

30 August 2024

# Tenaga Nasional

## Sustainable LT Growth; Upgrade to OP

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**TENAGA's 1HFY24 results beat our forecasts with higher-than-expected revenue. Electricity sales hit yet another record high in 2QFY24, reinforcing our belief that while there is a >5000MW MW data centre target by 2035, the current acceleration phase of data centre build-out over the next 12 to 18 months means electricity demand growth will prove higher than initially envisaged. Pegging to 3.5% growth, our FY24-25F earnings are lifted by 2-4% and TP by 17% to RM17.00. Upgrade to OP.**

**1HFY24 results above.** TENAGA's 1HFY24 core profit of RM2.23b beat our expectations at 57% of our full-year forecasts but met market consensus at 52% of full-year estimate. The variance against our forecast came from stronger-than-expected electricity sales and lower-than-expected staff cost. It declared a higher 1<sup>st</sup> interim NDPS of 25.0 sen in 2QFY24 vs. the 18.0 sen paid in 2QFY23.

**YoY,** 1HFY24 core profit jumped 25% to RM2.23b on the back of 8% hike in revenue to RM28.01b. This was largely due to higher electricity sales of 9% led by commercial (+10%), domestic (+12%) and industrial (+3%) while its international RE unit, i.e. TNB International reported a 31% jump in revenue. Meanwhile, total fuel costs which was passed through, declined 16% as applicable coal price (ACP) contracted 24% to RM533.4/MT as coal prices stabilised.

**QoQ,** 2QFY24 core profit soared 44% to RM1.31b largely due to higher revenue. (+5%, primarily due to higher electricity sales growth of 4%) Generally, operating cost was higher by 9%, led mainly by higher fuel cost (+5%) and repair & maintenance (+16%), while fuel prices were lower as ACP dipped 1%; the higher total fuel costs were a function of higher generation as electricity demand increased.

2QFY24 core profit jumped 78% on a flattish top line driven by lower opex such as repair & maintenance (-21%), staff cost (-8%) and general expenses (-42%), which more than cushioned a negative fuel margin of RM25.8m (vs. a positive fuel margin of RM149.2m three months ago). Its total fuel cost dipped 2% as ACP eased 1%. Negative fuel margin was manageable at RM44.0m in 2QFY24 as opposed to RM25.8m in the preceding quarter.

**Outlook.** TENAGA has found a new avenue of growth fuelled by electricity demand from data centre investment of >5,000MW by 2035, equivalent to 20% of total generating capacity in Malaysia. In the near term, a total of 700MW data centre is slated to come onstream by this year. 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 steam turbine high vibration, and repair works are expected to be completed this year-end. We have reflected the loss of RM400m capacity payment in our FY24F set.

**Forecasts.** We upgraded our FY24-25F earnings by 2% and 4%, respectively, as we raised our electricity sales assumption for FY24-FY35 to 3.5% from 3.0% previously, anticipating strong demand from data centre. We also raised our NDPS proportionally based on unchanged payout of 50%.

**Valuations.** Post earnings revision, we raised our DCF-derived TP by 17% to RM17.00 (from RM14.50) based on unchanged WACC of 6.7% and lower TG assumption of 2.0% from 2.5%, expecting electricity demand growth to normalise as data centre investment reaches its peak. There is no adjustment to our TP based on our ESG 3-star rating

**OUTPERFORM** ↑

Price: **RM13.94**  
Target Price: **RM17.00** ↑

### Share Price Performance



KLCI	1,653.55
YTD KLCI chg	13.7%
YTD stock price chg	38.8%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TNB MK Equity
Market Cap (RM m)	81,032.5
Shares Outstanding	5,812.9
52-week range (H)	14.62
52-week range (L)	9.77
3-mth avg. daily vol.	10,037,950
Free Float	52%
Beta	0.9

### Major Shareholders

Amanah Saham Nasional	22.4%
Khazanah Nasional Bhd	20.9%
Employees Provident Fund	17.2%

### Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Turnover	53,067	52,411	54,140
EBIT	7,357	8,922	9,292
PBT	3,374	5,589	6,026
<b>Net Profit (NP)</b>	<b>2,770</b>	<b>4,183</b>	<b>4,502</b>
<b>Core Net Profit</b>	<b>3,073</b>	<b>4,183</b>	<b>4,502</b>
Consensus (NP)	-	3,976	4,468
Earnings Rev. (%)	-	+2	+4
Core EPS (sen)	53.1	72.3	77.8
EPS Growth (%)	-20.0	36.1	7.6
NDPS (sen)	46.0	36.1	38.9
BV/Share (RM)	10.16	10.77	11.16
NTA/Share (RM)	9.96	10.56	10.94
Core PER (x)	18.9	18.0	16.8
PBV (x)	1.28	1.21	1.17
Price/NTA (x)	1.31	1.23	1.19
Net Gearing (x)	0.69	0.49	0.42
Dividend Yield (%)	4.6	2.8	3.0

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(see Page 6).

**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 sustainable earnings growth fuelled by electricity demand from data centres and transmission & distribution (T&D) investment to cater for developing data centres, and (iv) its heavyweight index-linked stock status. As such, we upgrade our recommendation to **OUTPERFORM** as TENAGA is the long-term beneficiary of the influx of FDI to build data centres in the country.

**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.

Income Statement								
FYE Dec (RM m)	2Q FY24	1Q FY24	Q-o-Q Chg	2Q FY23	Y-o-Y Chg	1H FY24	1H FY23	Y-o-Y Chg
Turnover	14,366.8	13,640.4	5%	13,323.2	8%	28,007.2	25,948.8	8%
EBITDA	5,099.5	4,805.0	6%	4,664.7	9%	9,904.5	9,548.4	4%
Depreciation	-2,858.3	-2,780.2	3%	-2,795.7	2%	-5,638.5	-5,597.3	1%
EBIT	2,241.2	2,024.8	11%	1,869.0	20%	4,266.0	3,951.1	8%
Interest income	159.1	156.2	2%	157.6	1%	315.3	256.2	23%
Interest expense	-1,013.8	-1,027.1	-1%	-1,146.6	-12%	-2,040.9	-2,266.2	-10%
Forex translation gain	130.2	-196.7	N/A	-453.5	N/A	-66.5	-425.4	-84%
Forex transaction gain	-7.1	25.4	-128%	61.8	-111%	18.3	60.3	-70%
Associates	245.8	19.6	1154%	-1.7	N/A	265.4	21.3	1146%
Exceptional items	11.5	27.6	-58%	54.9	-79%	39.1	46.9	-17%
Pretax profit	1,766.9	1,029.8	72%	541.5	226%	2,796.7	1,644.2	70%
Taxation	-254.5	-351.9	-28%	-270.6	-6%	-606.4	-442.4	37%
Minority interest	-68.3	37.8	-281%	57.0	-220%	-30.5	128.4	-124%
Net profit	1,444.1	715.7	102%	327.9	340%	2,159.8	1,330.2	62%
Core net profit	1,313.9	912.4	44%	765.7	72%	2,226.3	1,787.1	25%
EPS (sen)	25.6	12.7	102%	5.8	340%	38.3	23.6	62%
Core EPS (sen)	23.3	16.2	44%	13.6	72%	39.4	31.7	25%
NDPS (sen)	25.0	0.0	N/A	18.0	39%	25.0	18.0	39%
NTA/share (RM)	10.05	9.81	2%	9.97	1%	10.05	9.97	1%
EBITDA margin	35.5%	35.2%		35.0%		35.4%	36.8%	
EBIT margin	15.6%	14.8%		14.0%		15.2%	15.2%	
Pretax margin	12.3%	7.5%		4.1%		10.0%	6.3%	
Effective tax rate	15.7%	29.4%		28.8%		21.5%	21.9%	

Source: Company

Breakdown of Electricity Sales & ICPT								
FYE Dec (RM m)	2Q FY24	1Q FY24	Q-o-Q Chg	2Q FY23	Y-o-Y Chg	1H FY24	1H FY23	Y-o-Y Chg
Peninsular Malaysia	13,587.1	12,648.2	7%	12,618.3	8%	26,235.3	24,061.9	9%
Sales Discount	0.0	0.0	N/A	0.0	N/A	0.0	0.0	N/A
Accrued Revenue	-122.5	205.0	-160%	-14.7	733%	82.5	183.1	-55%
EGAT	0.1	0.3	-67%	0.0	N/A	0.4	0.1	300%
SESB	595.9	549.2	9%	529.7	12%	1,145.1	1,008.5	14%
TNBI	273.0	202.4	35%	228.5	19%	475.4	363.7	31%
	<b>14,333.6</b>	<b>13,605.1</b>	<b>5%</b>	<b>13,361.8</b>	<b>7%</b>	<b>27,938.7</b>	<b>25,617.3</b>	<b>9%</b>
ICPT	2,822.2	2,353.0	20%	2,860.2	-1%	5,175.2	6,492.5	-20%

Source: Company

Generation Mix (Peninsula)

FYE Dec (RM m)	2Q FY24	1Q FY24	Q-o-Q Chg	2Q FY23	Y-o-Y Chg	1H FY24	1H FY23	Y-o-Y Chg
<b>Fuel Costs</b>								
Gas	3,013.5	3,235.0	-7%	2,495.9	21%	6,248.5	5,436.6	15%
Coal	4,605.6	4,201.5	10%	5,640.9	-18%	8,807.1	11,230.2	-22%
Dist	19.0	58.7	-68%	81.6	-77%	77.7	118.6	-34%
Oil	10.5	13.4	-22%	10.2	3%	23.9	11.9	101%
	<b>7,648.6</b>	<b>7,508.6</b>	<b>2%</b>	<b>8,228.6</b>	<b>-7%</b>	<b>15,157.2</b>	<b>16,797.3</b>	<b>-10%</b>
<b>Unit Generated (Gwh)</b>								
Gas & LNG	13,341.0	13,635.0	-2%	11,597.7	15%	26,976.0	24,039.0	12%
Coal	20,505.7	18,196.6	13%	20,470.6	0%	38,702.3	37,385.1	4%
Dist	0.0	45.7	-100%	67.7	-100%	45.7	99.5	-54%
Oil	0.0	0.0	N/A	0.0	N/A	0.0	0.0	N/A
Hydro	1,289.6	2,056.4	-37%	1,361.8	-5%	3,346.0	2,953.2	13%
Solar	692.2	698.4	-1%	566.5	22%	1,390.6	1,071.2	30%
	<b>35,828.5</b>	<b>34,632.1</b>	<b>3%</b>	<b>34,064.3</b>	<b>5%</b>	<b>70,460.6</b>	<b>65,548.0</b>	<b>7%</b>

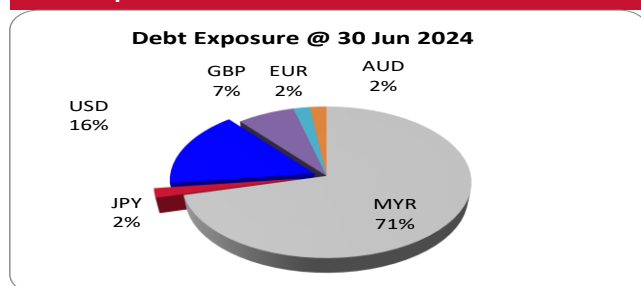
Source: Company

Breakdown of Operating Expenses

FYE Dec (RM m)	2Q FY24	1Q FY24	Q-o-Q Chg	2Q FY23	Y-o-Y Chg	1H FY24	1H FY23	Y-o-Y Chg
Total IPP Costs	4,694.8	4,233.4	11%	4,001.0	17%	8,928.2	7,709.3	16%
TNB Fuel Costs	4,552.9	4,334.9	5%	5,067.1	-10%	8,887.8	10,558.2	-16%
Repair & Maintenance	801.0	692.2	16%	724.4	11%	1,493.2	1,345.5	11%
Staff	966.5	952.0	2%	1,002.4	-4%	1,918.5	1,940.7	-1%
Depreciation	2,858.3	2,780.2	3%	2,795.7	2%	5,638.5	5,597.3	1%
General Expenses	434.2	429.1	1%	371.0	17%	863.3	783.4	10%
Others	992.8	660.8	50%	428.9	131%	1,653.6	899.2	84%
<b>Total Operating Expenses</b>	<b>15,300.5</b>	<b>14,082.6</b>	<b>9%</b>	<b>14,390.5</b>	<b>6%</b>	<b>29,383.1</b>	<b>28,833.6</b>	<b>2%</b>
<b>Ave. Coal Price (USD/MT)</b>	112.1	113.7	-1%	137.3	-18%	112.9	156.4	-28%
<b>Ave. Coal Price (RM/MT)</b>	530.5	536.3	-1%	623.2	-15%	533.4	697.4	-24%
<b>Gas Ref Mkt Price(RM/mmbtu)</b>								
- Tier 1	35.0	30.0	17%	30.0	17%	32.5	30.0	8%
- Tier 2	47.4	44.7	6%	51.7	-8%	46.1	56.9	-19%
<b>Ave. Gas/LNG Vol (mmscf)</b>	978.0	1,017.0	-4%	840.0	16%	998.0	873.0	14%

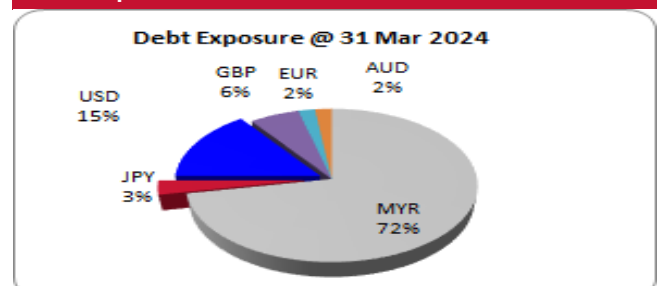
Source: Company

Debt Exposure & Forex



Source: Company

Debt Exposure & Forex

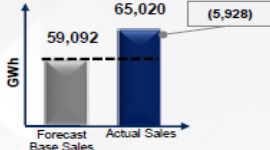


Source: Company

**Regulatory Adjustment**

**Revenue Cap**

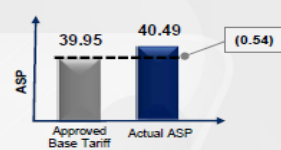
1HFY'24 Variation in Sales (in GWh)



- The allowed annual revenue for revenue cap entities is based on 118.1TWh full year demand growth. Any excess/shortfall is adjusted through revenue adjustment mechanism.
- For 1HFY'24, higher actual sales has led to amount to be returned via revenue adjustment mechanism.

**Price Cap**

1HFY'24 Variation in ASP (sen/kWh)



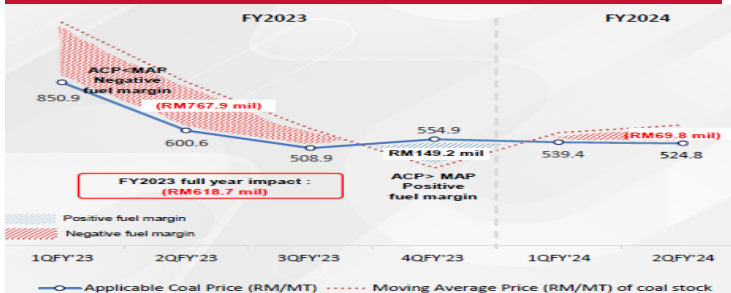
- Any excess/shortfall of revenue earned due to higher/lower Average Selling Price (ASP) compared to Base Tariff is adjusted through revenue adjustment mechanism.
- For 1HFY'24, the ASP recorded was higher than the Base Tariff, thus the amount is to be returned via revenue adjustment mechanism.

Business Entities	Allowed Tariff (sen/kWh)	Variation in Sales (GWh)	Adjustment (RM mil)
Revenue Cap Entities	12.60	(5,928)	(745.8)

Business Entities	Actual Sales (GWh)	Variation in ASP (sen/kWh)	Adjustment (RM mil)
Price Cap Entity	65,020	(0.54)	(350.7)

Source: Company

**Fuel Margin: Applicable Coal Price vs. Moving Average Price**



Source: Company

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	3.66	3.61	-1.4%	4,699.4	Y	12/2024	30.7	27.5	2.7%	-10.1%	11.9	13.3	3.2	27.8%	24.5	6.7%
MALAKOFF CORP BHD	MP	0.880	0.820	-6.8%	4,300.5	Y	12/2024	5.7	6.5	-65.7%	12.9%	15.3	13.6	1.0	6.3%	4.6	5.2%
PETRONAS GAS BHD	MP	18.40	17.87	-2.9%	36,408.7	Y	12/2024	98.4	100.7	5.2%	2.4%	18.7	18.3	2.6	14.2%	72.0	3.9%
SAMAIDEN GROUP BHD	OP	1.09	1.51	38.5%	456.2	Y	06/2024	5.3	5.9	50.0%	12.5%	20.6	18.3	4.4	22.7%	0.0	0.0%
SOLARVEST HOLDINGS BHD	OP	1.48	1.91	29.1%	1,044.6	Y	03/2025	6.8	8.5	62.5%	24.2%	21.6	17.4	3.7	19.5%	0.0	0.0%
TENAGA NASIONAL BHD	OP	13.94	17.00	22.0%	81,032.5	Y	12/2024	76.9	85.2	43.2%	10.9%	18.1	16.4	1.3	7.3%	38.0	2.7%
YTL POWER INTERNATIONAL BHD	OP	3.66	5.20	42.1%	30,035.0	N	06/2025	39.5	35.8	-3.5%	-9.3%	9.3	10.2	1.3	15.1%	7.0	1.9%
<b>Sector Aggregate</b>					<b>157,976.9</b>					<b>31.3%</b>	<b>2.3%</b>	<b>15.3</b>	<b>14.9</b>	<b>2.5</b>	<b>16.1%</b>		<b>2.9%</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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