KDN: PP 10744/04/2010

Equity Beat

midf RESEARCH

17 June 2009

Corporate Update

TENAGA NASIONAL

No More Tariff Cuts...?

Downgrade to NEUTRAL
Target Price (TP): RM7.60

- **Tenaga is not expecting another round of tariff reduction in the next tariff review in July. The statement made by its CEO confirmed the market's view that further rate reduction may put additional strain on TNB.**
- **Even if the current tariff is reduced, we do not see this to be detrimental to its bottomline. Any pressure on profit is countered by the softening of raw material prices i.e. gas and coal.**
- **We have revised our call to Neutral from a Trading Buy with a TP of RM7.60 per share.**

STOCK INFO

Price (16 Jun 09)	RM7.75	KLCI	1,074.12
Issued shares (mil)	4,334.8	Bursa / Bloomberg	5347 / TNB MK
Par Value (RM)	1.00	Board / Sector	Main
Market cap. (RM'm)	33,594.5	Syariah Compliant	Yes
Price over NTA	1.12		
52-wk price Range	RM5.70 / RM8.50	Major Shareholders	
Beta (against KLCI)	0.83	Khazanah	37.8%
3-mth Avg Daily Vol	5.2	EPF	16.2%
3-mth Avg Daily Value	RM40.3m	PNB (Skim ASB)	9.0%

Not really a surprise. The statement made by the CEO was in-line with the market's expectation given the better business environment for Tenaga especially on the cost structure. As of Apr 09, Tenaga posted a much improved financial performance, underpinned by the downtrend in coal prices that could pull down the average price to US$85/MT in 2H09 versus US$100/MT in 1H09. The average coal price for FY08 was at US$76/MT.

Re-negotiating the PPA is a major stumbling block. The biggest thorn in TNB is the high IPP capacity payment estimated to exceed RM11b for FY09 especially when Jimah power plant go on-stream this year that will see TNB make RM1b in IPP payment. There is a need to re-negotiate the PPA and the IPPs have expressed interest for a discussion with Tenaga, which is viewed as a first step in the right direction but do not expect a quick fix.

Demand to remain sustainable for the year. Demand for electricity is expected to pick up in 2H09 after experiencing a drop of 3.2% that pulled down 2Q09 revenue by 6.9%. Overall, Tenaga do not expect demand to be lower than the current level.

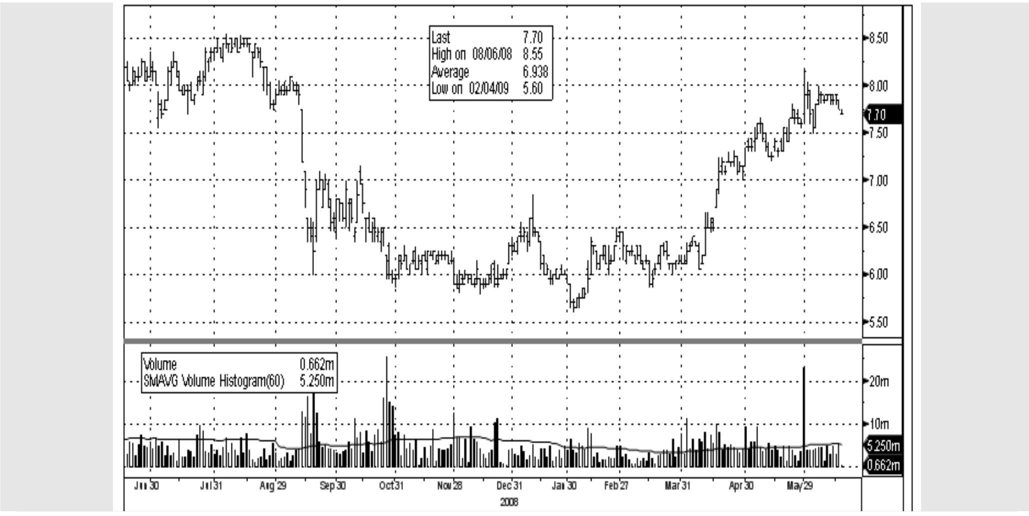
The worse may be over. Despite posting a 1H09 loss of RM RM269.5m, we view that Tenaga could be the road to recovery, underpinned by (i) improvement in EITDA margin, underpinned by the downward trend in fuel/coal prices, (ii) signs of improving power demand, and (iii) reduction in foreign debts. The worse could be over for Tenaga but a full fledge recovery may not come easy. Cut to **NEUTRAL** with target price at RM7.60 per share pegged at 14x FY10 EPS.

TENAGA NASIONAL: EARNINGS SUMMARY

FYE 31 Aug	FY07	FY08	FY09F	FY10F
Revenue (RM'm)	23,320.4	25,750.6	28,944.2	30,868.1
EBIT (RM'm)	5,542.7	4,042.0	3,191.8	3,768.5
Pretax Profit (RM'm)	4,765.9	3,025.2	2,141.1	3,191.6
Net Profit (RM'm)	4,061.1	2,594.0	1,579.6	2,356.5
EPS (sen)	93.7	59.8	36.4	54.4
EPS growth (%)	83.70%	-36.1%	-39.1%	49.4%
PER(x)	8.3	13.0	21.3	14.2
Net Dividend (sen)	8.6	15.2	7.6	7.6
Net Dividend Yield (%)	1.1	1.9	2.7	1.8

Source: Company, Forecasts by MIDFR

DAILY PRICE CHART



Zulkifli Hamzah
Wan Azhar Mustapha
wan.azhar@midf.com.my
03-2173 8390

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

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be > 5% compared with that of an assigned benchmark over the next 12 months.
TRADING BUY	Stock price is expected to rise within 3-months after an investment rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -5% and +5% compared with that of an assigned benchmark over the next 12 months.
SELL	Total return is expected to be < 5% compared with that of an assigned benchmark over the next 12 months.
TRADING SELL	Stock price is expected to fall within 3-months after an investment rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
OVERWEIGHT	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.
UNDERWEIGHT	The sector is expected to underperform the overall market over the next 12 months.