# Tenaga Nasional Berhad

(5347 | TNB MK) Utilities | Power Generation

## *Downgrade to* NEUTRAL

*(from BUY)*

## Positives looks priced in

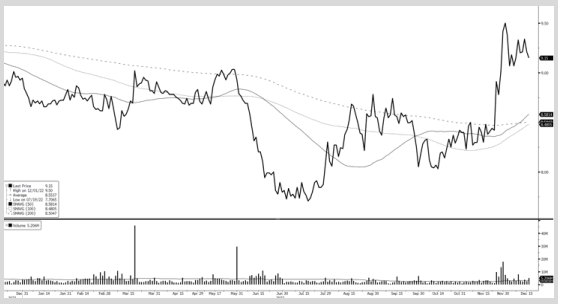
## *Unchanged* Target Price: RM10.00

### KEY INVESTMENT HIGHLIGHTS

- **FY22 result missed expectations**
- **Positive dividend surprise**
- **Pressured by higher cost in 4QFY22**
- **Marginal increase in receivables but should mark a peak**
- **Despite more favourable outlook, positives look priced in**
- **Downgrade to NEUTRAL, TP kept at RM10**

| RETURN STATISTICS | |
|---|---|
| Price @ 27th Feb. 2023 (RM) | 9.64 |
| Expected share price return (%) | +3.7 |
| Expected dividend yield (%) | +4.3 |
| **Expected total return (%)** | **+8.0** |

**SHARE PRICE CHART**



| Share price performance (%) | Absolute | Relative |
|---|---|---|
| 1 month | 9.2 | 7.0 |
| 3 months | 13.7 | 3.4 |
| 12 months | -3.8 | -2.3 |

| KEY STATISTICS | |
|---|---|
| FBM KLCI | 1,455.50 |
| Syariah compliant | Yes |
| F4BGM Index | Yes |
| ESG Grading Band (Star rating) | ☆☆☆ |
| Issue shares (m) | 5717.52 |
| Estimated free float (%) | 31.33 |
| Market Capitalisation (RM'm) | 55,116.89 |
| 52-wk price range | RM7.89 – RM10 |
| Beta vs FBM KLCI (x) | 0.88 |
| Monthly velocity (%) | 0.00 |
| Monthly volatility (%) | 11.10 |
| 3-mth average daily volume (m) | 3.31 |
| 3-mth average daily value (RM'm) | 28.92 |
| Top Shareholders (%) | |
| Khazanah Nasional Bhd | 25.46 |
| Employees Provident Fund Board | 15.71 |
| Amanah Saham Nasional Bhd | 15.57 |

**Missed expectations.** Tenaga reported core earnings of RM450m for its 4QFY22, which brought FY22 core earnings to RM3.71b (-18%yoy). This is below expectation making up 86%/80% of our/consensus estimates. While revenue/operating profit /core pretax were in-line at 104%/98%/96% of our estimate, the deviation in core net profit against our forecast is due to higher-than-expected effective tax rate – we suspect this is due to slower capex rollout during the year resulting in lower CA claims recognized.

**Dividend surprise**. Positively, Tenaga declared a final dividend of 26sen, bringing FY22 dividends to 46sen (+15%yoy). The 70% payout that it implies is higher than Tenaga's policy of a 30%--60% payout.

**Pressured by higher cost**. 4QFY22 core earnings was weak (-48%qoq) given lower demand (-3%qoq) and higher operating cost, which is typically backloaded into the 4Q. Additionally, generation cost was higher given higher coal cost at USD1028.1/MT (3QFY22: USD1023.8/MT). However, this should mark the peak in coal cost as prices have eased significantly since December 2022.

**Receivables should mark a peak**. Receivables rose marginally to RM22.8b but we expect this to be the peak before tapering off from 1Q23 onwards on the back of higher ICPT surcharge (20sen/kwh from 3.7sen/kwh for high voltage C&I consumers) and higher subsidy (1HFY23 subsidy raised to RM10.8b from RM5.8b in 2HFY22) as per the EC's December 2022 announcement. At the same time, given a steep fall in global coal prices (from a peak of USD450/MT in 3QFY22 to ~200/MT now), ICPT under-recovery from 1QFY23 onwards is expected to ease meaningfully. As such, we expect the previous constraint on Tenaga's cash flows to be gradually alleviated. In-line with the improved cash flow outlook, we anticipate improvements in regulated capex rollout which will re-accelerate expansion of Tenaga's regulated asset base (RAB) hence improving regulated earnings recognition. Additionally, effective tax rate is expected to reduce given absence of Cukai Makmur (FY22 impact: RM340.8m).

**Analyst:**
Hafriz Hezry
hafriz.hezry@midf.com.my
03-2173 8392

## INVESTMENT STATISTICS

| FYE Dec | FY20 | FY21 | FY22 | FY23F | FY24F |
|---|---|---|---|---|---|
| Revenue (RM'm) | 43,976.0 | 52,629.5 | 50,867.7 | 51,802.0 | 53,980.7 |
| Operating profit (RM'm) | 7,358.8 | 8,083.0 | 9,409.5 | 10,098.0 | 10,467.3 |
| Pre-tax Profit (RM'm) | 4,163.8 | 4,805.7 | 5,598.1 | 6,294.4 | 6,473.6 |
| Core net profit (RM'm) | 3,635.1 | 4,519.8 | 3,712.8 | 4,693.7 | 4,829.7 |
| FD EPS (sen) | 64.4 | 80.1 | 65.8 | 83.2 | 85.6 |
| EPS growth (%) | (23.0) | 24.3 | (17.9) | 26.4 | 2.9 |
| PER (x) | 15.0 | 12.0 | 14.7 | 11.6 | 11.3 |
| EV/EBITDA (x) | 5.1 | 4.7 | 4.9 | 4.7 | 4.7 |
| Net Dividend (sen) | 80.0 | 40.0 | 46.0 | 41.6 | 42.8 |
| Net Dividend Yield (%) | 8.3 | 4.1 | 4.8 | 4.3 | 4.4 |

*Source: Company, MIDFR*

**Recommendation**. Despite a more favourable outlook going forward, we believe the positives has largely been reflected in the share price at current levels. As such, we downgrade Tenaga to **NEUTRAL** (from BUY) while keeping our **TP** unchanged at **RM10** (WACC: 8.5%). We also acknowledge risk from: (1) Potential re-introduction of power sector liberalisation policies, (2) Potential introduction of carbon pricing, should it be introduced at an aggressive rate, (3) From an ESG standpoint; Tenaga's continued reliance on coal power generation in the medium term. A wildcard is a potential listing of Genco, should it materialize in the near-term.

## Table 1: Summary of 1H23 Tariff Review vs. 2H22 Tariffs

| Sen/kwh | 2H22 ICPT Review | | 1H23 ICPT review | | |
|---|---|---|---|---|---|
| | Domestic | Non-domestic (All kV) | Domestic | Non-domestic (<11kV) | Non-domestic (>11kV)* |
| **Base tariff** | 39.95 | | 39.95 | | |
| **ICPT under/(over) recovery** | 11.81 | | 27.00 | | |
| **Government Subsidy** | (13.81) | (8.11) | (29.00) | (23.30) | (7.00) |
| **ICPT surcharge/(rebate)** | (2.00) | 3.70 | (2.00) | 3.70 | 20.00 |
| **Effective tariff** | 37.95 | 43.65 | 37.95 | 43.65 | 59.95 |

*Source: EC, MIDFR* **except for H-tariffs (agriculture sector) whereby surcharge remains at 3.7sen/kwh*

# TENAGA NASIONAL: FY22 RESULT SUMMARY

| FYE Dec (RMm) | 4Q21 | 3Q22 | 4Q22 | YoY | QoQ | FY21 | FY22 | YTD |
|---|---|---|---|---|---|---|---|---|
| Revenue | 12,526.3 | 12,961.8 | 12,915.1 | 3.1% | -0.4% | 48,119.9 | 50,867.7 | 5.7% |
| **EBITDA** | **4,381.8** | **5,737.3** | **4,497.8** | **2.6%** | **-21.6%** | **18,774.5** | **20,812.0** | **10.9%** |
| Depreciation | (2,808.8) | (2,825.7) | (2,997.8) | 6.7% | 6.1% | -10,691.5 | -11,402.5 | 6.7% |
| Operating profit | 1,573.0 | 2,911.6 | 1,500.0 | -4.6% | -48.5% | 8,083.0 | 9,409.5 | 16.4% |
| Net interest expense | (899.6) | (1,074.5) | (1,044.8) | 16.1% | -2.8% | (3,571.5) | (4,065.7) | 13.8% |
| Forex translation gain/(loss) | 95.0 | (413.8) | 358.8 | | | (67.4) | (249.5) | 270.2% |
| Associates/JVs | 72.5 | 31.4 | (4.9) | -106.8% | -115.6% | 193.5 | 97.6 | -49.6% |
| FV change of financial instruments | 54.3 | 66.4 | 5.6 | | | 201.8 | 130.7 | |
| Pretax profit (ex-forex translation) | 727.0 | 1,948.0 | 457.9 | -37.0% | -76.5% | 4,805.7 | 5,598.1 | 16.5% |
| Tax | 170.5 | (561.5) | (8.8) | | | (873.6) | (1,791.2) | |
| Minority Interest | 114.7 | 83.8 | (1.2) | -101.0% | -101.4% | 202.9 | 94.1 | -53.6% |
| Reported net profit | 877.8 | 888.9 | 809.1 | -7.8% | -9.0% | 3,661.8 | 3,463.3 | -5.4% |
| **Core net profit** | **865.8** | **1,302.7** | **450.3** | **-48.0%** | **-65.4%** | **4,519.8** | **3,712.8** | **-17.9%** |
| EPS (sen) | 15.5 | 15.6 | 14.2 | -8.0% | -9.0% | 64.5 | 60.9 | -5.6% |
| **Core EPS (sen)** | **15.2** | **22.9** | **7.9** | **-48.0%** | **-65.4%** | **79.5** | **65.3** | **-17.9%** |
| | | | | | | | | |
| DPS (sen) | 18.00 | - | 26.00 | 44.4% | NA | 40.00 | 46.00 | 15.0% |
| | | | | | | | | |
| EBITDA margin | 35.0% | 44.3% | 34.8% | *(0.2)* | *(9.4)* | 39.0% | 40.9% | *1.9* |
| Operating profit margin | 12.6% | 22.5% | 11.6% | *(0.9)* | *(10.8)* | 16.8% | 18.5% | *1.7* |
| Pretax margin (ex-forex transation) | 5.8% | 15.0% | 3.5% | *(2.3)* | *(11.5)* | 10.0% | 11.0% | *1.0* |
| Tax rate | 23.5% | -28.8% | -1.9% | | | -18.2% | -32.0% | |
| Core net profit margin | 6.9% | 10.1% | 3.5% | *(3.4)* | *(6.6)* | 9.4% | 7.3% | *(2.1)* |

| Unit Revenue/Cost Analysis | 4Q21 | 3Q22 | 4Q22 | YoY | QoQ | FY21 | FY22 | YTD |
|---|---|---|---|---|---|---|---|---|
| **Average tariff achieved for TNB sale (sen/kwH)** | **39.34** | **40.18** | **39.90** | 1.4% | -0.7% | **39.83** | **39.90** | 0.2% |
| *Sales-to-Generation* | *89.2%* | *91.1%* | *91.6%* | | | *89.2%* | *91.1%* | |
| **Demand sales volume (GWh)** | **29,367** | **30,348** | **29,415** | 0.2% | -3.1% | **112,106** | **118,882** | 6.0% |
| Generation volume (GWh) | 32,923 | 33,318 | 32,117 | -2.4% | -3.6% | 125,723 | 130,452 | 3.8% |
| | | | | | | | | |
| **Unit Cost (sen/kwH) - Total cost** | **44.04** | **49.10** | **56.37** | 28.0% | 14.8% | **35.41** | **49.53** | 39.9% |
| | | | | | | | | |
| Unit Cost (sen/kwH) - Repair & maintenance | 1.81 | 2.38 | 2.16 | 19.0% | -9.3% | 1.60 | 1.92 | 20.1% |
| Unit Cost (sen/kwH) - General expenses | 2.25 | 1.11 | 2.16 | -4.0% | 95.6% | 1.46 | 1.44 | -1.8% |
| Unit Cost (sen/kwH) - Staff cost | 3.36 | 2.85 | 3.05 | -9.4% | 6.8% | 3.15 | 2.91 | -7.4% |
| | | | | | | | | |
| **Gross Electricity Sale Revenue (RMm):** | 12,257.2 | 12,814.1 | 12,338.4 | 0.7% | -3.7% | 46,814.2 | 49,945.6 | 6.7% |
| TNB (without ICPT) | 11,553.2 | 12,194.6 | 11,735.3 | 1.6% | -3.8% | 44,653.6 | 47,428.1 | 6.2% |
| EGAT | 0.1 | 0.1 | 0.2 | NA | 100.0% | 0.4 | 0.6 | 50.0% |
| SESB | 468.5 | 504.5 | 492.3 | 5.1% | -2.4% | 1,844.0 | 1,962.3 | 6.4% |
| LPL | 78.9 | 0.0 | 0.0 | -100.0% | NA | 368.9 | 0.0 | NA |
| Tenaga Wind Ventures | 33.5 | 21.1 | 34.4 | 2.7% | 63.0% | 103.6 | 118.0 | 13.9% |
| Vortex | 33.5 | 97.1 | 26.0 | -22.4% | -73.2% | 264.8 | 280.1 | 5.8% |
| Sales Discounts & Accrued Revenue | 89.5 | (34.7) | (20.4) | -122.8% | 41.2% | (421.1) | 16.9 | 104.0% |
| TNB (CEI UK Ltd) | 0.0 | 31.4 | 70.6 | NA | 124.8% | 0.0 | 139.6 | NA |

| Generation Mix (Includes IPPs) | 4Q21 (%) | 3Q22 (%) | 4Q22 (%) | Variance (%) YoY | Variance (%) QoQ | FY21 (%) | FY22 (%) | Variance (%) YoY |
|---|---|---|---|---|---|---|---|---|
| Gas & LNG | 36.0 | 35.8 | 36.7 | 0.7 | 0.9 | 34.3 | 37.2 | 2.8 |
| Coal | 57.7 | 56.5 | 55.1 | (2.6) | (1.4) | 59.2 | 55.9 | (3.3) |
| Distillate | 0.3 | 0.0 | 0.6 | 0.3 | 0.6 | 0.1 | 0.5 | 0.4 |
| Oil | 0.0 | 0.0 | 0.0 | 0.0 | (0.0) | 0.0 | 0.0 | (0.0) |
| Hydro (RE) | 5.2 | 6.3 | 6.2 | 1.0 | (0.1) | 5.4 | 5.2 | (0.3) |
| Solar (RE) | 0.8 | 1.4 | 1.5 | 0.7 | 0.1 | 0.9 | 1.2 | 0.4 |
| **Fuel Cost Composition** | **4Q21 (%)** | **3Q22 (%)** | **4Q22 (%)** | **Variance (%) YoY** | **Variance (%) QoQ** | **FY21 (%)** | **FY22 (%)** | **Variance (%) YoY** |
| Gas & LNG | 28.0 | 27.2 | 24.9 | (3.1) | (2.2) | 29.0 | 26.5 | (2.5) |
| Coal | 70.3 | 71.5 | 74.2 | 3.9 | 2.7 | 70.1 | 71.7 | 1.5 |
| Distillate | 1.5 | 0.4 | 0.6 | (0.9) | 0.2 | 0.8 | 1.5 | 0.7 |
| Oil | 0.2 | 1.0 | 0.3 | 0.1 | (0.7) | 0.1 | 0.3 | 0.3 |
| Solar | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

| Cost Analysis (RMm) | 4Q21 | 3Q22 | 4Q22 | YoY | QoQ | FY21 | FY22 | YTD |
|---|---|---|---|---|---|---|---|---|
| IPP purchase cost | 3,243.4 | 5,337.5 | 5,097.7 | 57.2% | -4.5% | 8,863.8 | 17,999.5 | 103.1% |
| *- Capacity payment* | *43.7* | *(81.7)* | *(58.4)* | *-233.6%* | *28.5%* | *191.3* | *(328.5)* | *-271.7%* |
| *- Energy payment* | *3,199.7* | *5,419.2* | *5,156.1* | *61.1%* | *-4.9%* | *8,672.5* | *18,328.0* | *111.3%* |
| Fuel costs | 5,194.7 | 5,692.0 | 6,955.1 | 33.9% | 22.2% | 14,915.0 | 25,084.5 | 68.2% |
| Repair & Maintenance | 596.6 | 792.4 | 692.5 | 16.1% | -12.6% | 2,006.6 | 2,499.8 | 24.6% |
| Staff cost | 1,107.5 | 950.8 | 979.1 | -11.6% | 3.0% | 3,958.6 | 3,801.8 | -4.0% |
| TNB General Expenses | 742.1 | 368.6 | 694.9 | -6.4% | 88.5% | 1,838.2 | 1,873.5 | 1.9% |
| Subsi. COS & Opex | 805.4 | 391.8 | 685.8 | -14.8% | 75.0% | 2,250.7 | 1,950.5 | -13.3% |
| Depreciation & Amortisation | 2,808.8 | 2,825.7 | 2,997.8 | 6.7% | 6.1% | 10,691.5 | 11,402.5 | 6.7% |
| Net loss on impairment of financial instrument | - | - | - | | | - | - | |
| **Total cost** | 14,498.5 | 16,358.8 | 18,102.9 | 24.9% | 10.7% | 44,524.4 | 64,612.1 | 45.1% |
| Total gen cost | 8,438.1 | 11,029.5 | 12,052.8 | 42.8% | 9.3% | 23,778.8 | 43,084.0 | 81.2% |

| Demand Sales (GWh) | 4Q21 | 3Q22 | 4Q22 | YoY | QoQ | FY21 | FY22 | YTD |
|---|---|---|---|---|---|---|---|---|
| Industrial | 11,691 | 11,484 | 11,246 | -3.8% | -2.1% | 43,926 | 45,361 | 3.3% |
| Commercial | 9,394 | 10,232 | 10,050 | 7.0% | -1.8% | 34,230 | 39,666 | 15.9% |
| Domestic | 7,681 | 8,015 | 7,508 | -2.3% | -6.3% | 31,599 | 31,439 | -0.5% |
| Others | 601 | 617 | 612 | 1.8% | -0.8% | 2,350 | 2,417 | 2.9% |
| **Total Demand (GWh)** | **29,367** | **30,348** | **29,416** | **0.2%** | **-3.1%** | **112,105** | **118,883** | **6.0%** |

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077(23878 – X)).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

# DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related companies and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loess, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such companies mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

| **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