

Malaysia

ADD (no change)

Consensus ratings*: Buy 13 Hold 5 Sell 2

Current price:	RM9.07
Target price:	RM10.88
Previous target:	RM13.60
Up/downside:	20.0%
CGS-CIMB / Consensus:	-5.9%
Reuters:	TENA.KL
Bloomberg:	TNB MK
Market cap:	US\$12,409m RM51,936m
Average daily turnover:	US\$8.71m RM36.52m
Current shares o/s:	5,726m
Free float:	31.3%

*Source: Bloomberg

Key changes in this note

➤ No change.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-1	-6.3	-10.4
Relative (%)	-6	-5	-7.4

Major shareholders	% held
Khazanah Nasional Berhad	25.6
EPF	16.2
Amanah Saham Nasional	15.1

Analyst(s)

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Tenaga Nasional

Waiting for RP3 parameters

- We see higher regulatory risks for TNB's earnings arising from the recent developments, i.e. delay of RP3 and ICPT surcharge.
- TP is cut to RM10.88, with a 20% discount to reflect the regulatory risk.

Carbon pricing will likely be earnings-neutral for power generators

We hosted Tenaga's (TNB) management during our annual Malaysia Virtual Corporate Day last week. Overall, investors were concerned about the delay in the incentive-based regulation's (IBR) third regulatory period (RP3, 2022-2024), whether the imbalance cost pass-through (ICPT) mechanism will be kept, the coal shortage issue and earnings risk from the introduction of a carbon pricing mechanism. We gather that the carbon pricing framework is still in the preliminary stages with no further details and the additional cost arising from carbon pricing for power generators will likely be passed through.

Delay in RP3 due to flood crisis

TNB clarified that the delay of IBR RP3 was due to the government's shift in priority to the recent flood crisis. Hence, the government has decided to continue with the current parameters of IBR RP2 extension and imbalance cost pass-through (ICPT) mechanism effective from 1 Jan 2022 until further notice. To recap, the regulated return for RP2 extension (2021) was 7.3% with an expected closing regulated asset base (RAB) of RM62.4bn. We gather the RP3 paper was ready and awaiting approval from the cabinet, which will be revisited after the flood situation has eased; the higher fuel costs for the period of Jul-Dec 21 will likely be borne by the government and the Kumpulan Wang Industri Elektrik (KWIE) fund.

New electricity tariff could be out anytime soon

We expect the RP3 parameters and new electricity tariff to be revealed in the near term as Energy and Natural Resources Minister Datuk Seri Takiyuddin Hassan said in an article in Bernama dated 9 Jan 22 that the government has studied the new electricity tariff and will make an announcement soon. The minister said the new tariff under RP3 (2022-2024) will not burden the people as the government has considered the country's recovery from the economic crisis following the pandemic, especially domestic account holders. While the potentially lower regulated return in RP3 could be negative for Tenaga, the higher asset base will likely mitigate earnings downside, in our view. We forecast a 30bp cut in regulated return and 3% RAB growth p.a. for RP3 (FY22-24F forecasts).

Reiterate Add

We see potential earnings risk from less favourable RP3 parameters/ICPT mechanism and possible additional contribution for electricity rebates in order to ease the people's burden given the recent news flow. Our TP is revised to RM10.88, based on 12x CY23F P/E, as we apply a 20% discount to its 5-year historical P/E of 15x to factor in the regulatory risks. Reiterate Add given its undemanding valuation (c.-2 s.d. from its 5-year historical P/E of 9.5x), and decent dividend yield of >5%.

Financial Summary	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Revenue (RMm)	50,940	43,976	48,013	48,909	49,823
Operating EBITDA (RMm)	14,629	14,356	17,168	17,525	17,838
Net Profit (RMm)	5,035	4,186	5,020	4,949	5,201
Core EPS (RM)	0.89	0.74	0.88	0.86	0.91
Core EPS Growth	(3.1%)	(17.0%)	19.5%	(1.7%)	5.1%
FD Core P/E (x)	10.23	12.33	10.32	10.49	9.99
DPS (RM)	1.00	0.80	0.48	0.48	0.50
Dividend Yield	11.0%	8.8%	5.3%	5.2%	5.5%
EV/EBITDA (x)	6.20	6.63	5.86	5.75	5.63
P/FCFE (x)	6.51	4.29	30.64	7.40	6.92
Net Gearing	66.0%	74.9%	80.9%	78.1%	74.9%
P/BV (x)	0.89	0.93	0.89	0.86	0.83
ROE	8.69%	7.36%	8.81%	8.36%	8.46%
% Change In Core EPS Estimates			0%	0%	0%
CGS-CIMB/Consensus EPS (x)			1.03	1.03	1.01

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS



Waiting for RP3 parameters

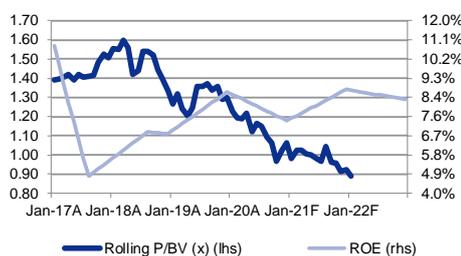
Dividend policy intact. With the higher international coal price (average of c.US\$172/MT from 1 Jul 31-Dec 21 for Generic 1st Newcastle Coal) vs. the benchmark coal price of US\$67.45/MT under RP2 extension, we expect the higher generation costs to be passed through via an imbalance cost pass-through (ICPT) surcharge for the period of 1 Jan-30 Jun 22. However, the government has decided to maintain an ICPT rebate of 2 sen/kwh effective from 1 Jan 22 until further notice due to the flood crisis.

We do not expect the fluctuations in fuel prices to impact TNB's earnings but the delay in ICPT surcharge could put pressure on the group's balance sheet. Management guided that its cash flow was still healthy and TNB had reserves to buffer the payments at the moment. The group is still committed to its dividend policy of paying out 30-60% of its adjusted earnings (excluding forex and non-cash item).

Coal supply still sufficient. The recent coal export ban in Indonesia could lead to higher coal price as TNB is relying more on the spot market to secure its coal supply. We gather TNB procures its coal supply primarily from Indonesia (around 60%), followed by Australia, Russia and South Africa. Management said there is adequate coal supply for the coal plants' operations as the plants need to have 30 days of coal inventory under the power purchase agreement (PPA). The group also has the flexibility of dispatching more gas power plants to fulfil electricity demand given the higher coal plant generation cost and coal export ban.

Re-rating catalysts and key risks to our call. We like TNB: i) as it will likely maintain its monopoly position in the electricity transmission and distribution segment, ii) for its decent dividend yields of >5% for FY21-23F, and iii) as it is poised to benefit from Malaysia's energy transition, i.e. additional grid investments and renewable energy (RE) opportunities. Stronger-than-expected earnings from associates and favourable RP3 parameters are key potential re-rating catalysts. The key downside risks are weaker contributions from associates and potential sector reforms/regulatory changes that could negatively affect TNB's earnings.

Refinitiv ESG Scores													
	<table border="1"> <tr> <td style="background-color: #90EE90;">C+</td> <td style="background-color: #008000;">A+</td> <td style="background-color: #90EE90;">C+</td> <td style="background-color: #FFD700;">C</td> <td style="background-color: #90EE90;">B-</td> <td style="background-color: #90EE90;">C+</td> </tr> <tr> <td>ESG Score</td> <td>ESG Controversies Score</td> <td>ESG Combined Score</td> <td>ESG Environment Pillar Score</td> <td>ESG Social Pillar Score</td> <td>ESG Government Pillar Score</td> </tr> </table>	C+	A+	C+	C	B-	C+	ESG Score	ESG Controversies Score	ESG Combined Score	ESG Environment Pillar Score	ESG Social Pillar Score	ESG Government Pillar Score
C+	A+	C+	C	B-	C+								
ESG Score	ESG Controversies Score	ESG Combined Score	ESG Environment Pillar Score	ESG Social Pillar Score	ESG Government Pillar Score								
ESG in a nutshell													
<p>TNB is one of the pioneers among its local peers to adopt integrated reporting based on globally recognised frameworks. It is a constituent of the FTSE4Good Bursa Malaysia index.</p>													
Keep your eye on	Implications												
<p>TNB has set an RE capacity target of 8,300MW by 2025F and aims to keep coal-based revenue below 25% of its revenue.</p>	<p>TNB has opportunities to benefit from expanding RE portfolios and continuous investments in the grid system.</p>												
ESG highlights	Implications												
<p>TNB is ranked among the top 26-50% in ESG ratings among public-listed companies on FBM Emas that have been assessed by FTSE Russell. It is rated C+ by Refinitiv (Environmental pillar score: C, Social: B-, and Governance: C+).</p>	<p>There is no empirical evidence showing better ESG ratings result in better share price performance.</p>												
Trends	Implications												
<p>TNB unveiled its sustainability pathway in Aug 21 with a goal to achieve net-zero emissions by 2050F.</p>	<p>Providing more clarity and action items to tackle ESG issues could give investors more confidence to invest in the group.</p>												
<small>SOURCES: CGS-CIMB RESEARCH, REFINITIV, BURSA MALAYSIA, COMPANY REPORTS</small>													

BY THE NUMBERS
P/BV vs ROE

12-mth Fwd FD Core P/E vs FD Core EPS Growth

Profit & Loss

(RMm)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Net Revenues	51,768	44,491	48,863	49,759	50,673
Gross Profit	14,629	14,356	17,168	17,525	17,838
Operating EBITDA	14,629	14,356	17,168	17,525	17,838
Depreciation And Amortisation	-6,422	-6,997	-7,274	-7,416	-7,568
Operating EBIT	8,207	7,359	9,894	10,109	10,270
Financial Income/(Expense)	-2,896	-3,226	-3,852	-3,963	-3,991
Pretax Income/(Loss) from Assoc.	53	77	91	92	93
Non-Operating Income/(Expense)	114	26	0	0	0
Profit Before Tax (pre-EI)	5,478	4,235	6,132	6,237	6,371
Exceptional Items					
Pre-tax Profit	5,478	4,235	6,132	6,237	6,371
Taxation	-1,033	-619	-1,087	-1,262	-1,144
Exceptional Income - post-tax					
Profit After Tax	4,445	3,616	5,046	4,976	5,228
Minority Interests	84	-24	-26	-26	-27
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax	505	593			
Net Profit	5,035	4,186	5,020	4,949	5,201
Recurring Net Profit	5,035	4,186	5,020	4,949	5,201
Fully Diluted Recurring Net Profit	5,035	4,186	5,020	4,949	5,201

Cash Flow

(RMm)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
EBITDA	14,629	14,356	17,168	17,525	17,838
Cash Flow from Invt. & Assoc.					
Change In Working Capital	1,136	939	-619	-143	-146
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	8,839	5,161	402	513	541
Net Interest (Paid)/Received	-3,536	-2,094	-2,127	-2,238	-2,266
Tax Paid	-1,610	-2,843	-1,087	-1,262	-1,144
Cashflow From Operations	19,458	15,519	13,737	14,395	14,824
Capex	-10,760	-6,910	-9,500	-9,500	-9,500
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	1,857	1,417	143	122	184
Cash Flow From Investing	-8,903	-5,493	-9,357	-9,378	-9,316
Debt Raised/(repaid)	-2,644	2,005	-2,690	2,000	2,000
Proceeds From Issue Of Shares	0	0	0	0	0
Shares Repurchased					
Dividends Paid	-3,014	-5,236	-2,761	-2,722	-2,861
Preferred Dividends					
Other Financing Cashflow	-10,056	-4,212	-2,270	-2,360	-2,450
Cash Flow From Financing	-15,714	-7,443	-7,721	-3,082	-3,311
Total Cash Generated	-5,159	2,582	-3,341	1,935	2,197
Free Cashflow To Equity	7,912	12,030	1,691	7,017	7,508
Free Cashflow To Firm	14,317	12,250	6,651	7,377	7,958

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Cash And Equivalents	6,292	6,442	3,101	5,036	7,232
Total Debtors	4,761	6,894	7,512	7,655	7,801
Inventories	1,925	1,584	1,584	1,584	1,584
Total Other Current Assets	12,776	12,884	12,884	12,884	12,884
Total Current Assets	25,753	27,803	25,081	27,158	29,501
Fixed Assets	109,966	112,596	114,822	116,906	118,838
Total Investments	1,441	1,339	1,430	1,522	1,615
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	41,686	39,696	39,696	39,696	39,696
Total Non-current Assets	153,094	153,631	155,948	158,123	160,148
Short-term Debt	3,479	6,409	6,409	6,409	6,409
Current Portion of Long-Term Debt					
Total Creditors	9,583	10,956	10,956	10,956	10,956
Other Current Liabilities	10,739	11,436	11,436	11,436	11,436
Total Current Liabilities	23,802	28,801	28,801	28,801	28,801
Total Long-term Debt	41,932	43,044	45,044	47,044	49,044
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0	0	0	0	0
Total Non-current Liabilities	41,932	43,044	45,044	47,044	49,044
Total Provisions	53,831	52,139	47,449	47,449	47,449
Total Liabilities	119,565	123,983	121,294	123,294	125,294
Shareholders' Equity	57,982	55,833	58,092	60,319	62,660
Minority Interests	1,300	1,617	1,643	1,669	1,696
Total Equity	59,282	57,450	59,735	61,988	64,355

Key Ratios

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Revenue Growth	1.1%	(13.7%)	9.2%	1.9%	1.9%
Operating EBITDA Growth	9.4%	(1.9%)	19.6%	2.1%	1.8%
Operating EBITDA Margin	28.7%	32.6%	35.8%	35.8%	35.8%
Net Cash Per Share (RM)	-6.88	-7.55	-8.44	-8.46	-8.42
BVPS (RM)	10.20	9.80	10.15	10.53	10.94
Gross Interest Cover	2.43	2.01	2.48	2.47	2.46
Effective Tax Rate	18.9%	14.6%	17.7%	20.2%	17.9%
Net Dividend Payout Ratio	113%	109%	55%	55%	55%
Accounts Receivables Days	41.43	48.50	54.76	56.60	56.62
Inventory Days	15.83	21.31	18.24	17.93	17.61
Accounts Payables Days	95.2	124.7	126.2	124.1	121.8
ROIC (%)	6.54%	4.88%	6.54%	6.56%	6.57%
ROCE (%)	6.92%	6.17%	7.73%	7.62%	7.55%
Return On Average Assets	4.72%	4.13%	4.91%	4.88%	4.92%

Key Drivers

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Sales of electricity	49,912.2	43,203.3	47,080.3	47,976.7	48,891.0
Goods & Services revenue	694.6	440.4	600.0	600.0	600.0
Other revenue	332.9	332.3	332.3	332.3	332.3

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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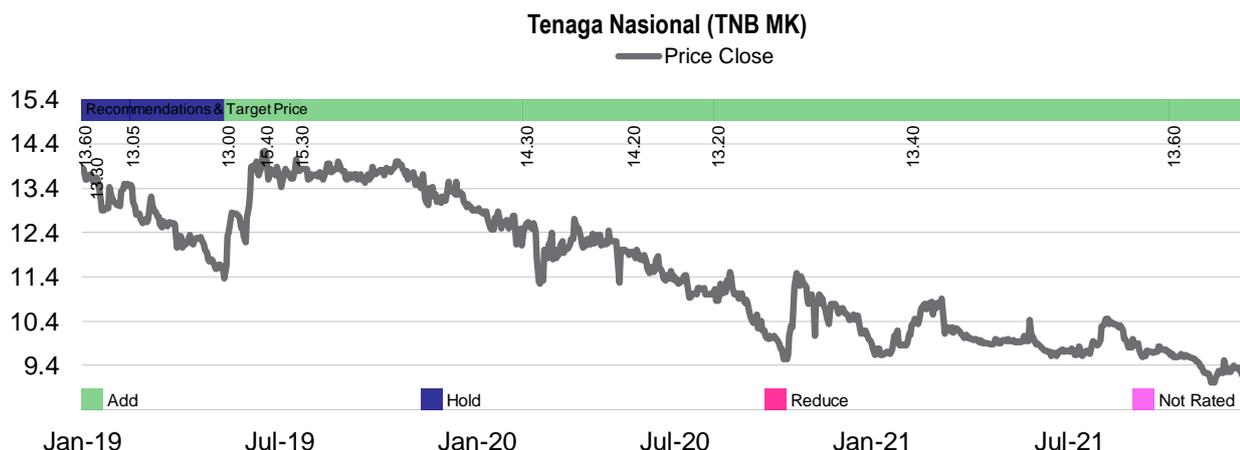
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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2021		
619 companies under coverage for quarter ended on 31 December 2021		
	Rating Distribution (%)	Investment Banking clients (%)
Add	71.1%	1.5%
Hold	21.8%	0.0%
Reduce	7.1%	0.0%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021

ADVANC – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a, n/a, **CENDEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** – Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** – Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, n/a, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** – Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** – Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TOP** – Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2021 from Thai Institute of Directors Association (IOD)

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Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

