

# Equity Beat

23 July 2009

## Result Update

## TENAGA NASIONAL

No tariff review until Jan 2010

Maintain NEUTRAL

Increased Target Price to RM8.15

- Tenaga's 3Q09 results came in within our expectation but lower than market consensus. 3Q09 earnings of RM1,023.1m was 51%qoq higher due to RM603.2m forex translation gain.
- On cumulative basis, 9MFY09 profit was at RM753.6m but EBITDA margin declined to 25.7% versus 34.4% last year, underpinned by 8.6% higher operating expenses.
- Tariff will remain unchanged until the next review date in Jan 2010.
- We reaffirm our NEUTRAL recommendation with revised target price of RM8.15 based on 15x FY10 EPS.

## STOCK INFO

Price ( 22 Jul 09)	RM8.40	KLCI	1,148.70
Issued shares (mil)	4,334.8	Bursa / Bloomberg	5347 / TNB MK
Par Value (RM)	1.00	Board / Sector	Main
Market cap. (RM'm)	36,415.2	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	5.3	EPF	16.4%
3-mth Avg Daily Value	RM44.5m	PNB (Skim ASB)	9.6%


**Demand still in a fix.** Revenue rose 18.4%yoy, largely due to the tariff hike in Mar 09, despite a 4.6% drop in sales volume, brought down by a 10.7% decline in industrial demand. Sequentially, 3Q09 sales increased by 1.4%qoq but EBITDA took a hit due to a 4.2% increase in operating expenses following a rise in energy payment to IPPs.

**EBITDA margins declined.** EBITDA margin declined from 34.4% in 3Q08 to 26.1% due higher operating expenses following a rise in payments to IPPs. For 9MFY09, payments to IPPs rose 32.0% to RM8.7b, of which RM3.5b was for capacity and RM5.2b for energy payment.

**Cost pressure with coal price trending up.** Apart from the rise in IPP payment, TNB is also facing the threat of a potential rise in coal prices. 9MFY09 average coal price was at US\$94.3/MT versus US\$71.2/MT in the same period last year. Compared with the previous quarter, average coal price eased to US\$79.9/MT versus US\$85.8/MT. The current uptick in coal price prompted Tenaga to raise its average price target to US\$90-95 from US\$80-85 set in the preceding quarter. Our estimate for the average coal price remains at US\$85-90/MT for FY09.

**Tariff remains status quo until the next review in Jan 2010.** The cabinet has decided to leave the prevailing gas price at RM10.70mmbtu unchanged until the next review next year. As a result, Tenaga electricity tariff will remain unchanged until the next review in Jan 2010, under which Tenaga will also submit its proposal for a base tariff review.

**The downside risks** on TNB would be (i) high capacity payments to IPP and (ii) weaker RM/US\$ that would have a negative impact on its foreign debt.

**Maintain forecast and reaffirm NEUTRAL.** We maintain our earnings forecast but raised our target price to RM8.15 pegged against 15x FY10 earnings versus 14x earlier. 

### 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

## Tenaga Nasional: 3QFY09 Results Summary

FY Aug (RM'm)	Quarterly Results					Comments
	3Q09	%YoY	%QoQ	9MFY09	% YoY change	
Turnover	7,001.8	16.7	1.4	21,323.0	18.4	Y-o-y higher revenue was due to the tariff hike in July 08, while q-o-q performance was undermined by a flattish demand.
Op. profit	911.2	6.2	-21.5	2,962.9	-18.6	The group incurred higher operating expenses, an increase of 25% y-o-y, underpinned by higher IPP payments (+32% y-o-y) and a 45% higher fuel costs y-o-y. EBITDA margin decreased to 26.1% from 34.4% last year.
Forex translation gain/(loss)	603.2	>100	>100	-933.5	>100	A forex gains due to a decrease in US\$ exposure following its bond buyback as well as a stronger RM/US\$ and RM/JPY. US\$ debt exposure reduced from 27.8% to 24.3%.
Forex transaction loss	-41.8	92.6	79.4	-63.1	413.0	
Associate	9.1	-3.2	-11.7	27.2	-18.6	
Pre-tax profit	1,240.3	182.1	52.1	1,283.0	-61.1	
Tax & zakat	-234.5	62.8	45.7	-563.4	34.6	
Net Profit	1,023.1	242.4	51.7	753.6	-73.8	Net profit before forex translation gain was at RM1,687.1m.
	<b>3Q09</b>	<b>FY08</b>	<b>FY07</b>			
Avg coal prices (US\$)	94.3/MT	76.4/MT	45.3/MT			The average coal price for the remaining quarters are expected to be higher than earlier estimated at an average of US\$90-95/MT for FY09.
	<b>3Q09</b>	<b>2Q09</b>	<b>% chg</b>			
RM/US\$	3.50	3.70	-5.4			We anticipate forex loss continue to ease in the upcoming quarters.
RM/JPY	3.63	3.79	-4.2			

Source: Company, MIDF Research

## DAILY PRICE CHART



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#### 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.