

22 January 2015 | 1QFY15 Results Preview

Tenaga Nasional Berhad

Expect a good result to kick off FY15

Upgrade to BUY

Revised Target Price (TP): RM16.34
From RM14.23

INVESTMENT HIGHLIGHTS

- We are expecting TNB to post a good set of result in 1QFY15 on the back of lower generation cost due to favourable generation mix and fuel cost.
- A more favourable fuel cost, of which we expect to remain in FY15, would emerge as a short-term catalyst for TNB.
- We are revising upward our earnings forecast after imputing a lower coal and gas prices assumptions. Consequently, we are upgrading our call on TNB to BUY from NEUTRAL previously, with a new DCF-derived TP of RM16.34.

Expect a good set of result. TNB is expected to announce its 1QFY15 later this evening of which we are expecting the numbers to be better than the one posted in 1QFY14.

Coal continues to dominate generation mix. Since the recovery of Jimah and Tanjung Bin coal power plant which were affected by outages in FY14, coal generation has started to increase and had contributed approximately 46% to the total generation mix in 1QFY15. Meanwhile, gas usage has reverted to a lower stable path after contributing about 49% of the generation mix. It is noted that the total gas usage for 1QFY15 was approximately -5% lower than the same period last year. Given this development, we expect TNB to post a good result driven by a favourable fuel cost in this quarter.

Expect this trend to continue moving forward. This trend of higher coal utilisation is expected to continue moving forward with the additional coal generation capacity from Manjung 4 power plant, which is due to come on stream in March 2015. With generation mix is now shifted towards coal generation, it will allow TNB to fully capitalize on the cheaper coal in which the prices have been trending down since January 2013 and are anticipated to remain low in FY15. In addition, with the fall of global crude oil prices, we are expecting the LNG prices to follow suit as most of the gas prices are indexed to crude oil. Hence gas prices are also set to trend lower. This, in our view, would provide a further boost to TNB's bottomline.

RETURN STATS

Price (21 Jan 2015)	14.50
Target Price	16.34
Expected Share Price Return	12.7%
Expected Dividend Yield	2.3%
Expected Total Return	15.0%

STOCK INFO

KLCI	1,770.09
Bursa / Bloomberg	5347 / TNB MK
Board / Sector	Main / Power
Syariah Compliant	Yes
Issued shares (mil)	5,643.6
Par Value (RM)	1.00
Market cap. (RM'm)	81,832.4
Price over NTA	1.89x
52-wk price Range	RM10.90– RM14.62
Beta (against KLCI)	1.05x
3-mth Avg Daily Vol	9.06m
3-mth Avg Daily Value	RM124.03m
Major Shareholders	
Khazanah	31.6%
EPF	14.3%
Skim Amanah Saham Bumiputera	8.2%

No tariff revision in 2015. We are not surprised with the Government's decision to let the current tariff structure to stay in 2015. This goes in line with the expected lower fuel cost for TNB in FY15. Nonetheless, we believe that any potential downside risk arises from sudden increment in fuel cost would be well supported by the fund generated from PPA savings which has a balance of approximately RM170m.


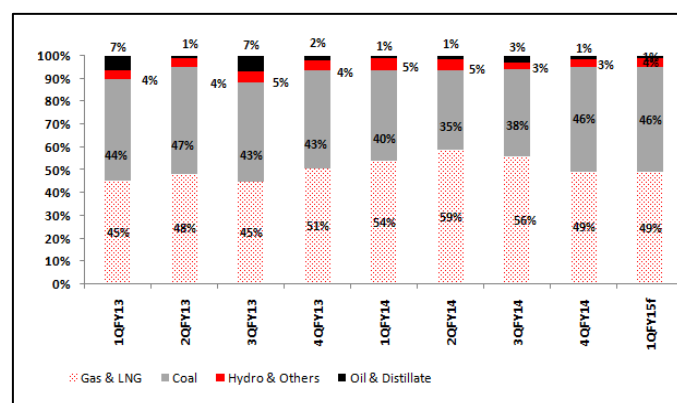
Upgrade to BUY with a revised TP of RM16.34. We introduce a new set of earnings forecast after imputing a lower coal and gas prices assumptions into our model. We have also maintained the current tariff assumption for our FY15 numbers. While acknowledging the full implementation of FCPT mechanism remain as the most important element to the long term earnings of TNB, we believe that the current situation of low coal and gas prices would be a boon to TNB's short term earnings and thus providing an immediate catalyst for the company's share price. On this note, we are upgrading our call to BUY with a DCF-derived TP of RM16.34 (WACC: 7.8%, terminal growth: 2.8%), which implies a 16.0x FY15 P/E and 15.6x FY16 P/E. 

Table 1: Investment Statistics

FYE 31 August (Rm'm, unless otherwise stated)	FY14	FY15F	FY16F	FY17F
Revenue	42,792.4	44,520.6	46,286.6	48,794.1
EBITDA	12,053.5	13,468.6	13,748.2	14,412.7
Pretax Profit	4,801.3	7,556.0	7,719.7	8,274.5
Normalized profit	5,347.7	5,777.9	5,904.0	6,331.1
EPS (sen)	94.8	102.4	104.6	112.2
PER (x)	15.3	14.2	13.9	12.9
Dividend (sen)	29.0	31.3	33.0	34.3
Dividend yield @ RM14.50	2.0	2.2	2.3	2.4

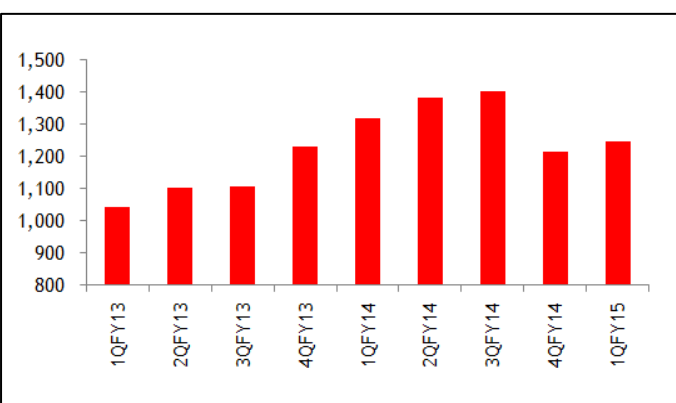
Source: TNB, Forecasts by MIDFR

Chart 1: Power sector's Generation mix



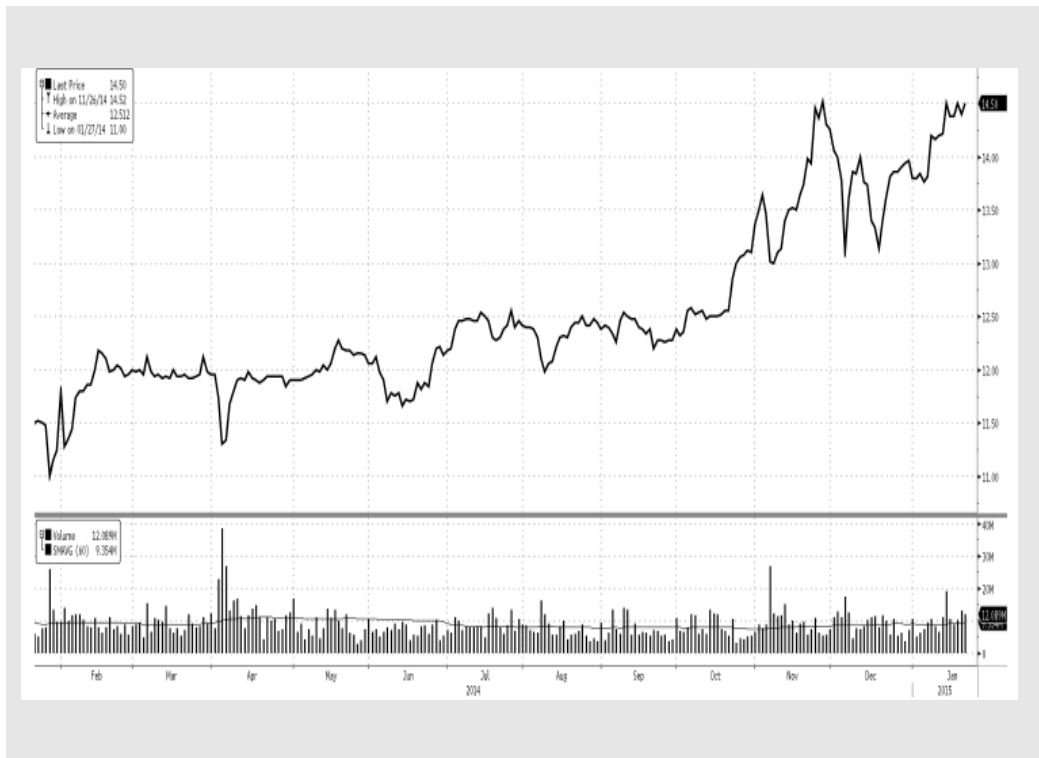
Source: Energy Commission

Chart 2: Daily Average Gas Volume (mmscfd)



Source: Energy Commission

DAILY PRICE CHART



Izzat Esa
muhammad.izzat@midf.com.my
03-2772 1679

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected, by -15% or more, over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

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