreement made directly between a generator and a corporate or industrial offtaker for the purchase of power | • Agreement made directly between a generator, which is located at the same site, and an offtaker for the purchase of power |
| **Advantages** | • Low counterparty risk (UK Government backed)<br>• Long-term fixed price (15 years) | • Simple to transact (1-2 months)<br>• Standardized contracts | • Long-term fixed price (10-20 years) and inflation linked<br>• Provide price certainty for both the corporate and the generator<br>• Relationship with Corporates which can lead to further opportunities | • Long-term fixed price and inflation linked<br>• Opens up opportunities to develop where grid is limited<br>• Less complex to implement than CPPA |
| **Disadvantages** | • Can be subject to a very competitive auction<br>• Only available when the government mandates an auction<br>• Only available to un-constructed projects with planning consent at the time of the auction | • Shorter fixed price periods (1-10 years) compared to CPPA<br>• Strict penalties for late COD (comparing to CPPA) | • More commonly signed by large corporates<br>• Complicated to implement and slow to transact<br>• Uses up a lot of resource<br>• Current auction process are highly competitive | • Complex and time consuming to conclude<br>• High exposure to counterparty (bespoke to each client)<br>• Limited alternative off-take opportunities in case of termination<br>• Price well below the market rate |

*Source: Company*

**Income Statement**

| FY Dec (RM m) | 2020A | 2021A | 2022A | 2023F | 2024F |
|---|---|---|---|---|---|
| Revenue | 43976 | 48120 | 50868 | 51792 | 52714 |
| EBITDA | 17981 | 18554 | 20812 | 21161 | 22471 |
| Depreciation | -10622 | -10692 | -11403 | -12066 | -12573 |
| EBIT | 7359 | 7862 | 9410 | 9095 | 9897 |
| Interest Income | 318 | 222 | 278 | 413 | 307 |
| Interest Expense | -3669 | -3793 | -4343 | -4415 | -3913 |
| Associate | 77 | 194 | 98 | 200 | 100 |
| Exceptional | 125 | 202 | 131 | 0 | 0 |
| PBT | 4235 | 4609 | 5349 | 5293 | 6392 |
| Taxation | -619 | -744 | -1791 | -1164 | -1534 |
| Minority Interest | -24 | -203 | -94 | -27 | -27 |
| Net Profit | 3593 | 3662 | 3463 | 4102 | 4831 |
| Core Net Profit | 3804 | 4808 | 3840 | 4102 | 4831 |

**Balance Sheet**

| FY Dec (RM m) | 2020A | 2021A | 2022A | 2023F | 2024F |
|---|---|---|---|---|---|
| Fixed Assets | 112596 | 114106 | 114106 | 116711 | 116338 |
| Intangibles | 434 | 438 | 594 | 461 | 469 |
| Other FA | 40601 | 41034 | 46167 | 41800 | 41230 |
| Inventories | 1584 | 1977 | 3291 | 2098 | 2071 |
| Receivables | 10835 | 14028 | 26820 | 15907 | 16190 |
| Other CA | 8942 | 4311 | 10052 | 4443 | 4433 |
| Cash | 6442 | 6706 | 4893 | 6689 | 9519 |
| **Total Assets** | 181433 | 182601 | 205922 | 188109 | 190252 |
| | | | | | |
| Payables | 14720 | 12188 | 15227 | 14688 | 14617 |
| ST Borrowings | 6409 | 6993 | 13262 | 2998 | 3163 |
| Other ST Liability | 7672 | 8036 | 9109 | 8445 | 8587 |
| LT Borrowings | 43044 | 44724 | 50622 | 46063 | 45597 |
| Other LT Liability | 52139 | 52267 | 56737 | 53748 | 53670 |
| Minority Int. | 1617 | 1784 | 2449 | 1877 | 1910 |
| **Net Assets** | **55833** | **56608** | **58517** | **60291** | **62707** |
| | | | | | |
| Share Capital | 11675 | 11928 | 12204 | 11928 | 11928 |
| Reserves | 44158 | 44681 | 46313 | 48364 | 50779 |
| **Equity** | **55833** | **56608** | **58517** | **60291** | **62707** |

**Cashflow Statement**

| FY Dec (RM m) | 2020A | 2021A | 2022A | 2023F | 2024F |
|---|---|---|---|---|---|
| Operating CF | 11603 | 22227 | 11034 | 16641 | 18320 |
| Investing CF | -6110 | -8416 | -8760 | -12862 | -12837 |
| Financing CF | -5218 | -13389 | -3046 | -1983 | -2653 |
| Change In Cash | 275 | 422 | -773 | 1796 | 2829 |
| Free CF | 5493 | 13811 | 2273 | 3779 | 5483 |

**Financial Data & Ratios**

| FY Dec | 2020A | 2021A | 2022A | 2023F | 2024F |
|---|---|---|---|---|---|
| **Growth (%)** | | | | | |
| Revenue | -13.7 | 9.4 | 5.7 | 1.8 | 1.8 |
| EBITDA | -7.4 | 3.2 | 12.2 | 1.7 | 6.2 |
| Operating Income | -19.1 | 6.8 | 19.7 | -3.3 | 8.8 |
| Pre-tax Income | -22.7 | 8.8 | 16.0 | -1.0 | 20.8 |
| Net Income | -20.7 | 1.9 | -5.4 | 18.4 | 17.8 |
| Core Net Income | -26.8 | 26.4 | -20.1 | 6.8 | 17.8 |
| | | | | | |
| **Profitability (%)** | | | | | |
| EBITDA Margin | 40.9 | 38.6 | 40.9 | 40.9 | 42.6 |
| Operating Margin | 16.7 | 16.3 | 18.5 | 17.6 | 18.8 |
| PBT Margin | 9.6 | 9.6 | 10.5 | 10.2 | 12.1 |
| Net Margin | 8.2 | 7.6 | 6.8 | 7.9 | 9.2 |
| Core Net Margin | 8.7 | 10.0 | 7.5 | 7.9 | 9.2 |
| Effective Tax Rate | 19.6 | 36.4 | 27.7 | 22.0 | 24.0 |
| ROE | 6.7 | 8.6 | 6.7 | 6.9 | 7.9 |
| ROA | 4.1 | 4.7 | 4.2 | 4.6 | 4.6 |
| | | | | | |
| **DuPont Analysis** | | | | | |
| Net margin (%) | 8.2 | 7.6 | 6.8 | 7.9 | 9.2 |
| Assets Turnover (x) | 0.2 | 0.3 | 0.2 | 0.3 | 0.3 |
| Leverage Factor (x) | 3.2 | 3.2 | 3.5 | 3.1 | 3.0 |
| ROE (%) | 6.4 | 6.5 | 5.9 | 6.8 | 7.7 |
| | | | | | |
| **Leverage** | | | | | |
| Debt/Asset (x) | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Debt/Equity (x) | 0.9 | 0.9 | 1.1 | 0.8 | 0.8 |
| Net Debt/(Cash) | -36037 | -42559 | -50850 | -39884 | -36799 |
| Net Debt/Equity (x) | 0.65 | 0.75 | 0.87 | 0.66 | 0.59 |
| | | | | | |
| **Valuations** | | | | | |
| Core EPS (sen) | 66.4 | 84.0 | 67.1 | 71.6 | 84.4 |
| NDPS (sen) | 80.0 | 40.0 | 46.0 | 35.8 | 42.2 |
| BV/share (RM) | 9.8 | 9.9 | 10.2 | 10.5 | 11.0 |
| NTA/share (RM) | 9.7 | 9.8 | 10.1 | 10.4 | 10.9 |
| Core PER (x) | 15.8 | 11.1 | 14.4 | 13.8 | 11.7 |
| Net Div. Yield (%) | 7.6 | 4.3 | 4.8 | 3.6 | 4.3 |
| PBV (x) | 0.93 | 0.92 | 0.97 | 0.94 | 0.90 |
| P/NTA (x) | 0.93 | 0.92 | 0.98 | 0.95 | 0.91 |
| EV/EBITDA (x) | 4.9 | 5.1 | 4.7 | 4.6 | 4.2 |

*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 | 3.41 | 3.30 | -3.2% | 4,378.4 | Y | 12/2023 | 27.1 | 25.2 | -11.5% | -6.8% | 12.6 | 13.5 | 3.2 | 26.2% | 19.0 | 5.6% |
| MALAKOFF CORP BHD | MP | 0.61 | 0.63 | 3.3% | 2,981.0 | Y | 12/2023 | (6.9) | 5.4 | -182.4% | >100.0% | N.A. | 11.3 | 0.6 | -6.5% | 3.0 | 4.9% |
| PETRONAS GAS BHD | MP | 17.10 | 17.45 | 2.0% | 33,836.3 | Y | 12/2023 | 95.8 | 97.2 | 9.8% | 1.4% | 17.8 | 17.6 | 2.5 | 14.3% | 81.5 | 4.8% |
| SAMAIDEN GROUP BHD | OP | 1.08 | 1.51 | 39.8% | 442.6 | Y | 06/2024 | 4.5 | 5.3 | 45.6% | 17.6% | 23.9 | 20.3 | 3.7 | 17.0% | 0.0 | 0.0% |
| TENAGA NASIONAL BHD | OP | 9.90 | 11.30 | 14.1% | 57,294.6 | 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 | 2.29 | 2.50 | 9.2% | 18,553.9 | N | 06/2024 | 26.5 | 25.3 | 9.7% | -4.9% | 8.6 | 9.1 | 1.1 | 12.7% | 6.0 | 2.6% |
| **Sector Aggregate** | | | | | **117,486.9** | | | | | **-2.2%** | **15.2%** | **14.4** | **12.5** | **2.0** | **11.7%** | | **3.6%** |

*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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