

# Tenaga Nasional Berhad

(5347 | TNB MK) Utilities | Power Generation

## FY19 disappointed, but dividends at record high

### KEY INVESTMENT HIGHLIGHTS

- **FY19 results disappointed**
- **4Q19 earnings dragged by unplanned outages, restructuring cost and higher finance cost from Jimah East commissioning**
- **50sen/share special dividends declared; RM1/share total dividends is a record**
- **FY20F/21F earnings revised lower by 9.7%/10.3%**
- **Maintain BUY albeit at a lower TP of RM13.80; significant share price retracement presents value, coupled with reasonably attractive yields**

**FY19 disappointed.** Tenaga reported core net profit of RM477m for its 4Q19, which brought FY19 core earnings to RM4.7b. This is short of both our and consensus estimates accounting for 90% and 85% of FY19 forecasts respectively.

**Key takeaways from 4Q19.** For 4Q19, Tenaga's earnings were hit by several factors: (1) Unplanned outages at its Janamanjung and Kapar (KEV) plants (2) one-off costs on the group's reorganization exercise and write-off of PPE for Paka decommissioning (3) higher interest cost from the commissioning of Jimah East – Unit 1 in mid-FY19 and Unit 2 in Dec19.

**Unplanned outages.** The unplanned outages at Unit 2 of Tenaga's Janamanjung plant and Unit 6 of the KEV plants affected capacity payment by up to an estimated RM300m. The former was out for ~120 days while the latter was out for 151 days. Positively, the issues have been resolved and both units have been up and running from Feb20 and Jan20 respectively.

**Record dividends.** Tenaga announced a final dividend of 20sen/share and on top of this, a special dividend of 50sen/share, which brings FY19 total dividends to a record RM1/share. This is a generous 125% payout and translates into an attractive yield of 8.3%. At this juncture, Tenaga is still sticking to its 30%-60% payout policy, though notably, generation capex should start to ease given slowing plant-up programs (for conventional power plants) in the near-to-mid-term.

**Impact from stimulus package.** The 15% discount on electricity tariff for a period of 6 months (estimated at RM30m-RM40m) will be fully funded by the Electricity Industry Fund (EIF) and has no impact on Tenaga's earnings. The acceleration of RM2b capex from future years (from the original RM11b) will translate into higher regulated asset base (RAB), but earnings accretion from this has yet to be finalized with the regulators. Overall however, the larger RAB should be a positive for Tenaga.

**Earnings revision.** Given the weaker than expected results, we trim our FY20/21F by 9.7%/10.3% respectively. Despite the cut, we expect Tenaga's FY20F to recover by 10% given absence of the one-off restructuring costs and assuming no more unplanned outages in FY20F.

## Maintain BUY

### Revised Target Price: RM13.80

(from RM14.40 previously)

### RETURN STATISTICS

Price @ 28 <sup>th</sup> Feb 2020 (RM)	12.10
Expected share price return (%)	+14.0
Expected dividend yield (%)	+3.8
<b>Expected total return (%)</b>	<b>+17.8</b>

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-1.9	-3.2
3 months	-0.4	-0.2
12 months	-8.2	-2.2

### KEY STATISTICS

FBM KLCI	1,587.18
Syariah compliant	Yes
Issue shares (m)	5674.99
Estimated free float (%)	43.31
Market Capitalisation (RM'm)	68,667.50
52-wk price range	RM11.2 - RM14.8
Beta vs FBM KLCI (x)	1.23
Monthly velocity (%)	0.01
Monthly volatility (%)	11.10
3-mth average daily volume (m)	3.07
3-mth average daily value (RM'm)	42.16
Top Shareholders (%)	
Khazanah Nasional Bhd	27.27
Employees Provident Fund Board	15.17
State Street Corp	14.10

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## INVESTMENT STATISTICS

FYE Dec **	FY17*	FY18	FY19	FY20F	FY21F
Revenue (RM'm)	63,244.0	50,392.5	50,939.7	54,657.6	57,964.4
EBIT (RM'm)	12,512.6	6,887.1	8,206.8	8,357.7	8,427.8
Pre-tax Profit (RM'm)	10,945.1	5,439.7	5,277.1	6,892.4	6,972.5
Core net profit (RM'm)	10,128.8	5,887.3	4,721.9	5,192.1	5,252.9
FD EPS (sen)	179.5	104.3	83.7	92.0	93.1
EPS growth (%)	30.6	(41.9)	(19.8)	10.0	1.2
PER (x)	6.7	11.6	14.5	13.2	13.0
Net Dividend (sen)	82.4	53.3	100.0	46.0	46.5
Net Dividend Yield (%)	6.8	4.4	8.3	3.8	3.8

Source: Company, MIDFR \*16-mth period due to change in FY \*\*FYE Aug prior to FY17

**Recommendation.** Maintain BUY on Tenaga albeit a lower TP of RM13.80 (from RM14.40) given the earnings revisions in this report. Tenaga's share price has retraced significantly in the past six months and we see value emerging. This is underpinned by easing capex (notwithstanding the accelerated capex for FY20F which is exceptional) for generation in the near-to-mid-term, which suggests base dividends of at least at the higher end of the group's 30%-60% payout policy.

## TENAGA NASIONAL: 4QFY19 RESULTS SUMMARY

FYE Dec (RMm)								
	4Q18	3Q19	4Q19	YoY	QoQ	FY18	FY19	YTD
Revenue	12,546.8	12,642	12,177	-2.9%	-3.7%	50,392.5	50,940	1.1%
<b>EBITDA</b>	<b>2,445.7</b>	<b>4,804</b>	<b>4,115</b>	<b>68.2%</b>	<b>-14.4%</b>	<b>13,816.9</b>	<b>18,396</b>	<b>33.1%</b>
Depreciation	(1,748.7)	-2,525	(2,765)	58.1%	9.5%	(6,941.3)	(10,189)	46.8%
EBIT	697.0	2,279	1,350	93.7%	-40.8%	6,875.6	8,207	19.4%
Net interest expense	(345.9)	(641)	(834)	141.1%	30.1%	(1,264.7)	(2,858)	126.0%
Forex translation gain/(loss)	(145.8)	(67)	277	-289.7%	-511.0%	(393.1)	201	-151.0%
Associates/JVs	(18.9)	30	(59)	NA	-299.3%	(182.7)	53	-128.8%
FV change of financial instruments	27.9	(35)	47			36.7	(38)	
Pretax profit (before forex translation)	348.5	1,614	498	43.0%	-69.1%	5,439.7	5,277	-3.0%
Tax	(354.3)	(337)	(191)	-46.2%	-43.4%	(1,301.6)	(1,033)	-20.7%
Minority Interest	(17.3)	7	(69)	300.0%	-1132.8%	21.3	(84)	-495.3%
Reported net profit	(134.3)	1,203	653	-586.4%	-45.7%	3,723.7	4,529	21.6%
<b>Core net profit</b>	<b>896.0</b>	<b>1,270</b>	<b>477</b>	<b>-46.8%</b>	<b>-62.5%</b>	<b>5,887.3</b>	<b>4,722</b>	<b>-19.8%</b>
Reported EPS (sen)	(2.4)	21	12	-586.4%	-45.7%	65.6	80	21.6%
<b>Core EPS (sen)</b>	<b>15.8</b>	<b>22</b>	<b>8</b>	<b>-46.8%</b>	<b>-62.5%</b>	<b>103.7</b>	<b>83</b>	<b>-19.8%</b>
DPS (sen)	23.00	-	70.00			53.27	100.00	
EBITDA margin	19.5%	38.0%	33.8%			27.4%	36.1%	
EBIT margin	5.6%	18.0%	11.1%			13.6%	16.1%	
Pretax margin (pre-forex transation)	2.8%	12.8%	4.1%			10.8%	10.4%	
Tax rate	-101.7%	-20.9%	-38.3%			-23.9%	-19.6%	
Core net profit margin	7.1%	10.0%	3.9%			11.7%	9.3%	
Payout ratio	-972.4%	0.0%	608.4%			81.2%	125.4%	

Source: Company, MIDFR

**TENAGA NASIONAL: 4QFY19 RESULTS BREAKDOWN**

Unit Revenue/Cost Analysis	4Q18	3Q19	4Q19	YoY	QoQ	FY18	FY19	YTD
<b>Average tariff achieved for TNB sale (sen/kwH)</b>	<b>39.81</b>	<b>40.07</b>	<b>39.80</b>	<b>0.0%</b>	<b>-0.6%</b>	<b>39.68</b>	<b>39.89</b>	0.5%
Demand sales volume (GWh)	28,917	29,230	28,774	-1%	-2%	113,469	116,525	3%
Unit Revenue (RM/kwh)	0.3981	0.4007	0.3980	0.0%	-0.6%	0.3968	0.3989	0.5%
<b>Unit Cost (RM/kwH) - Total cost</b>	<b>0.408</b>	<b>0.364</b>	<b>0.392</b>	<b>-4%</b>	<b>7.7%</b>	<b>0.386</b>	<b>0.374</b>	-3.3%
Unit Cost (RM/kwH) - IPP & TNB Fuels	0.224	0.198	0.201	-10%	1.7%	0.207	0.205	-1%
Unit Cost (RM/kwH) - Repair & maintenance	0.020	0.018	0.024	22.9%	32.7%	0.018	0.019	1.7%
Unit Cost (RM/kwH) - General expenses	0.018	0.017	0.029	65.9%	69.4%	0.019	0.020	8.8%
Unit Cost (RM/kwH) - Staff cost	0.038	0.034	0.035	-6.2%	3.3%	0.033	0.032	-1.0%
Gross Electricity Sale Revenue (RMm):	12,160	12,349	12,087	-0.6%	-2.1%	47,362	49,017	3.5%
TNB	11,513	11,711	11,453	-0.5%	-2.2%	45,029	46,486	3.2%
EGAT	-	-	-	NA	NA	1.7	0.1	-94%
SESB	466.6	476.1	474.2	1.6%	-0.4%	1,830.1	1,910.7	4.4%
LPL	161.6	140.2	130.7	-19%	-6.8%	422.3	516.8	22%
Tenaga Wind Ventures	19.2	22.1	29.0	51.0%	31.2%	79.6	103.3	30%

Source: Company, MIDFR

**TENAGA NASIONAL: GENERATION MIX**

Generation Mix (Includes IPPs)	4Q18 (%)	3Q19 (%)	4Q19 (%)	Variance (%) YoY
Gas & LNG	38.5	44.4	41.5	3.0
Coal	57.5	52.3	53.1	(4.4)
Distillate	0.0	0.0	0.0	0.0
Oil	(0.0)	0.1	0.2	0.2
Hydro	3.9	2.6	4.6	0.7
Solar	0.1	0.6	0.6	0.5
Fuel Cost Composition	4Q18 (%)	3Q19 (%)	4Q19 (%)	Variance (%) YoY
Gas & LNG	44.3	49.8	55.7	11.5
Coal	55.4	49.4	43.4	(12.0)
Distillate	0.2	0.0	0.3	0.1
Oil	0.1	0.1	0.5	0.4
Solar	0.0	0.7	0.0	0.0

Source: Company, MIDFR

## TENAGA NASIONAL: 4QFY19 COST ANALYSIS

Cost Analysis (RMm)	3Q18*	3Q19	4Q19	YoY	QoQ	FY18	FY19	YTD
IPP purchase cost	4,255.2	3,535.9	3,237.5	-23.9%	-8.4%	16,057.7	13,564.6	-15.5%
- Capacity payment	1,039.1	111.1	46.7	-95.5%	-58.0%	4,132.7	260.8	-93.7%
- Energy payment	3,216.1	3,424.8	3,190.8	-0.8%	-6.8%	11,925.0	13,303.8	11.6%
Fuel costs	3,275.3	2,367.5	2,606.6	-20.4%	10.1%	11,509.3	10,577.8	-8.1%
Repair & Maintenance	566.8	530.6	693.1	22.3%	30.6%	2,081.1	2,173.8	4.5%
Staff cost	1,084.5	996.1	1,012.7	-6.6%	1.7%	3,691.2	3,752.0	1.6%
TNB General Expenses	508.4	503.1	839.1	65.0%	66.8%	2,101.6	2,349.2	11.8%
Subsi. COS & Opex	479.0	188.7	139.4	-70.9%	-26.1%	1,922.5	955.2	-50.3%
Depreciation & Amortisation	1,621.7	2,525.3	2,764.7	70.5%	9.5%	6,491.3	10,188.9	57.0%
<b>Total</b>	<b>11,791</b>	<b>10,647</b>	<b>11,293</b>	<b>-4.2%</b>	<b>6.1%</b>	<b>43,855</b>	<b>43,562</b>	<b>-0.7%</b>
Total gen cost	7,530.5	5,903.4	5,844.1	-22.4%	-1.0%	27,567.0	24,142.4	-12.4%

Source: Company, MIDFR \* Pre-MFRS16

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.