Tenaga Nasional

Growth Prospects Electrified

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OUTPERFORM ↑

Price : **RM12.98**

Target Price : **RM14.50 ↑**

TENAGA reiterated its guidance for electricity demand growth of 2.5% to 3.0% in FY24 and we expect the same growth rate over Regulatory Period 4 (RP4), vs. 1.8% during Regulatory Period 3 (RP3), backed by a strong pipeline of data centre projects. We raise our FY24-25F earnings forecasts by 3% and 4%, respectively, lift our TP by 16% to RM14.50 (from RM12.45) and upgrade our call to OUTPERFORM from MARKET PERFORM.

We came away from TENAGA's post-4QFY23 results briefing feeling positive on its prospects. The key takeaways are as follows:

1. Its electricity sales of 31,899GWh (+1.3% QoQ/+9.6% YoY) in 1QFY24 was a record despite 1Q being seasonally the weakest quarter in the year, driven mainly by commercial (+11.2% YoY) and industrial segments (+3.0%). This was underpinned largely by the additional demand for electricity from two new data centres (with c.600MW in combined installed capacity). From 150MW in 1QFY24, they will step-load further in coming quarters.

2. It guided for nine data centre projects with a total energy demand of 700MW to be completed in CY24 (see Page 2). So far, two with 535MW energy demand were already commissioned in Mar 2024, namely Yondr Data Centre and Princeton Digital Group Data Centre, both in Sedenak Tech Park, Johor. Also, in Jan 2024, TENAGA signed an Electricity Supply Agreement (ESA) each with: (I) Microsoft for its data centre scheduled for commissioning by Jun 2025, and (ii) Vantage Data Centres for its data centre scheduled for commissioning by Dec 2025. The two data centres with a combined energy demand of 484MW are located in Cyberjaya. TENAGA sees geographical diversification of these data centres (i.e. in central and southern of peninsular) as more manageable (vs. if they are concentrated in the same region).

3. TENAGA is in negotiations with the regulator (see page 2) on the terms during RP4 and hopes to finalise them before the year is out for implementation in Jan 2025. We expect demand growth factor in RP4 of 2.5% to 3.0% (vs. 1.7% embedded in RP3) on additional demand from new data centres. It also reiterated its FY24 demand growth of 2.5% to 3.0%, which we believe could be a tad conservative given the 1QFY24 number.

4. TENAGA shared that it has yet to book in costs from the Manjung 4 outage (the high repair & maintenance during 1QFY24 (+11% YoY) was general in nature). To recap, Manjung 4 has been on unplanned outage since Dec 2023 due to high stream turbine vibration. The annual capacity payment it receives is c.RM700m. We understand that c.RM400m of it could be at risk. On a brighter note, its repair works are currently on track to be completed by the end of the year.

5. Meanwhile, the Imbalance Cost Pass-through (ICPT) under-recovery rose 12% QoQ to RM2.35b in 1QFY24 as fuel costs increased. However, the number was still 63% off the peak of RM6.40b in 4QFY22. As a result, its receivables (including ICPT receivables) grew by 8% to RM11.29b from RM10.41b in which is still manageable. Given the stable coal prices, TENAGA expects ICPT cost recovery for 2HFY24 to be RM4.6b vs. RM4.7b in 2HFY23A.

Share Price Performance

KLCI	1,615.40
YTD KLCI chg	11.1%
YTD stock price chg	29.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TNB MK Equity
Market Cap (RM m)	75,119.6
Shares outstanding	5,787.3
52-week range (H)	13.26
52-week range (L)	8.99
3-mth avg. daily vol.	6,342,560
Free Float	25%
Beta	0.9

Major Shareholders

Amanah Saham Nasional	23.6%
Khazanah Nasional Bhd	21.5%
Employees Provident	18.2%

Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Turnover	53,067	52,647	54,635
EBIT	7,357	9,034	9,459
PBT	3,374	5,699	6,205
Net Profit (NP)	**2,770**	**4,304**	**4,688**
Core Net Profit	**3,073**	**4,304**	**4,688**
Consensus (NP)	-	3,967	4,398
Earnings Revision (%)	-	+2.9	+4.1
Core EPS (sen)	53.1	74.4	81.0
Core EPS Growth (%)	-20.0	40.1	8.9
NDPS (sen)	46.0	37.2	40.5
BV/Share (RM)	10.16	10.78	11.19
NTA/Share (RM)	9.96	10.57	10.97
Core PER (x)	18.9	17.5	16.0
Price/BV (x)	1.28	1.20	1.16
Price/NTA (x)	1.30	1.23	1.18
Net Gearing (x)	0.69	0.49	0.41
Net Dvd.Yield (%)	4.6	2.9	3.1

Outlook. TENAGA has found a new avenue of growth fueled by electricity demand from data centre investment of >5,000MW by 2035, equivalent to 20% of total generating capacity in Malaysia. Meanwhile, with stabilising coal prices, it is likely to be spared huge negative fuel margins. Its Manjung 4 Plant has been on forced outage since Dec 2023 due to high steam turbine vibration and the repair works are expected to be completed by the end of the year. We have reflected a capacity payment loss of RM400m in our FY24F forecast.

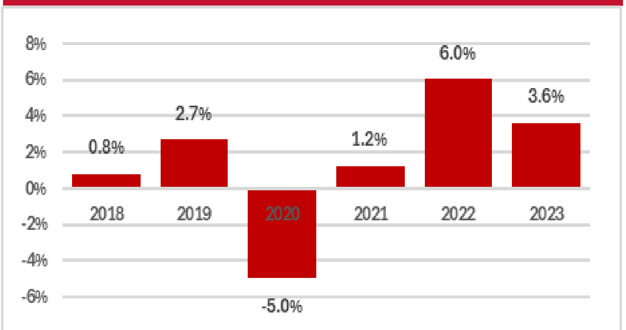
Forecasts. We raise our FY24-25F net profit forecasts by 3-4% as we lift our demand growth assumption to 3% from 1.8% backed by strong electricity demand from data centres. We also upgrade our long-term demand growth assumption to 3.0% from 1.8% previously.

Valuations. Correspondingly, we upgrade our DCF-derived TP by 16% to RM14.50 (from RM12.45) based on an unchanged WACC of 6.7% and TG of 2.5%. There is no adjustment to our TP based on our ESG 3-star rating (see Page 5).

Investment case. 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, (iii) its new avenue of growth fueled by electricity demand from data centres; and (iv) its heavyweight index-linked stock status. Upgrade to **OUTPERFORM** from **MARKET PERFORM**.

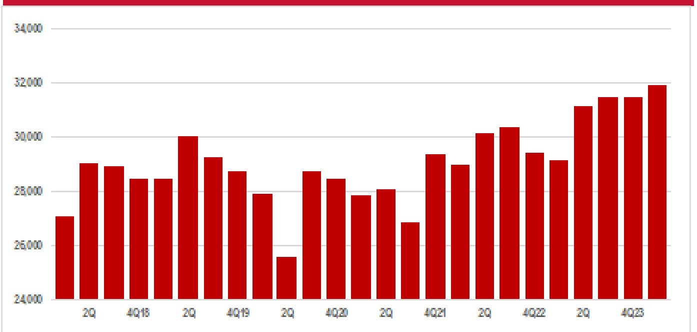
Risks to our recommendation include: (i) ballooning under-recovery of fuel costs, straining its cash flow, (ii) a global recession hurting demand for electricity, and (iii) non-compliance of ESG standards set by various stakeholders.

Peninsular Malaysia's Demand Growth



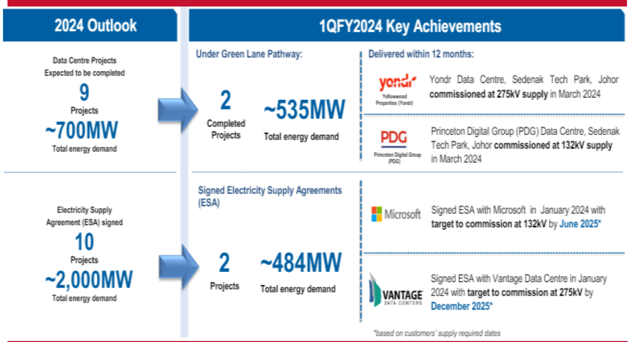
Source: Company

Peninsular Malaysia's Quarterly Electricity Sales



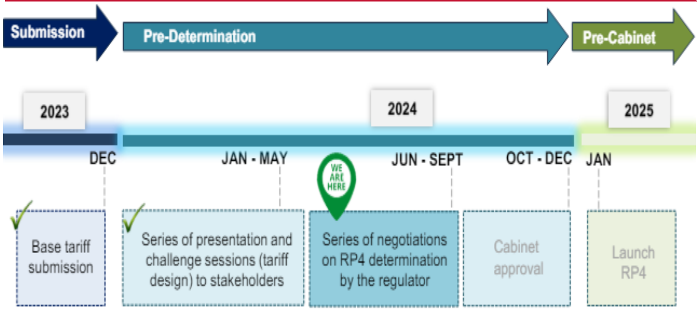
Source: Company

Data Centre Prospects



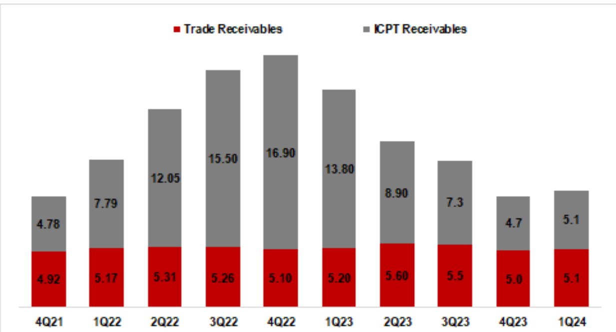
Source: Company

RP4 Milestone



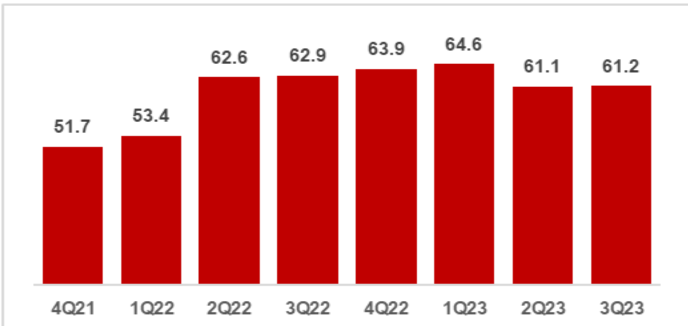
Source: Company

TENAGA: Trade & Other Receivables



Source: Company

TENAGA: Borrowings



Source: Company

Income Statement

FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F
Revenue	48120	50868	53067	52647	54635
EBITDA	18554	20812	18623	21124	22159
Depreciation	-10692	-11403	-11266	-12090	-12700
EBIT	7862	9410	7357	9034	9459
Interest Income	222	278	544	298	481
Interest Expense	-3793	-4343	-4331	-3733	-3835
Associate	194	98	62	100	100
Exceptional	202	131	-49	0	0
PBT	4609	5349	3374	5699	6205
Taxation	-744	-1791	-770	-1368	-1489
Minority Interest	-203	-94	167	-27	-28
Net Profit	3662	3463	2770	4304	4688
Core Net Profit	4808	3840	3073	4304	4688

Balance Sheet

FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F
Fixed Assets	114106	114106	122025	117732	117233
Intangibles	438	594	1206	1215	1261
Other FA	41034	46167	40882	41205	40054
Inventories	1977	3291	2758	2159	2224
Receivables	14028	26820	14967	16684	17314
Other CA	4311	10052	3544	3572	3584
Cash	6706	4893	19391	4330	8053
Total Assets	182601	205922	204771	186898	189723
Payables	12188	15227	16154	19446	20096
ST Borrowings	6993	13262	7031	3163	3269
Other ST Liability	8036	9109	9354	9428	9731
LT Borrowings	44724	50622	54750	33597	33026
Other LT Liability	52267	56737	56400	56586	56494
Minority Int.	1784	2449	2257	2275	2361
Net Assets	**56608**	**58517**	**58826**	**62403**	**64746**
Share Capital	11928	12204	12500	12500	12500
Reserves	44681	46313	46326	49903	52247
Equity	**56608**	**58517**	**58826**	**62403**	**64746**

Cashflow Statement

FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F
Operating CF	11109	6902	33192	10078	19941
Investing CF	-4179	-14855	-5782	-11320	-13474
Financing CF	-6514	6271	-12985	-13818	-2744
Change In Cash	417	-1683	14426	-15060	3723
Free CF	6931	-7953	27410	-1242	6467

Financial Data & Ratios

FY Dec	2021A	2022A	2023A	2024F	2025F
Growth (%)					
Revenue	9.4	5.7	4.3	-0.8	3.8
EBITDA	3.2	12.2	-10.5	13.4	4.9
Operating Income	6.8	19.7	-21.8	22.8	4.7
Pre-tax Income	8.8	16.0	-36.9	68.9	8.9
Net Income	1.9	-5.4	-20.0	55.4	8.9
Core Net Income	26.4	-20.1	-20.0	40.1	8.9
Profitability (%)					
EBITDA Margin	38.6	40.9	35.1	40.1	40.6
Operating Margin	16.3	18.5	13.9	17.2	17.3
PBT Margin	9.6	10.5	6.4	10.8	11.4
Net Margin	7.6	6.8	5.2	8.2	8.6
Core Net Margin	10.0	7.5	5.8	8.2	8.6
Effective Tax Rate	36.4	27.7	22.8	24.0	24.0
ROE	8.6	6.7	5.2	7.1	7.4
ROA	4.7	4.2	3.6	4.3	4.5
DuPont Analysis					
Net margin (%)	7.6	6.8	5.2	8.2	8.6
Assets Turnover (x)	0.3	0.2	0.3	0.3	0.3
Leverage Factor (x)	3.2	3.5	3.5	3.0	2.9
ROE (%)	6.5	5.9	4.7	6.9	7.2
Leverage					
Debt/Asset (x)	0.3	0.3	0.3	0.2	0.2
Debt/Equity (x)	0.9	1.1	1.1	0.6	0.6
Net Debt/(Cash)	-42559	-50850	-40776	-30804	-26677
Net Debt/Equity (x)	0.75	0.87	0.69	0.49	0.41
Valuations					
Core EPS (sen)	84.0	66.7	53.1	74.4	81.0
NDPS (sen)	40.0	46.0	46.0	37.2	40.5
BV/share (RM)	9.9	10.2	10.2	10.8	11.2
NTA/share (RM)	9.8	10.1	10.0	10.6	11.0
Core PER (x)	11.1	14.4	18.9	17.5	16.0
Net Div. Yield (%)	4.3	4.8	4.6	2.9	3.1
PBV (x)	1.31	1.28	1.28	1.20	1.16
P/NTA (x)	1.32	1.29	1.30	1.23	1.18
EV/EBITDA (x)	6.3	5.5	6.3	5.0	4.6

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	3.57	3.59	0.6%	4,583.9	Y	12/2024	28.4	27.5	-4.9%	-3.0%	12.6	13.0	3.1	25.8%	22.7	6.4%
MALAKOFF CORP BHD	MP	0.715	0.680	-4.9%	3,494.2	Y	12/2024	4.7	5.8	-71.9%	24.1%	15.2	12.3	0.8	5.2%	3.8	5.3%
PETRONAS GAS BHD	MP	18.22	17.87	-1.9%	36,052.5	Y	12/2024	98.4	100.7	5.2%	2.4%	18.5	18.1	2.6	14.2%	72.0	4.0%
SAMAIDEN GROUP BHD	OP	1.32	1.51	14.4%	552.4	Y	06/2024	3.5	5.3	26.4%	51.9%	37.9	25.0	5.3	14.9%	0.0	0.0%
SOLARVEST HOLDINGS BHD	OP	1.61	1.91	18.6%	1,115.2	Y	03/2025	6.8	8.5	62.5%	24.2%	23.5	18.9	4.1	19.5%	0.0	0.0%
TENAGA NASIONAL BHD	OP	12.98	14.50	11.7%	75,119.6	Y	12/2024	75.2	81.9	40.1%	8.9%	17.3	15.9	1.2	7.1%	37.2	2.9%
Sector Aggregate					**161,479.2**					**55.8%**	**3.8%**	**16.0**	**15.4**	**2.8**	**15.0%**		**2.8%**

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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