Tenaga Nasional Berhad

(5347 | TNB MK) Utilities | Power Generation

Regulatory risk remains elevated

***Maintain* NEUTRAL**

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

KEY INVESTMENT HIGHLIGHTS

- **9MFY22 core earnings within expectations**
- **Core net profit improved sequentially form higher hydro generation in 3Q22**
- **Receivables rose further to RM22b (+16%qoq), ICPT under-recovery remains elevated at RM6.1b**
- **Regulatory risk remains elevated**
- **Maintain NEUTRAL at unchanged TP of RM8.45**

Within expectations. Tenaga's 9M22 core earnings came in within expectation. The group reported a core net profit of RM1.30b for the 3Q22, which brought 9M22 core earnings to RM3.26b (excluding forex translation loss of RM608m), making up 76% and 71% of our and consensus FY22 estimates respectively. No dividends were declared for the quarter.

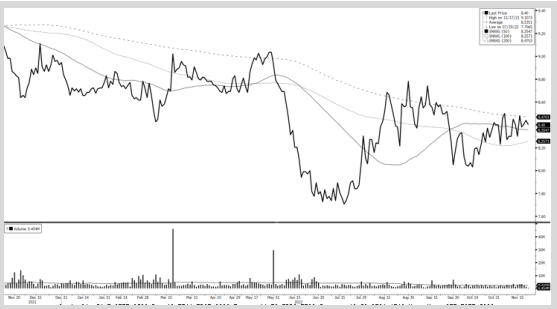
Margins improved sequentially. 3Q22 revenue was largely flattish sequentially owing to flattish demand growth in the period. However, 3Q22 EBITDA improved sequentially (+5.5%qoq) due to lower generation cost (-5%qoq), driven by higher hydro generation – hydro made up 6.3% of 3Q22 generation mix vs. just 3.4% in 2Q22. This was partly offset by a +47%qoq increase in repair & maintenance cost to RM792m during the quarter.

Receivables continue to climb. ICPT under-recovery in the 3Q22 stood at RM6.1b and remains elevated. Tenaga has recovered RM4.9b from the Government out of a total subsidy commitment of RM5.8b by year-end. However, receivables continued to rise given still high fuel prices – at end-3Q22, receivables rose to RM22b from RM19b as at end 2Q22. We expect the receivables to climb further in 4Q22 before a decision on the ICPT is taken by the Government. Regulated capex spend seems to be trailing – regulated capex stood at RM4.27b as of 9M22, making up just 60% of FY22 IBR approved capex of RM7.17b.

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. Meanwhile, a Government with a weak majority could reduce the political muscle to push a sizeable fuel cost pass-through, suggesting still high regulatory risk for Tenaga. On the decarbonisation front, we like Tenaga's long-term 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.

RETURN STATISTICS	
Price @ 23rd November 2022 (RM)	8.42
Expected share price return (%)	+0.4
Expected dividend yield (%)	+3.5
Expected total return (%)	**+3.9**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	1.0	1.4
3 months	4.5	0.9
12 months	-11.5	-6.4

KEY STATISTICS	
FBM KLCI	1,443.50
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)	48,141.52
52-wk price range	RM7.89 - RM9.54
Beta vs FBM KLCI (x)	0.74
Monthly velocity (%)	0.00
Monthly volatility (%)	11.10
3-mth average daily volume (m)	2.41
3-mth average daily value (RM'm)	20.43
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)	10.7	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

Chart 1: Tenaga receivables trend

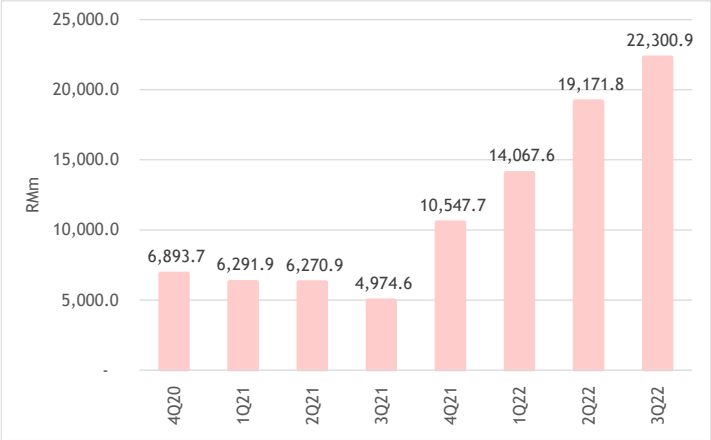
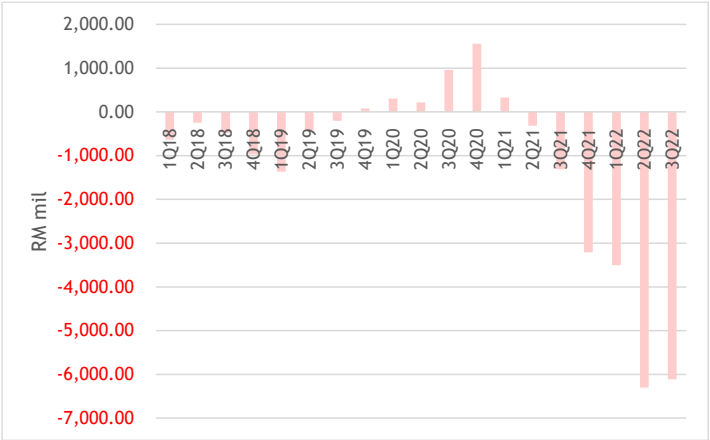


Chart 2: Tenaga ICPT (under)/over recovery



Source: Company, MIDFR

Chart 3: Tenaga net debt trend

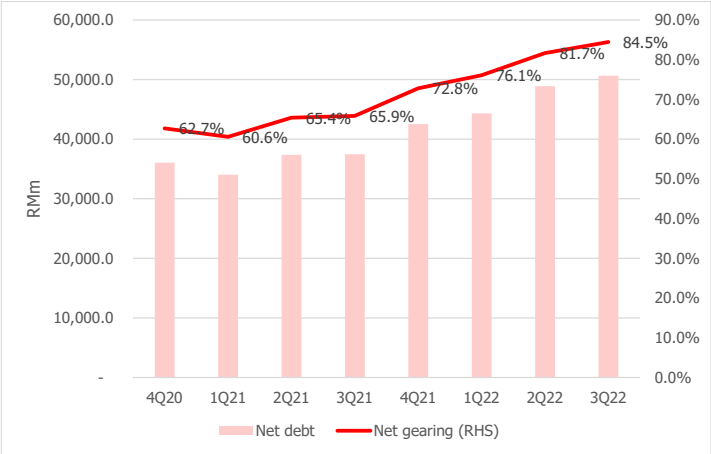
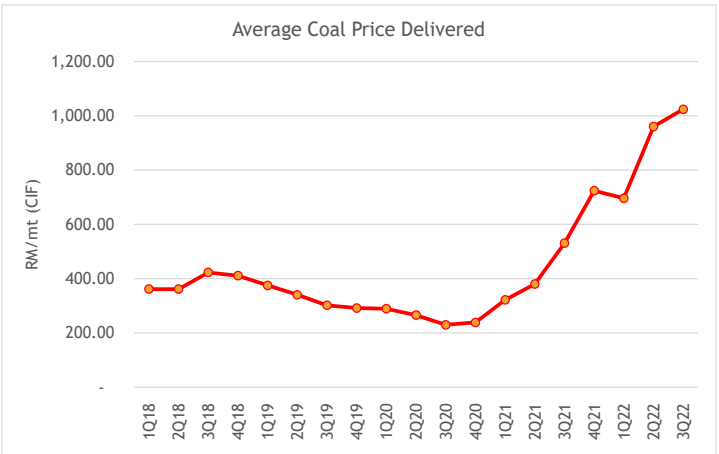


Chart 4: Tenaga average coal price delivered



Source: Company, Dibots, MIDFR

TENAGA NASIONAL: 3QFY22 RESULT SUMMARY

FYE Dec (RMm)	3Q21	2Q22	3Q22	YoY	QoQ	9M21	9M22	YTD
Revenue	12,975.4	19,140.3	19,071.4	47.0%	-0.4%	36,894.4	53,870.2	46.0%
EBITDA	**4,682.4**	**5,439.1**	**5,737.3**	**22.5%**	**5.5%**	**14,392.7**	**16,314.2**	**13.4%**
Depreciation	(2,623.5)	(2,810.8)	(2,825.7)	7.7%	0.5%	-7,882.7	-8,404.7	6.6%
Operating profit	2,058.9	2,628.3	2,911.6	41.4%	10.8%	6,510.0	7,909.5	21.5%
Net interest expense	(873.4)	(989.6)	(1,074.5)	23.0%	8.6%	(2,671.9)	(3,020.9)	13.1%
Forex translation gain/(loss)	(45.7)	(237.2)	(413.8)			(162.4)	(608.3)	274.6%
Associates/JVs	50.0	35.1	31.4	-37.2%	-10.5%	121.0	102.5	-15.3%
FV change of financial instruments	59.7	18.5	66.4			147.5	125.1	
Pretax profit (ex-forex translation)	1,282.6	1,702.9	1,948.0	51.9%	14.4%	4,078.7	5,140.2	26.0%
Tax	(188.2)	(560.1)	(561.5)	198.4%	0.2%	(1,044.1)	(1,782.4)	70.7%
Minority Interest	44.9	33.4	83.8	86.6%	150.9%	88.2	95.3	8.0%
Reported net profit	1,003.8	872.2	888.9	-11.4%	1.9%	2,784.0	2,654.2	-4.7%
Core net profit	**1,049.5**	**1,109.4**	**1,302.7**	**24.1%**	**17.4%**	**3,844.4**	**3,262.5**	**-15.1%**
EPS (sen)	17.7	15.3	15.6	-11.6%	1.9%	49.0	46.6	-4.9%
Core EPS (sen)	**18.5**	**19.5**	**22.9**	**24.1%**	**17.4%**	**67.6**	**57.4**	**-15.1%**
DPS (sen)	-	20.00	-	NA	NA	22.00	20.00	-9.1%
EBITDA margin	36.1%	28.4%	30.1%	*(6.0)*	*1.7*	39.0%	30.3%	*(8.7)*
Operating profit margin	15.9%	13.7%	15.3%	*(0.6)*	*1.5*	17.6%	14.7%	*(3.0)*
Pretax margin (ex-forex transation)	9.9%	8.9%	10.2%	*0.3*	*1.3*	11.1%	9.5%	*(1.5)*
Tax rate	-14.7%	-32.9%	-28.8%			-25.6%	-34.7%	
Core net profit margin	8.1%	5.8%	6.8%	*(1.3)*	*1.0*	10.4%	6.1%	*(4.4)*

Source: Company, MIDFR

TENAGA NASIONAL: 3QFY22 RESULTS BREAKDOWN

Unit Revenue/Cost Analysis	3Q21	2Q22	3Q22	YoY	QoQ	9M21	9M22	YTD
Demand sales volume (GWh)	**26,831**	**30,160**	**30,348**	**13.1%**	**0.6%**	**82,739**	**89,467**	**8.1%**
Generation volume (GWh)	30,567	33,148	33,318	9.0%	0.5%	92,768	98,335	6.0%
Unit Revenue (sen/kwh)	38.63	40.49	40.18	4.0%	-0.7%	40.01	39.90	-0.3%
Unit Cost (sen/kwH) - Total cost	**35.40**	**50.44**	**49.10**	**38.7%**	**-2.7%**	**-**	**47.30**	#DIV/0!
Unit Cost (sen/kwH) - IPP & TNB Fuels	19.73	35.37	33.35	69.0%	-5.7%	6.06	31.83	425.4%
Unit Cost (sen/kwH) - Repair & maintenance	1.54	1.63	2.38	54.1%	46.0%	10.48	1.84	-82.5%
Unit Cost (sen/kwH) - General expenses	1.07	1.12	1.11	3.0%	-1.3%	3.07	1.20	-61.0%
Unit Cost (sen/kwH) - Staff cost	2.95	2.86	2.85	-3.3%	-0.1%	1.52	2.87	88.9%
Gross Electricity Sale Revenue (RMm):	**11,024**	**12,799**	**12,814**	**16.2%**	**0.1%**	**34,557**	**37,607**	**8.8%**
TNB (without ICPT)	10,365.8	12,210.3	12,194.6	17.6%	-0.1%	33,100.4	35,692.8	7.8%
EGAT	0.1	0.0	0.1	NA	#DIV/0!	0.3	0.4	33.3%
SESB	460.8	497.2	504.5	9.5%	1.5%	1,375.5	1,470.0	6.9%
LPL	136.9	0.0	0.0	-100.0%	#DIV/0!	290.0	0.0	-100.0%
Tenaga Wind Ventures	16.1	25.4	21.1	31.1%	-16.9%	70.1	83.6	19.3%
Vortex	96.4	110.3	97.1	0.7%	-12.0%	231.3	254.1	9.9%
Sales Discounts & Accrued Revenue	(52.0)	(81.0)	(34.7)	-33.3%	-57.2%	(510.6)	37.3	107.3%
TNB (CEI UK Ltd)	0.0	37.6	31.4	NA	-16.5%	0.0	69.0	NA

Source: Company, MIDFR

TENAGA NASIONAL: 3QFY22 GENERATION MIX

Generation Mix (Includes IPPs)	3Q21 (%)	2Q22 (%)	3Q22 (%)	Variance (%) YoY	Variance (%) QoQ	9M21 (%)	9M22 (%)	Variance (%) YoY
Gas & LNG	33.0	37.1	35.8	2.8	(1.3)	33.8	37.3	3.6
Coal	60.9	57.8	56.5	(4.4)	(1.3)	59.7	56.2	(3.6)
Distillate	0.0	0.4	0.0	0.0	(0.4)	0.1	0.5	0.4
Oil	0.1	0.0	0.0	(0.1)	0.0	0.0	0.0	0.0
Hydro	5.0	3.4	6.3	1.3	2.9	5.5	4.9	(0.7)
Solar	0.9	1.2	1.4	0.4	0.1	0.9	1.2	0.3
Fuel Cost Composition	**3Q21 (%)**	**2Q22 (%)**	**3Q22 (%)**	**Variance (%) YoY**	**Variance (%) QoQ**	**9M21 (%)**	**9M22 (%)**	**Variance (%) YoY**
Gas & LNG	27.8	23.5	27.2	(0.6)	3.6	29.5	27.1	(2.4)
Coal	72.0	75.6	71.5	(0.5)	(4.1)	70.1	70.7	0.7
Distillate	0.2	0.9	0.4	0.1	(0.5)	0.4	1.9	1.4
Oil	0.0	0.0	1.0	1.0	1.0	0.0	0.4	0.3
Solar	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company, MIDFR

TENAGA NASIONAL: 3QFY22 COST ANALYSIS

Cost Analysis (RMm)	3Q21	2Q22	3Q22	YoY	QoQ	9M21	9M22	YTD
IPP purchase cost	2,018.9	4,123.7	5,337.5	164.4%	29.4%	5,620.4	12,901.8	129.6%
- Capacity payment	*76.0*	*(89.2)*	*(81.7)*	-207.5%	-8.4%	*147.6*	*(270.1)*	*-283.0%*
- Energy payment	*1,942.9*	*4,212.9*	*5,419.2*	178.9%	28.6%	*5,472.8*	*13,171.9*	*140.7%*
Fuel costs	4,088.4	7,510.9	5,692.0	39.2%	-24.2%	9,720.3	18,129.4	86.5%
Repair & Maintenance	471.8	539.8	792.4	68.0%	46.8%	1,410.0	1,807.3	28.2%
Staff cost	902.4	946.5	950.8	5.4%	0.5%	2,851.1	2,822.7	-1.0%
TNB General Expenses	328.2	371.5	368.6	12.3%	-0.8%	1,096.1	1,178.6	7.5%
Subsi. COS & Opex	388.4	415.4	391.8	0.9%	-5.7%	1,445.3	1,264.7	-12.5%
Depreciation & Amortisation	2,623.5	2,810.8	2,825.7	7.7%	0.5%	7,882.7	8,404.7	6.6%
Total	**10,821.6**	**16,718.6**	**16,358.8**	**51.2%**	**-2.2%**	**30,025.9**	**46,509.2**	**54.9%**
Total gen cost	6,107.3	11,634.6	11,029.5	80.6%	-5.2%	15,340.7	31,031.2	102.3%

Source: Company, MIDFR

TENAGA NASIONAL: 3QFY22 DEMAND TREND

Demand Sales (GWh)	3Q21	2Q22	3Q22	YoY	QoQ	9M21	9M22	YTD
Industrial	10,205	11,363	11,484	12.5%	1.1%	32,235	34,115	5.8%
Commercial	7,816	9,985	10,232	30.9%	2.5%	24,836	29,616	19.2%
Domestic	8,218	8,217	8,015	-2.5%	-2.5%	23,918	23,931	0.1%
Others	591	595	617	4.4%	3.7%	1,749	1,805	3.2%
Total Demand (GWh)	**26,830**	**30,160**	**30,348**	**13.1%**	**0.6%**	**82,738**	**89,467**	**8.1%**

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