Tenaga Nasional Berhad

(5347 | TNB MK) Utilities | Power Generation

Another miss, receivables soar

***Maintain* NEUTRAL**

***Unchanged* Target Price: RM8.45**

KEY INVESTMENT HIGHLIGHTS

- **1HFY22 core earnings missed expectations**
- **Core net profit down -24%yoy given higher effective tax rate**
- **Receivables rose further to RM19b (+36%qoq), ICPT under-recovery soared +80%qoq to RM6.3b**
- **FY22F net profit trimmed by -3%**
- **Maintain NEUTRAL at unchanged TP of RM8.45**

Core earnings missed expectations. Tenaga's 1HFY22 EBITDA, operating profit and core PBT (excluding forex translation loss of RM195m) were in-line making up 52%/52%/54% of our estimate. However, 1HFY22 core net profit of RM1,960m fell short at 44% and 42% of our and consensus estimates respectively, mainly due to higher-than-expected effective tax rates.

Bottomline dragged by higher tax. The significant +46%yoy rise in 1HFY22 revenue reflects mostly ICPT under-recovery recognition. 1HFY22 EBITDA was up +8.9%yoy to RM10,577m mainly due to lower allowance for doubtful debt and higher electricity sales (capped at volume growth of +1.7%yoy to 115,835GWh for FY22F under the IBR). However, core earnings were down -24%yoy to RM1,960m due to higher effective tax rates driven by the prosperity tax and higher deferred tax.

Lower interim dividends. A first interim dividend of 20sen/share was declared in 2QFY22, around -9% lower than last year's first interim dividend and implies a yield of 2.2%. Tenaga usually announces a 2nd interim in 4Q.

Receivables ballooned further. Receivables ballooned further to RM19b in 2QFY22 (1QFY22: RM14b); some 63% (i.e., RM12.1b) of this comprise of ICPT. 2QFY22 cost under-recovery rose +80%qoq to RM6.3b (1QFY22: RM3.5b) given higher fuel prices and a higher coal generation mix. We take comfort in the fact that incremental debt to fund the additional working capital will be guaranteed by the Government (for up to RM6b), but expect a deterioration in underlying cash flow nonetheless. 1HFY22 operating cash flow has shrunk -79%yoy to RM1,887m mainly due to the ICPT under-recovery. Tenaga forecasts capex at RM11.8b this year, up 39% from FY21's RM8.5b. Given rising borrowings, net gearing, on our estimates, rose further to 81% in 2QFY22 (1QFY22: 76.1%).

Earnings revision. Given the 1HFY22 underperformance, we trim FY22F earnings by -3% to RM4,307m to factor in higher effective tax rate assumption from higher-than-expected prosperity tax impact. We now expect FY22F core earnings to contract -4.7%yoy. As we expect the tax impact to normalize next year, we keep FY23F net profit unchanged.

RETURN STATISTICS	
Price @ 30th August 2022 (RM)	8.99
Expected share price return (%)	-6.0
Expected dividend yield (%)	+3.5
Expected total return (%)	**-2.5**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	8.8	7.4
3 months	12.7	0.9
12 months	-14.1	-9.0

KEY STATISTICS	
FBM KLCI	1,512.05
Syariah compliant	Yes
F4BGM Index	Yes
ESG Grading Band (Star rating)	☆☆☆
Issue shares (m)	5717.52
Estimated free float (%)	31.82
Market Capitalisation (RM'm)	51,720.17
52-wk price range	RM7.89 - RM10.5
Beta vs FBM KLCI (x)	0.88
Monthly velocity (%)	0.00
Monthly volatility (%)	11.10
3-mth average daily volume (m)	3.80
3-mth average daily value (RM'm)	32.21
Top Shareholders (%)	
Khazanah Nasional Bhd	25.46
Employees Provident Fund Board	15.67
Amanah Saham Nasional Bhd	15.14

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INVESTMENT STATISTICS

FYE Dec	FY19	FY20	FY21	FY22F	FY23F
Revenue (RM'm)	50,939.7	43,976.0	52,629.5	48,703.3	50,464.1
EBIT (RM'm)	8,206.8	7,358.8	8,083.0	9,576.1	9,760.0
Pre-tax Profit (RM'm)	5,277.1	4,163.8	4,805.7	5,942.5	5,956.4
Core net profit (RM'm)	4,721.9	3,635.1	4,519.8	4,307.5	4,436.9
FD EPS (sen)	83.7	64.4	80.1	76.3	78.6
EPS growth (%)	(19.8)	(23.0)	24.3	(4.7)	3.0
PER (x)	10.7	14.0	11.2	11.8	11.4
EV/EBITDA (x)	4.5	4.8	4.5	4.7	4.6
Net Dividend (sen)	100.0	80.0	40.0	30.5	31.4
Net Dividend Yield (%)	11.1	8.9	4.4	3.4	3.5

Source: Company, MIDFR

Recommendation. We keep our **NEUTRAL** call at unchanged DCF-derived **TP** of **RM8.45**. Cash flow constraints from deep cost under-recovery might depress dividend payout to the lower end of Tenaga's 30%-60% payout policy, we believe, which reduces attractiveness of the stock in the near-term amid rising interest rates. We like Tenaga's long-term decarbonisation initiatives, but we see near-to-mid-term 'transition pain' to endure in: (1) Earnings impact form early coal plant retirement and stake dilution from CCUS incorporation (2) Cost impact from potential carbon pricing introduction. Foreign institutions have net bought +RM112m of Tenaga year-to-date, while local institutions have net sold -RM694m. The bulk of the fund inflow from local investors came from retailers at +RM409m. Foreign shareholding seems to be stabilizing at 12.0%-12.3% range in the past year.

Chart 1: Tenaga receivables trend

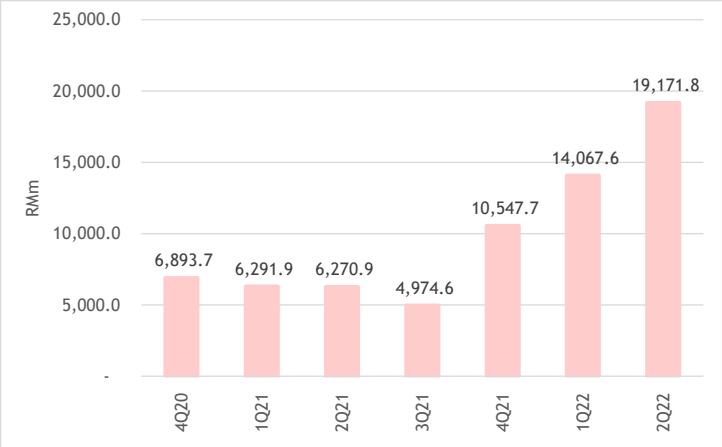
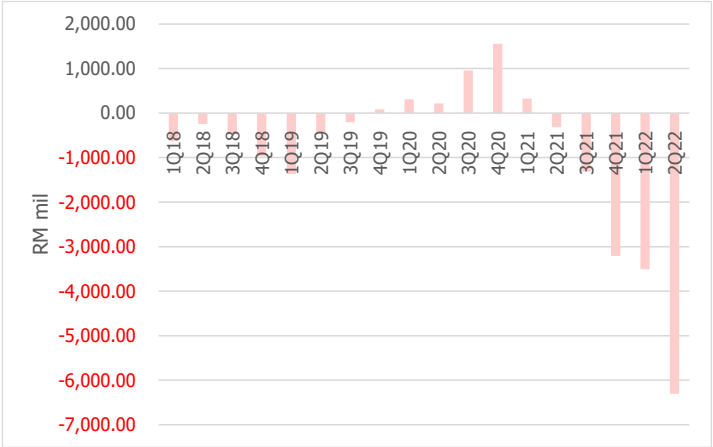


Chart 2: Tenaga ICPT (under)/over recovery



Source: Company, MIDFR

Chart 3: Fund flow in Tenaga YTD

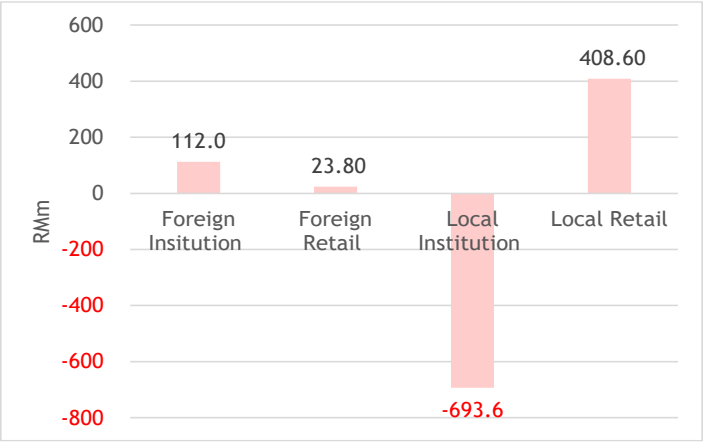
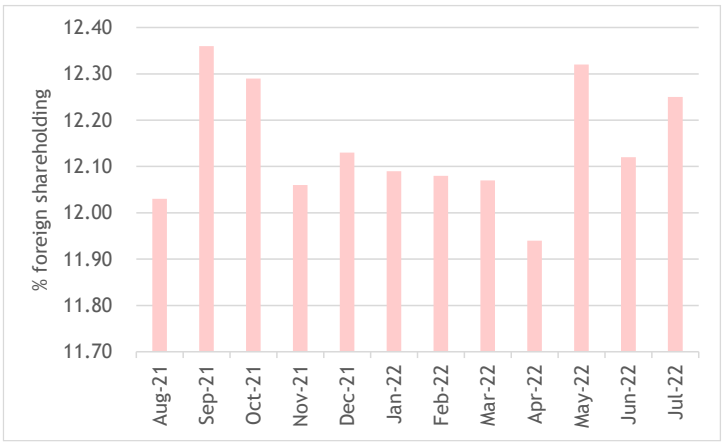


Chart 4: Tenaga's foreign shareholding



Source: Company, Dibots, MIDFR

TENAGA NASIONAL: 2QFY22 RESULT SUMMARY

FYE Dec (RMm)	2Q21	1Q22	2Q22	YoY	QoQ	1H21	1H22	YTD
Revenue	12,441.0	15,658.5	19,140.3	53.8%	22.2%	23,919.0	34,798.8	45.5%
EBITDA	**4,735.5**	**5,137.8**	**5,439.1**	**14.9%**	**5.9%**	**9,710.3**	**10,576.9**	**8.9%**
Depreciation	(2,612.2)	(2,768.2)	(2,810.8)	7.6%	1.5%	-5,259.2	-5,579.0	6.1%
Operating profit	2,123.3	2,369.6	2,628.3	23.8%	10.9%	4,451.1	4,997.9	12.3%
Net interest expense	(914.6)	(956.8)	(989.6)	8.2%	3.4%	(1,798.5)	(1,946.4)	8.2%
Forex translation gain/(loss)	(59.9)	42.7	(237.2)			(116.7)	(194.5)	66.7%
Associates/JVs	48.4	36.0	35.1	-27.5%	-2.5%	71.0	71.1	0.1%
FV change of financial instruments	(21.5)	40.2	18.5			87.8	58.7	
Pretax profit (ex-forex translation)	1,262.0	1,489.3	1,702.9	34.9%	14.3%	2,796.1	3,192.2	14.2%
Tax	(352.1)	(660.8)	(560.1)	59.1%	-15.2%	(855.9)	(1,220.9)	42.6%
Minority Interest	28.5	(21.9)	33.4	17.2%	-252.5%	43.3	11.5	-73.4%
Reported net profit	821.5	893.1	872.2	6.2%	-2.3%	1,780.2	1,765.3	-0.8%
Core net profit	**1,227.0**	**850.4**	**1,109.4**	**-9.6%**	**30.5%**	**2,579.3**	**1,959.8**	**-24.0%**
EPS (sen)	14.4	15.7	15.3	6.2%	-2.3%	31.3	31.0	-0.8%
Core EPS (sen)	**21.6**	**15.0**	**19.5**	**-9.6%**	**30.5%**	**45.4**	**34.5**	**-24.0%**
DPS (sen)	22.00	-	20.00	-9.1%	NA	22.00	20.00	-9.1%
EBITDA margin	38.1%	32.8%	28.4%	*(9.6)*	*(4.4)*	40.6%	30.4%	*(10.2)*
Operating profit margin	17.1%	15.1%	13.7%	*(3.3)*	*(1.4)*	18.6%	14.4%	*(4.2)*
Pretax margin (ex-forex transation)	10.1%	9.5%	8.9%	*(1.2)*	*(0.6)*	11.7%	9.2%	*(2.5)*
Tax rate	-27.9%	-44.4%	-32.9%			-30.6%	-38.2%	
Core net profit margin	9.9%	5.4%	5.8%	*(4.1)*	*0.4*	10.8%	5.6%	*(5.2)*

Source: Company, MIDFR

TENAGA NASIONAL: 2QFY22 RESULTS BREAKDOWN

Unit Revenue/Cost Analysis	2Q21	1Q22	2Q22	YoY	QoQ	1H21	1H22	YTD
Demand sales volume (GWh)	**28,055**	**28,959**	**30,160**	**7.5%**	**4.1%**	**55,908**	**59,119**	**5.7%**
Generation volume (GWh)	31,353	31,869	33,148	5.7%	4.0%	62,232	65,017	4.5%
Unit Revenue (sen/kwh)	42.04	38.98	40.49	-3.7%	3.9%	40.66	39.75	-2.3%
Unit Cost (sen/kwH) - Total cost	**32.08**	**42.15**	**50.44**	**57.2%**	**19.7%**	**30.86**	**46.37**	50.3%
Unit Cost (sen/kwH) - IPP & TNB Fuels	15.93	26.57	35.37	122.1%	33.1%	14.72	31.05	110.9%
Unit Cost (sen/kwH) - Repair & maintenance	1.53	1.49	1.63	6.3%	9.2%	1.51	1.56	3.5%
Unit Cost (sen/kwH) - General expenses	1.30	1.40	1.12	-13.9%	-19.9%	1.23	1.26	1.9%
Unit Cost (sen/kwH) - Staff cost	3.17	2.90	2.86	-9.9%	-1.7%	3.13	2.88	-8.1%
Gross Electricity Sale Revenue (RMm):	**11,919**	**11,993**	**12,799**	**7.4%**	**6.7%**	**23,533**	**24,793**	**5.4%**
TNB (without ICPT)	11,795.5	11,287.9	12,210.3	3.5%	8.2%	22,734.6	23,498.2	3.4%
EGAT	0.2	0.3	0.0	-100.0%	-100.0%	0.2	0.3	50.0%
SESB	483.0	468.3	497.2	2.9%	6.2%	914.7	965.5	5.6%
LPL	99.4	0.0	0.0	-100.0%	NA	153.1	0.0	-100.0%
Tenaga Wind Ventures	20.7	37.1	25.4	22.7%	-31.5%	54.0	62.5	15.7%
Vortex	101.8	46.7	110.3	8.3%	136.2%	134.9	157.0	16.4%
Sales Discounts & Accrued Revenue	(581.4)	153.0	(81.0)	86.1%	-152.9%	(458.6)	72.0	115.7%
TNB (CEI UK Ltd)	0.0	0.0	37.6	NA	NA	0.0	37.6	NA

Source: Company, MIDFR

TENAGA NASIONAL: 2QFY22 GENERATION MIX

Generation Mix (Includes IPPs)	2Q21 (%)	1Q22 (%)	2Q22 (%)	Variance (%) YoY	Variance (%) QoQ	1H21 (%)	1H22 (%)	Variance (%) YoY
Gas & LNG	37.6	39.1	37.1	(0.5)	(1.9)	34.1	38.1	4.0
Coal	56.5	54.1	57.8	1.4	3.7	59.1	56.0	(3.2)
Distillate	0.0	1.1	0.4	0.4	(0.7)	0.1	0.7	0.7
Oil	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Hydro	5.0	4.8	3.4	(1.6)	(1.4)	5.8	4.1	(1.7)
Solar	0.9	0.9	1.2	0.3	0.3	0.9	1.1	0.2
Fuel Cost Composition	**2Q21 (%)**	**1Q22 (%)**	**2Q22 (%)**	**Variance (%) YoY**	**Variance (%) QoQ**	**1H21 (%)**	**1H22 (%)**	**Variance (%) YoY**
Gas & LNG	33.4	31.8	23.5	(9.8)	(8.3)	30.7	27.0	(3.7)
Coal	66.4	62.9	75.6	9.2	12.7	68.7	70.3	1.6
Distillate	0.2	5.2	0.9	0.7	(4.4)	0.6	2.7	2.1
Oil	0.0	0.0	0.0	(0.0)	0.0	0.0	0.0	(0.0)
Solar	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company, MIDFR

TENAGA NASIONAL: 2QFY22 COST ANALYSIS

Cost Analysis (RMm)	2Q21	1Q22	2Q22	YoY	QoQ	1H21	1H22	YTD
IPP purchase cost	1,945.5	3,440.6	4,123.7	112.0%	19.9%	3,601.5	7,564.3	110.0%
- Capacity payment	*40.0*	*(99.2)*	*(89.2)*	-323.0%	10.1%	*71.6*	*(188.4)*	*-363.1%*
- Energy payment	*1,905.5*	*3,539.8*	*4,212.9*	121.1%	19.0%	*3,529.9*	*7,752.7*	*119.6%*
Fuel costs	3,088.0	4,926.5	7,510.9	143.2%	52.5%	5,631.9	12,437.4	120.8%
Repair & Maintenance	480.1	475.1	539.8	12.4%	13.6%	938.2	1,014.9	8.2%
Staff cost	993.3	925.4	946.5	-4.7%	2.3%	1,948.7	1,871.9	-3.9%
TNB General Expenses	408.2	445.7	371.5	-9.0%	-16.6%	767.9	817.2	6.4%
Subsi. COS & Opex	530.5	450.3	415.4	-21.7%	-7.8%	1,056.9	865.7	-18.1%
Depreciation & Amortisation	2,612.2	2,768.2	2,810.8	7.6%	1.5%	5,259.2	5,579.0	6.1%
Total	**10,057.8**	**13,431.8**	**16,718.6**	**66.2%**	**24.5%**	**19,204.3**	**30,150.4**	**57.0%**
Total gen cost	5,033.5	8,367.1	11,634.6	131.1%	39.1%	9,233.4	20,001.7	116.6%

Source: Company, MIDFR

TENAGA NASIONAL: 2QFY22 DEMAND TREND

Demand Sales (GWh)	2Q21	1Q22	2Q22	YoY	QoQ	1H21	1H22	YTD
Industrial	10,737	11,268	11,363	5.8%	0.8%	22,030	22,631	2.7%
Commercial	8,490	9,399	9,985	17.6%	6.2%	17,020	19,384	13.9%
Domestic	8,247	7,699	8,217	-0.4%	6.7%	15,700	15,916	1.4%
Others	581	593	595	2.4%	0.3%	1,158	1,188	2.6%
Total Demand (GWh)	**28,055**	**28,959**	**30,160**	**7.5%**	**4.1%**	**55,908**	**59,119**	**5.7%**

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology