

29 November 2023

# Tenaga Nasional

## Data Centres to Drive Growth

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Electricity-guzzling new data centres will drive TENAGA's earnings growth over the immediate term. Meanwhile, negative fuel margin is unlikely to recur in FY24 given the stabilising coal prices, while lower fuel costs will bring down its Imbalance Cost Pass-through (ICPT) receivables, resulting in interest savings. We maintain our forecasts, TP of RM11.45 and **OUTPERFORM** rating.

We came away from TENAGA's post-3QFY23 results briefing feeling positive on its prospects.

- Over the immediate term, the demand for electricity will be driven by new data centres. So far, six new data centres have been completed which will consume about 292MW of electricity. TENAGA has signed Electricity Supply Agreements (ESA) with eight data centres for 2,000MW of electricity. It projects a total potential demand of 7,000MW of electricity from data centres by 2035.
- TENAGA had exited the Indian market after disposing off its entire 30% stake in GMR Energy Ltd for USD28.5m in Nov 2023, given the difficult operating condition there. Meanwhile, it completed the acquisition of the entire stake in Spark Renewables Pty Ltd (SRPL) of Australia in Sep 2023 for AUD391.9m. SRPL, a solar farm, will also venture into wind power generation and battery energy storage system in Australia.
- TENAGA has earmarked RM7b capex in FY24 for its regulated business and RM5b-RM6b for non-regulated business such as solar farm and hydropower plant under the generation business (GenCo). It also needs to upgrade the transmission and distribution (T&D) system including the power grid to meet the demand from the growing renewable energy (RE) assets.
- Negative fuel margin (as much as RM767.9m in 9MFY23) is unlikely to recur in FY24 given the stabilising coal prices. Coal prices have moderated from USD377.59/MT in Sep 2022 to USD138.62/MT in Sep 2023. On a brighter note, easing coal prices will bring down ICPT receivables, resulting in lower working capital requirements and hence interest expenses and better earnings.

### Forecasts. Maintained.

We also keep our DCF-derived TP of RM11.45 (WACC: 6.7%; TG: 2%). There is no adjustment to our TP based on our ESG 3-star rating (see Page 5).

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 3%-4%. Maintain **OUTPERFORM**.

**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 : **RM9.89**  
Target Price : **RM11.45** ↔

### Share Price Performance



KLCI	1,448.02
YTD KLCI chg	-3.2%
YTD stock price chg	2.7%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TNB MK Equity
Market Cap (RM m)	57,236.7
Shares outstanding	5,787.3
52-week range (H)	10.20
52-week range (L)	8.75
3-mth avg daily vol:	4,377,388
Free Float	33%
Beta	0.8

### Major Shareholders

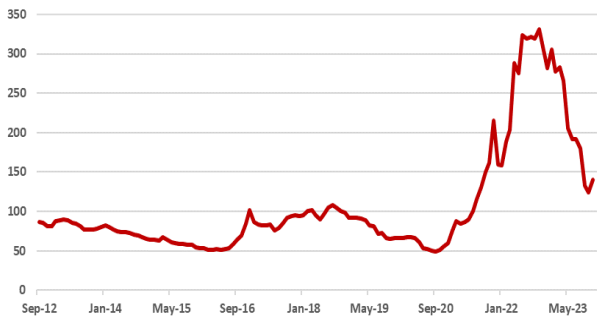
Khazanah Nasional Bhd	22.6%
Amanah Saham Nasional	16.5%
Employees Provident	15.5%

### Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Turnover	50,868	51,792	52,714
EBIT	9,410	8,326	9,250
PBT	5,349	4,564	5,962
<b>Net Profit (NP)</b>	<b>3,463</b>	<b>3,625</b>	<b>4,504</b>
<b>Core Net Profit</b>	<b>3,840</b>	<b>3,625</b>	<b>4,504</b>
Consensus (NP)	-	3,743	4,492
Earnings Revision (%)	-	-	-
Core EPS (sen)	67.1	63.3	78.7
Core EPS growth (%)	-20.1	-5.6	24.2
NDPS (sen)	46.0	31.7	39.3
BV/Share (RM)	10.22	10.49	10.88
NTA/Share (RM)	10.12	10.41	10.80
Core PER (x)	14.4	15.6	12.6
Price/BV (x)	0.97	0.94	0.91
Price/NTA (x)	0.98	0.95	0.92
Net Gearing (x)	0.87	0.68	0.61
Net Dvd.Yield (%)	4.8	3.2	4.0

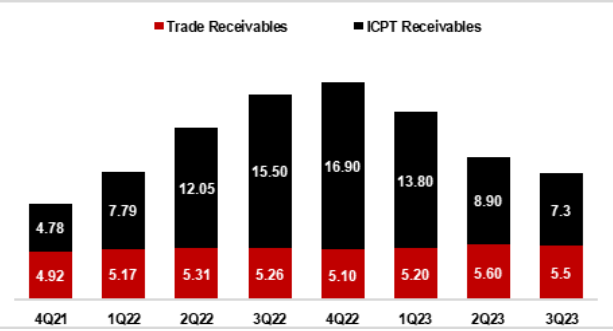
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## Indonesia Coal Benchmark Price



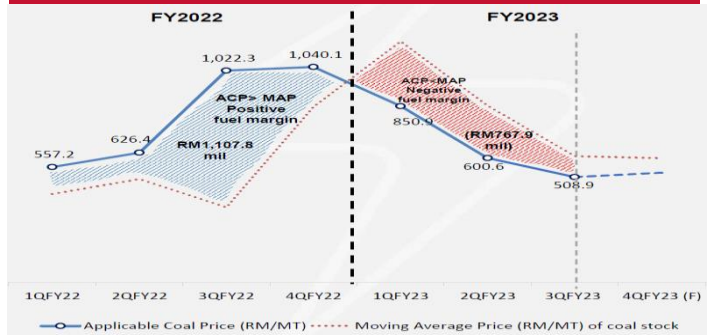
Source: Bloomberg

## TENAGA: Trade & Other Receivables



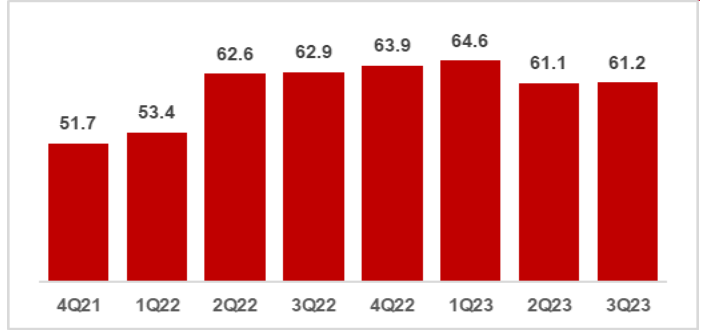
Source: Company

## Fuel Margin



Source: Company

## TENAGA: Borrowings



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.
<b>Stocks Under Coverage</b>																	
GAS MALAYSIA BHD	MP	3.14	3.33	6.1%	4,031.8	Y	12/2023	28.6	25.7	-6.6%	-10.0%	11.0	12.2	2.9	27.5%	20.0	6.4%
MALAKOFF CORP BHD	MP	0.615	0.600	-2.4%	3,005.5	Y	12/2023	(10.9)	4.0	-226.8%	-63.6%	N.A.	15.4	0.6	-10.5%	3.0	4.9%
PETRONAS GAS BHD	MP	16.84	17.45	3.6%	33,321.8	Y	12/2023	95.8	97.2	9.8%	1.4%	17.6	17.3	2.5	14.3%	81.5	4.8%
SAMAIDEN GROUP BHD	OP	1.12	1.44	28.6%	460.0	Y	06/2024	3.8	5.7	24.8%	50.5%	29.4	19.5	4.0	14.8%	0.0	0.0%
TENAGA NASIONAL BHD	OP	9.89	11.45	15.8%	57,236.7	Y	12/2023	63.3	78.7	-5.6%	24.2%	15.6	12.6	0.9	6.1%	31.7	3.2%
YTL POWER INTERNATIONAL BHD	OP	2.31	2.82	22.1%	18,716.0	N	06/2024	35.3	28.1	45.9%	-20.5%	6.5	8.2	1.0	16.5%	6.0	2.6%
<b>Sector Aggregate</b>					<b>116,771.8</b>					<b>-1.7%</b>	<b>12.6%</b>	<b>14.2</b>	<b>12.6</b>	<b>2.0</b>	<b>11.4%</b>		<b>3.6%</b>

Source: Kenanga Research

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**Stock ESG Ratings:**

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

☆ 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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