

Tenaga Nasional (TNB MK)

Overall a decent year

Seasonally weaker

4Q21 results were in line with our forecasts, with non-fuel costs again seasonally higher. Some RP3 inputs were disclosed, and imply TNB not being worse-off. Nevertheless, soaring coal prices means concerns over the ICPT mechanism will continue to take centre stage. Maintain HOLD with a lower MYR9.30 (-3%) TP (DCF-based). We prefer Mega First (MFCB MK, BUY, CP: MYR3.53, TP: MYR4.30) in the Utilities space.

Results in line

Excluding the effects of MFRS 16, 4Q21 core net profit of MYR862m (-12% YoY, -39% QoQ) brings FY21 core net profit to MYR5,141m (+15% YoY), 4% below our forecast. TNB reversed previous Liberty Power provisions and provided incrementally for doubtful debts (excluded from normalised earnings). MFRS 16 raised 4Q21 EBITDA by MYR0.98b and lowered net profit by MYR187m. An 18sen DPS was declared, bring full-year DPS to 40sen (no special DPS), representing a payout ratio of 45%.

Demand recovers

4Q21 generation grew 7.8% QoQ as demand grew correspondingly by 9.5% QoQ. Full year demand growth was 1.2%. The proportion of coal generation in 4Q21 decreased by 3.2ppt QoQ to 57.7%. TNB recognised a hefty ICPT adjustment of MYR3.2b in 4Q21 (MYR1.3b in 3Q21), reflecting record-high under-recoveries as coal prices spiked. Meanwhile, regulated revenue remained in a net surplus position (MYR286m) for the quarter.

Some RP3 disclosure

Notable RP3 disclosures are: 1) regulatory WACC at 7.3% (unchanged), 2) coal at USD79/t (+17%) and 3) gas at MYR26/mmBTU (-4%). We thus expect Tenaga to broadly maintain its earnings run-rate in RP3. We lower our FY22/23 net profit forecasts by 10%/9% to reflect RP3 inputs and introduce FY24 forecasts. Our TP (DCF-based assuming 8.4% WACC and 1% LT growth) is consequently lowered to MYR9.30 (-3%). Management will host a results call this afternoon.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	43,976	52,630	48,844	49,677	50,525
EBITDA	13,860	15,326	15,430	15,725	16,077
Core net profit	4,459	5,141	4,660	5,021	5,205
Core FDEPS (sen)	77.9	89.5	81.1	87.4	90.6
Core FDEPS growth(%)	(12.7)	14.8	(9.4)	7.7	3.7
Net DPS (sen)	80.0	40.0	36.6	39.5	40.9
Core FD P/E (x)	13.4	10.4	11.1	10.3	9.9
P/BV (x)	1.1	0.9	0.9	0.8	0.8
Net dividend yield (%)	7.7	4.3	4.1	4.4	4.5
ROAE (%)	7.4	7.6	8.0	8.3	8.2
ROAA (%)	2.5	2.8	2.5	2.7	2.7
EV/EBITDA (x)	7.0	6.4	6.2	6.0	5.7
Net gearing (%) (incl perps)	62.7	72.7	68.1	62.6	57.1
Consensus net profit	-	-	4,760	5,115	na
MKE vs. Consensus (%)	-	-	(2.1)	(1.8)	na

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HOLD

Share Price	MYR 9.00
12m Price Target	MYR 9.30 (+7%)
Previous Price Target	MYR 9.60

Company Description

Tenaga Nasional engages in the generation, transmission, distribution and sale of electricity and the provision of other related services.

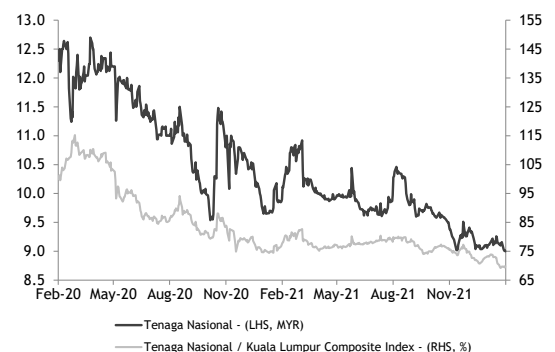
Statistics

52w high/low (MYR)	10.92/9.00
3m avg turnover (USDm)	9.0
Free float (%)	55.6
Issued shares (m)	5,705
Market capitalisation	MYR51.3B USD12.2B

Major shareholders:

Khazanah Nasional Bhd	25.6%
Employees Provident Fund	15.9%
Permodalan Nasional Bhd	9.7%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	(5)	(9)
Relative to index (%)	(5)	(9)	(11)

Source: FactSet

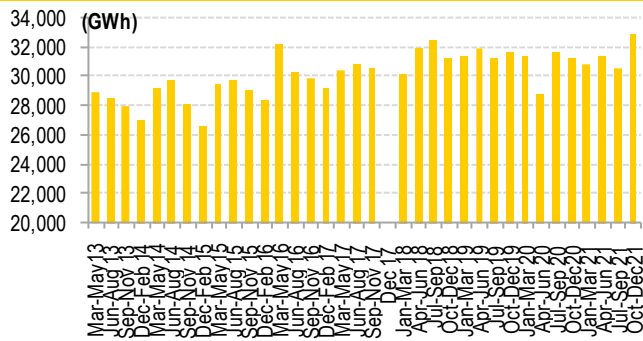
Summary results table - Tenaga Nasional (pre-MFRS 16)

FY Dec (MYR m)	Quarterly					Cumulative		
	4Q21	4Q20	%YoY	3Q21	%QoQ	FY21	FY20	%YoY
Revenue	15,735.1	10,324.3	52.4	12,975.4	21.3	52,629.5	43,976.0	19.7
EBITDA	3,212.7	3,119.2	3.0	3,866.9	(16.9)	15,326.4	13,859.6	10.6
EBIT	1,270.4	1,238.3	2.6	2,094.2	(39.3)	8,108.3	6,838.4	18.6
Net interest	(482.9)	(438.1)	10.2	(456.4)	5.8	(1,909.6)	(1,638.2)	16.6
Associate & JV income	72.5	38.7	87.3	50.0	45.0	193.5	76.5	152.9
Pre-tax profit	1,062.4	1,084.8	(2.1)	1,426.5	(25.5)	5,534.2	5,023.7	10.2
Tax	116.7	135.3	(13.7)	(230.0)	N/A	(1,048.7)	(793.9)	32.1
Minority Interest	(114.7)	10.1	N/A	(44.9)	155.5	(202.9)	(23.7)	756.1
Net Profit	1,064.4	1,230.2	(13.5)	1,151.6	(7.6)	4,282.6	4,206.1	1.8
Recurring pre-tax profit	860.0	838.9	2.5	1,687.8	(49.0)	6,392.2	5,276.7	21.1
Recurring net profit	862.0	984.3	(12.4)	1,412.9	(39.0)	5,140.6	4,459.1	15.3
Recurring EPS (sen)	15.1	17.3	(12.7)	24.7	(39.0)	89.9	78.3	14.9
Net DPS (sen)	18.0	58.0	(69.0)	0.0	N/A	40.0	80.0	(50.0)
Net cash/(debt)	(42,519.8)	(36,036.7)	18.0	(37,527.6)	13.3	(42,519.8)	(37,527.6)	13.3
Gearing (%)	76.2	64.5		68.0		76.2	68.0	
Capex	3,009.9	2,565.1	17.3	1,785.6	68.6	8,385.1	6,721.1	24.8
Operations								
Average tariff (MYR/kWh)	0.393	0.401	(1.9)	0.386	1.8	0.398	0.401	(0.7)
Gas volume (mmscfd)	866.0	744.0	16.4	731.0	18.5	784.0	709.8	10.5
Coal consumption (mt)	8.3	8.5	(2.4)	8.0	3.8	32.3	34.7	(6.9)
Coal price (US\$/t)	172.8	57.8	199.0	124.1	39.2	117.5	60.7	93.7
Demand, Pen Msia								
Industrial	11,691.0	11,572.0	1.0	10,205.0	14.6	43,926.0	42,861.2	2.5
Commercial	9,394.0	9,001.0	4.4	7,816.0	20.2	34,230.0	35,541.6	(3.7)
Domestic	7,681.0	7,298.0	5.2	8,218.0	(6.5)	31,599.0	30,035.1	5.2
Others	601.0	584.4	2.8	591.0	1.7	2,350.3	2,301.7	2.1
Total (GWh)	29,367.0	28,455.4	3.2	26,830.0	9.5	112,105.3	110,739.6	1.2
Generation, Pen Msia								
Gas (GWh)	11,854.3	9,322.2	27.2	10,099.7	17.4	43,175.1	36,541.2	18.2
Coal (GWh)	19,002.1	20,207.2	(6.0)	18,612.7	2.1	74,415.7	81,103.4	(8.2)
Oil & distillate (GWh)	110.2	(6.7)	N/A	0.0	N/A	157.2	6.2	2435.5
Hydro & solar (GWh)	1,956.8	1,744.3	12.2	1,823.3	7.3	7,943.5	5,525.7	43.8
Total (GWh)	32,923.4	31,267.0	5.3	30,535.7	7.8	125,691.5	123,176.5	2.0
% Gas	36.0	29.8	6.2	33.1	2.9	34.4	29.7	4.7
% Coal	57.7	64.6	(6.9)	61.0	(3.2)	59.2	65.8	(6.6)
% Oil & distillate	0.3	(0.0)	0.4	0.0	0.3	0.1	0.0	0.1
% Hydro & solar	5.9	5.6	0.4	6.0	(0.0)	6.3	4.5	1.8
Fuel spending, Pen Msia								
Gas (MYR m)	2,196.5	1,111.4	97.6	1,513.1	45.2	6,191.5	6,224.3	(0.5)
Coal (MYR m)	5,510.0	2,047.2	169.1	3,922.4	40.5	14,995.8	9,075.2	65.2
Oil & distillate (MYR m)	133.4	22.3	498.2	12.3	984.6	192.9	57.5	235.5
Total (MYR m)	7,839.9	3,180.9	146.5	5,447.8	43.9	21,380.2	15,357.0	39.2
% Gas	28.0	34.9	(6.9)	27.8	0.2	29.0	40.5	(11.6)
% Coal	70.3	64.4	5.9	72.0	(1.7)	70.1	59.1	11.0
% Oil & distillate	1.7	0.7	1.0	0.2	1.5	0.9	0.4	0.5

Note: One-offs comprise mainly of forex and impairments

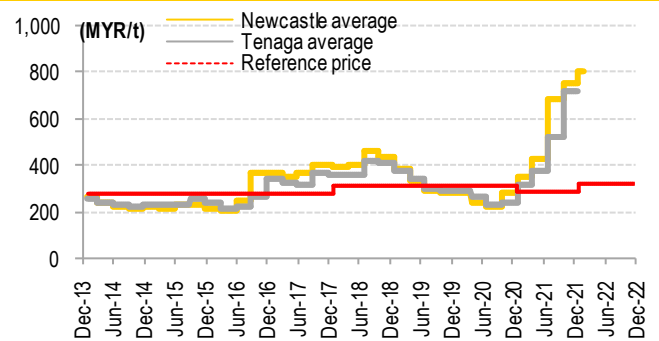
Source: Company, Maybank IBG Research

Electricity generation - Peninsular Malaysia



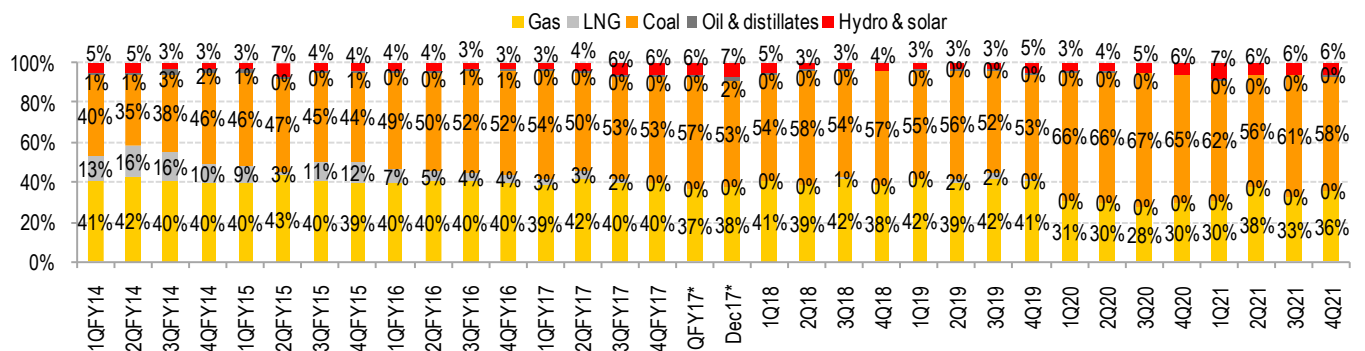
Source: Company

Thermal coal prices



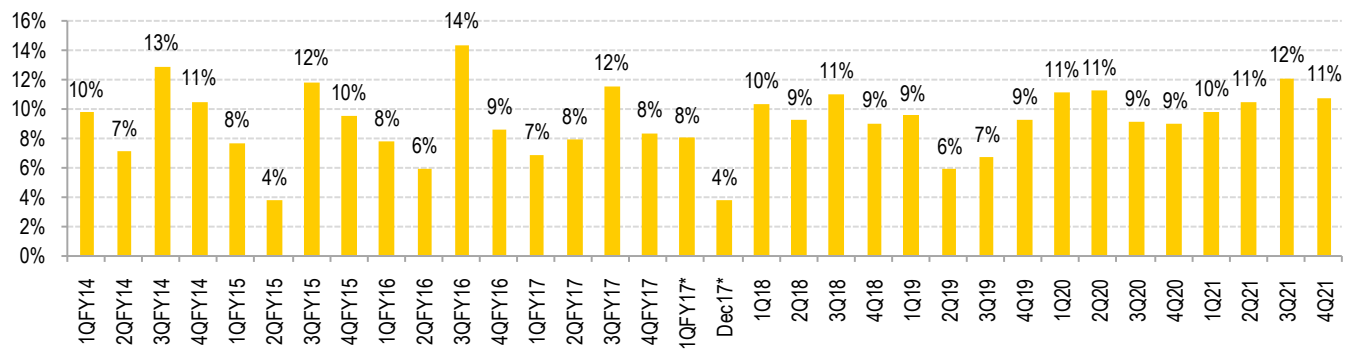
Source: Bloomberg, Company

Generation fuel mix - Peninsular Malaysia



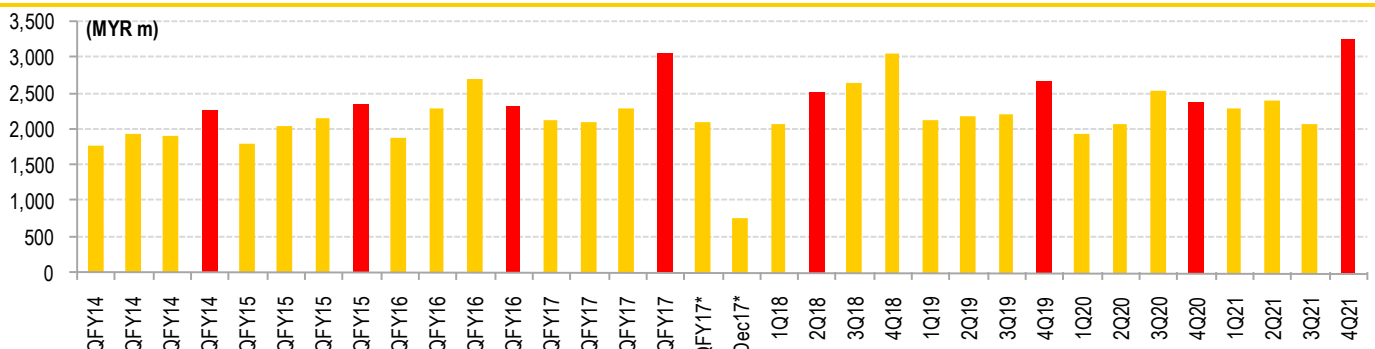
Source: Company. *Change of financial year end from Aug to Dec.

Quarterly system loss



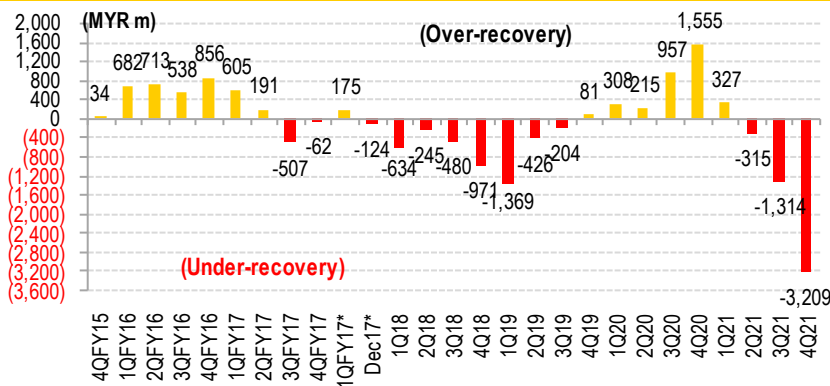
Source: Company. *Change of financial year end from Aug to Dec.

Quarterly non-fuel costs



Source: Company. *Change of financial year end from Aug to Dec.

Generation cost imbalances



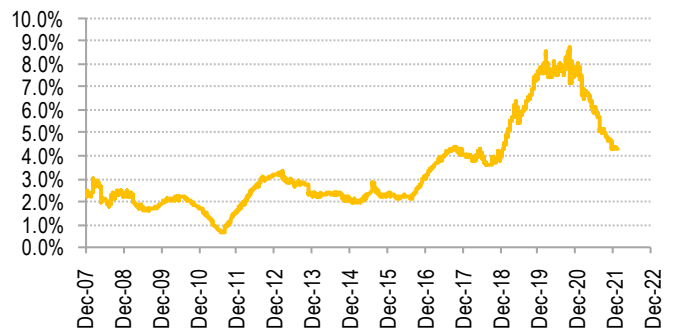
Source: Company. *Change of financial year end from Aug to Dec.

Trailing PER



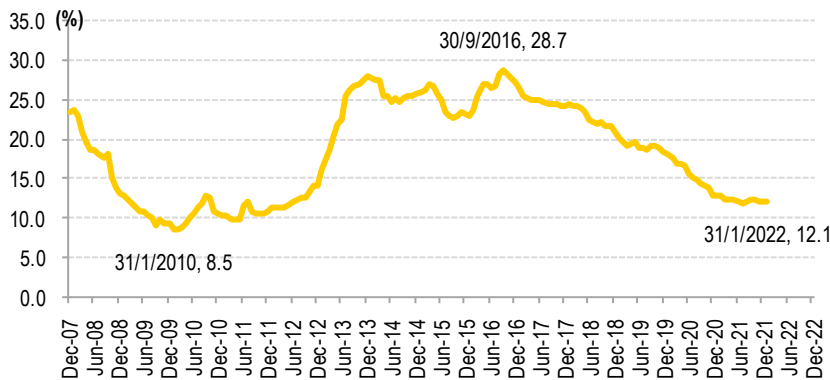
Source: Bloomberg, Maybank IBG Research

Trailing net yield



Source: Bloomberg, Maybank IBG Research

Foreign shareholding



Source: Company

Risk statement

There are several risk factors for our earnings estimates, price target, and rating for Tenaga. Regulatory developments, such as the determination of regulated returns, have direct impact on earnings. Changes in electricity demand patterns or plant outages could also result in loss of earnings for Tenaga.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	15.6	13.2	11.1	10.3	9.9
Core P/E (x)	13.3	10.4	11.1	10.3	9.9
Core FD P/E (x)	13.4	10.4	11.1	10.3	9.9
P/BV (x)	1.1	0.9	0.9	0.8	0.8
P/NTA (x)	2.9	2.5	2.1	1.9	1.7
Net dividend yield (%)	7.7	4.3	4.1	4.4	4.5
FCF yield (%)	14.5	9.2	9.9	11.5	12.3
EV/EBITDA (x)	7.0	6.4	6.2	6.0	5.7
EV/EBIT (x)	14.2	12.0	11.7	11.3	10.8

INCOME STATEMENT (MYR m)

Revenue	43,976.0	52,629.5	48,843.9	49,676.9	50,524.9
EBITDA	13,859.6	15,326.4	15,430.2	15,725.2	16,077.2
Depreciation	(7,021.2)	(7,218.1)	(7,302.8)	(7,411.4)	(7,513.1)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	6,838.4	8,108.3	8,127.5	8,313.8	8,564.1
Net interest income / (exp)	(1,638.2)	(1,909.6)	(2,141.4)	(2,179.6)	(2,205.1)
Associates & JV	76.5	193.5	193.5	193.5	193.5
Exceptionals	(253.0)	(858.0)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	5,023.7	5,534.2	6,179.6	6,327.7	6,552.5
Income tax	(793.9)	(1,048.7)	(1,316.9)	(1,104.2)	(1,144.6)
Minorities	(23.7)	(202.9)	(202.9)	(202.9)	(202.9)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	4,206.1	4,282.6	4,659.8	5,020.7	5,205.0
Core net profit	4,459.1	5,140.6	4,659.8	5,020.7	5,205.0

BALANCE SHEET (MYR m)

Cash & Short Term Investments	13,415.4	9,208.4	12,304.7	16,037.6	20,062.7
Accounts receivable	10,216.8	13,976.9	13,381.9	13,065.7	13,150.3
Inventory	1,583.8	1,977.1	1,830.9	1,859.3	1,885.6
Property, Plant & Equip (net)	113,213.1	114,105.6	115,802.8	117,391.5	118,378.4
Intangible assets	35,340.3	35,149.6	35,149.6	35,149.6	35,149.6
Investment in Associates & JVs	1,339.2	1,867.1	1,995.6	2,124.1	2,252.6
Other assets	6,324.7	6,315.9	6,315.9	6,315.9	6,315.9
Total assets	181,433.3	182,600.6	186,781.4	191,943.7	197,195.2
ST interest bearing debt	6,409.1	6,992.5	6,992.5	6,992.5	6,992.5
Accounts payable	10,534.1	8,596.7	7,832.1	7,850.5	7,856.8
LT interest bearing debt	43,043.5	44,685.7	46,911.3	49,136.9	51,362.5
Other liabilities	63,997.0	63,933.0	63,933.0	63,933.0	63,933.0
Total Liabilities	123,983.4	124,208.2	125,669.2	127,913.2	130,145.1
Shareholders Equity	55,833.2	56,608.4	59,171.3	61,932.6	64,795.4
Minority Interest	1,616.7	1,784.0	1,940.9	2,097.8	2,254.7
Total shareholder equity	57,449.9	58,392.4	61,112.2	64,030.4	67,050.1
Total liabilities and equity	181,433.3	182,600.6	186,781.4	191,943.7	197,195.2

CASH FLOW (MYR m)

Pretax profit	5,023.7	5,534.2	6,179.6	6,327.7	6,552.5
Depreciation & amortisation	7,021.2	7,218.1	7,302.8	7,411.4	7,513.1
Change in working capital	(1,006.9)	(5,798.0)	(23.4)	306.1	(104.6)
Other operating cash flow	5,685.5	5,233.7	(193.5)	(193.5)	(193.5)
Cash flow from operations	15,518.6	13,353.9	14,089.9	14,927.2	14,827.9
Capex	(6,909.7)	(8,415.5)	(9,000.0)	(9,000.0)	(8,500.0)
Free cash flow	8,608.9	4,938.4	5,089.9	5,927.2	6,327.9
Dividends paid	(5,235.8)	(4,568.4)	(2,096.9)	(2,259.3)	(2,342.3)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	2,004.5	1,886.0	2,225.6	2,225.6	2,225.6
Other invest/financing cash flow	(2,795.2)	(1,688.1)	(2,122.4)	(2,160.6)	(2,186.1)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	2,582.4	567.9	3,096.3	3,732.9	4,025.2

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(13.7)	19.7	(7.2)	1.7	1.7
EBITDA growth	(4.0)	10.6	0.7	1.9	2.2
EBIT growth	(8.5)	18.6	0.2	2.3	3.0
Pretax growth	(14.1)	10.2	11.7	2.4	3.6
Reported net profit growth	(14.2)	1.8	8.8	7.7	3.7
Core net profit growth	(12.2)	15.3	(9.4)	7.7	3.7
Profitability ratios (%)					
EBITDA margin	31.5	29.1	31.6	31.7	31.8
EBIT margin	15.6	15.4	16.6	16.7	17.0
Pretax profit margin	11.4	10.5	12.7	12.7	13.0
Payout ratio	108.4	53.4	45.0	45.0	45.0
DuPont analysis					
Net profit margin (%)	9.6	8.1	9.5	10.1	10.3
Revenue/Assets (x)	0.2	0.3	0.3	0.3	0.3
Assets/Equity (x)	3.2	3.2	3.2	3.1	3.0
ROAE (%)	7.4	7.6	8.0	8.3	8.2
ROAA (%)	2.5	2.8	2.5	2.7	2.7
Liquidity & Efficiency					
Cash conversion cycle	(12.9)	13.5	39.6	38.6	37.1
Days receivable outstanding	76.0	82.7	100.8	95.8	93.4
Days inventory outstanding	19.1	15.8	18.5	17.6	17.6
Days payables outstanding	108.0	85.1	79.7	74.9	73.9
Dividend cover (x)	0.9	1.9	2.2	2.2	2.2
Current ratio (x)	0.9	1.0	1.1	1.2	1.4
Leverage & Expense Analysis					
Asset/Liability (x)	1.5	1.5	1.5	1.5	1.5
Net gearing (%) (incl perps)	62.7	72.7	68.1	62.6	57.1
Net gearing (%) (excl. perps)	62.7	72.7	68.1	62.6	57.1
Net interest cover (x)	4.2	4.2	3.8	3.8	3.9
Debt/EBITDA (x)	3.6	3.4	3.5	3.6	3.6
Capex/revenue (%)	15.7	16.0	18.4	18.1	16.8
Net debt/ (net cash)	36,037.2	42,469.8	41,599.1	40,091.8	38,292.3

Source: Company; Maybank

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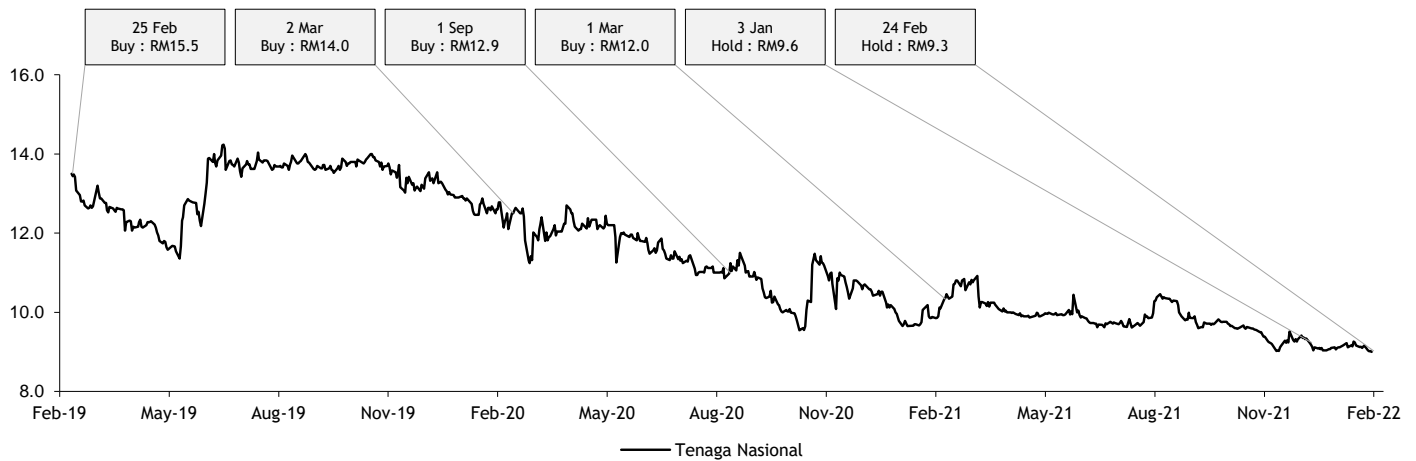
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