Corporate Update | Monday, 19 September 2022

# Tenaga Nasional Berhad

(5347 | TNB MK) Utilities | Power Generation

## Temporary respite

***Maintain*** **NEUTRAL**

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

### KEY INVESTMENT HIGHLIGHTS

- **Temporary respite from ICPT subsidy receipt**
- **Partially covers outstanding 1H22 ICPT under-recovery**
- **2HFY22 under-recovery could accelerate given further rise in fuel price and a weaker RM**
- **Players in liberalised markets and IPPs are safer bets, we believe**
- **Maintain NEUTRAL at unchanged TP of RM8.45**

**Temporary respite.** Tenaga shared that it has so far received RM1.9b in ICPT cost recovery from the total RM5.8b that the Government has committed to subsidise. This is in-line with indications at Tenaga's recent analyst briefing, which is for collection of the RM5.8b in ICPT subsidy from the Government by year-end.

**Recap of under-recovery status and receivables**. As of end-1HFY22, Tenaga's receivables stood at RM19b of which 63% (or RM12.1b) comprise of ICPT. This was driven mainly by deep ICPT under-recovery, which in the 1HFY22 alone, amounted to RM9.8b. The RM5.8b ICPT subsidy from the Government will reduce Tenaga's ICPT receivables by 48%, while collection of the 3sen/kwh ICPT surcharge from the non-domestic sector in 2HFY22 should reduce the ICPT receivables further by an estimated RM1.6b. As such, Tenaga's outstanding 1H22 ICPT receivables is expected to reduce to RM4.7b.

**Under-recovery likely to accelerate in 2HFY22**. However, given still rising energy prices, we expect Tenaga's ICPT under-recovery to balloon further in 2HFY22, notwithstanding the RM5.8b partial 1HFY22 ICPT recovery. Coal price recently hit a new record of USD457/MT and remains close to these levels so far in September (See Chart 2). This compares unfavourably against the average USD221/MT coal price recognized in 2QFY22 (2Q22 ICPT under-recovery: RM6.3b) and USD166/MT in 1QFY22 (1QFY22 ICPT under-recovery: RM3.5b). The continued strengthening of the USD against the RM in 2HFY22 further exacerbates the situation. We reckon 2HFY22 under-recovery could potentially outweigh the RM5.8b ICPT subsidy payment that Tenaga will receive in the same period (See Chart 1). With decision on the remaining 1H22 ICPT receivables (on top of 2HFY22 under-recovery) only to be decided towards year-end, we believe Tenaga's cash flows are likely to remain constrained. As such, we remain cautious of dividend expectations and keep our FY22F/23F dividend yield at 3.5%/3.6% representing a 40% payout; at the lower end of the group's 30%-60% payout policy.

| RETURN STATISTICS | |
|---|---|
| Price @ 15th Sep. 2022 (RM) | 8.76 |
| Expected share price return (%) | -3.5 |
| Expected dividend yield (%) | +3.6 |
| **Expected total return (%)** | **+0.1** |

**SHARE PRICE CHART**



| Share price performance (%) | Absolute | Relative |
|---|---|---|
| 1 month | 0.7 | 4.2 |
| 3 months | 9.8 | 5.9 |
| 12 months | -11.5 | -6.2 |

| KEY STATISTICS | |
|---|---|
| FBM KLCI | 1,467.31 |
| Syariah compliant | Yes |
| F4BGM Index | Yes |
| ESG Grading Band (Star rating) | ☆☆☆ |
| Issue shares (m) | 5717.52 |
| Estimated free float (%) | 31.83 |
| Market Capitalisation (RM'm) | 50,396.96 |
| 52-wk price range | RM7.89 - RM10.0 |
| Beta vs FBM KLCI (x) | 0.88 |
| Monthly velocity (%) | 0.00 |
| Monthly volatility (%) | 11.10 |
| 3-mth average daily volume (m) | 3.11 |
| 3-mth average daily value (RM'm) | 25.94 |
| Top Shareholders (%) | |
| Khazanah Nasional Bhd | 25.46 |
| Employees Provident Fund Board | 15.66 |
| Amanah Saham Nasional Bhd | 15.14 |

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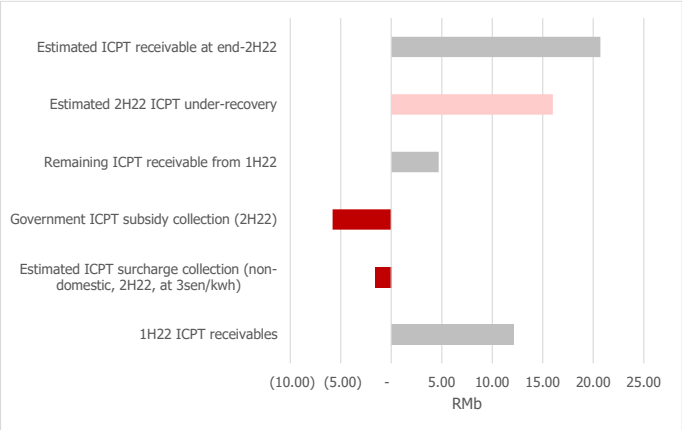
## INVESTMENT STATISTICS

| 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) | 10.5 | 13.6 | 10.9 | 11.5 | 11.1 |
| EV/EBITDA (x) | 4.4 | 4.8 | 4.5 | 4.6 | 4.6 |
| Net Dividend (sen) | 100.0 | 80.0 | 40.0 | 30.5 | 31.4 |
| Net Dividend Yield (%) | 11.4 | 9.1 | 4.6 | 3.5 | 3.6 |

*Source: Company, MIDFR*

**Liberalised markets are safer bets we believe.** In an environment of rising input cost for the power sector, we think players operating in liberalised markets or IPPs are safer bets. For the latter, fuel is cost pass-through to the offtaker with certainty in payment frequency. Players in this space includes Ranhill Utilities (BUY, TP: RM0.67) and Malakoff (non-rated). Alternatively, players operating in liberalized electricity markets are also better able to pass through higher costs given the free-market nature of such electricity markets which allow for a better reflection of underlying cost in market prices compared to regulated markets. A play into liberalized electricity markets is YTL Power (BUY, TP: RM0.92), which operates in the Singapore generation sector - YTL Power has seen earnings improve in the past two quarters driven by better USEP rates amid tighter demand-supply and higher input cost price.

### Chart 1: Tenaga ICPT receivables

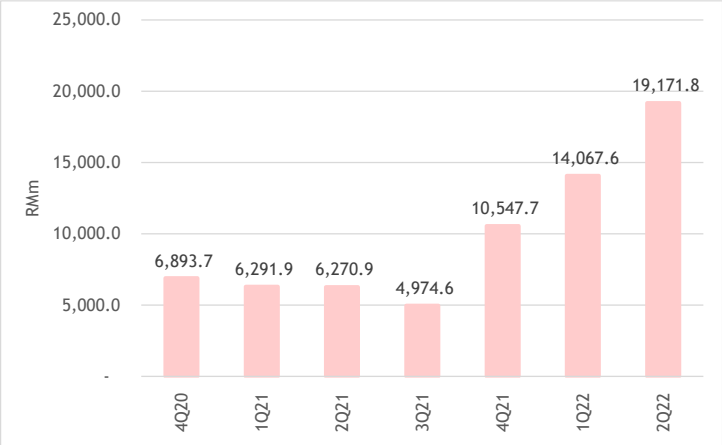



### Chart 2: Coal price trend

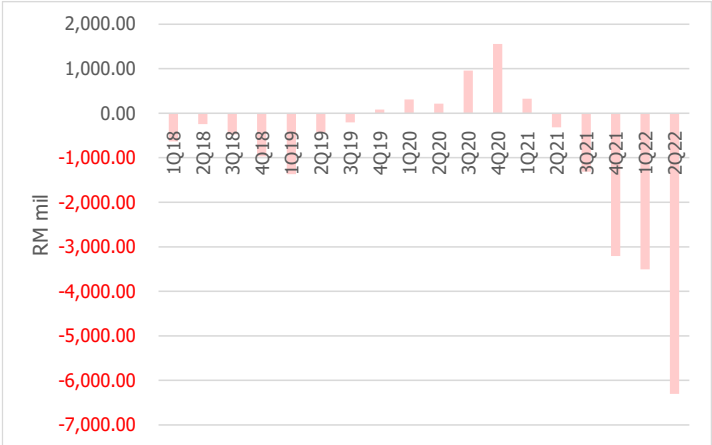



*Source: Company, Newcastle coal futures, MIDFR*

### Chart 3: Tenaga receivables trend




### Chart 4: Tenaga ICPT (under)/over recovery




*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 from early coal plant retirement and stake dilution from CCUS incorporation (2) Cost impact from potential carbon pricing introduction.

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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