Tenaga Nasional Berhad

(5347 | TNB MK) Main | Utilities

Receivables Receding

Maintain **NEUTRAL**

Unchanged **Target Price: RM10.00**

KEY INVESTMENT HIGHLIGHTS

- **1QFY23 came in within estimates**
- **Margins hit by higher generation cost but bottomline compensated by lower tax rates**
- **Receivables receding in line with higher ICPT surcharge and subsidy**
- **Maintain NEUTRAL at unchanged TP of RM10.00**

Within estimates. Tenaga Nasional's (Tenaga) 1QFY23 result came in broadly within our and consensus estimates. The group reported a 1QFY23 core net profit of RM974m (normalized for RM28m forex translation gain), accounting for 21%/20% of our/consensus full year estimates.

Key highlights. 1QFY23 topline grew +4%yoy driven by marginally higher demand (+0.5%yoy) and higher average tariff achieved (+0.8%yoy) given higher proportion of commercial sector demand. However, PBT contracted -28%yoy due to higher generation costs, notwithstanding a RM47m writeback of ADD (allowance for doubtful debt) in the period, while finance cost rose +7%yoy given higher borrowings to fund working capital from higher fuel cost. Nonetheless, core bottomline was up +15%yoy given lower effective tax rate of 16% (1QFY22: 44%) on absence of prosperity tax and higher reinvestment allowance recognised.

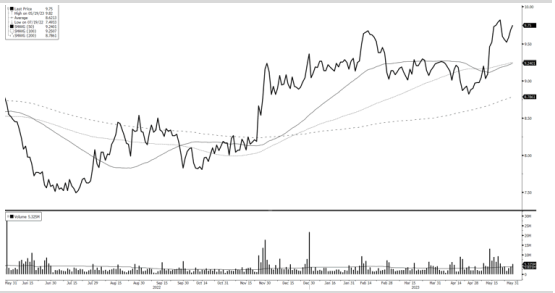
Receivables receding. In line with our thesis, receivables receded -14%qoq to RM19.7b in 1QFY23, which we believe was driven by higher ICPT surcharge allowed in the last December 2022 ICPT review (ICPT surcharge raised to 20sen/kwh from 3.7sen/kwh for mid-high voltage non-domestic consumers), coupled with higher ICPT subsidy from the Government of a total RM10.4b for 1HFY23. There is, however, some concern on the ICPT subsidy receivables since as at end-May, only half of the RM10.4 Government subsidy has been collected. Tenaga expects the remaining to be settled throughout June, which is a stance we share at this point.

Under-recovery expected to ease. We believe fuel cost under-recovery will gradually reduce in tandem with the significant easing in global coal prices. This in turn is expected to lower ICPT receivables further and in turn, lowering working capital requirement as well as finance cost going forward.

Earnings estimates. We keep FY23F/24F earnings projections as the result were within expectations.

RETURN STATISTICS	
Price @ 29th May 2023 (RM)	9.75
Expected share price return (%)	+2.56
Expected dividend yield (%)	4.27
Expected total return (%)	**+6.83**

SHARE PRICE CHART



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

INVESTMENT STATISTICS

FYE Dec (RMm)	2022A	2023F	2024F
Revenue	50,868	51,802	53,981
Operating Profit	9,410	10,098	10,467
Profit Before Tax	5,598	6,294	6,474
Core PATAMI	3,713	4,694	4,830
Core EPS (sen)	65.8	83.2	85.6
DPS (sen)	46.0	41.6	42.8
Dividend Yield (%)	4.7	4.3	4.4

KEY STATISTICS	
FBM KLCI	1,404.93
Issue shares (m)	5,717.52
Estimated free float (%)	31.3
Market Capitalisation (RM'm)	55,745.82
52-wk price range	RM7.89-RM10
3-mth average daily volume (m)	3.3
3-mth average daily value (RM'm)	28.9
Top Shareholders (%)	
Khazanah Nasional	25.5
Employees Provident Fund Board	15.7
Amanah Saham Nasional Bhd	15.6

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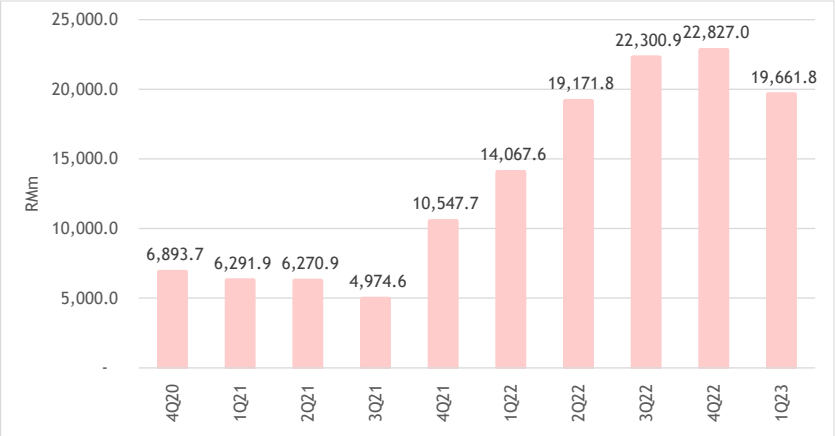
Recommendation. We keep our **NEUTRAL** call on Tenaga at unchanged **TP** of **RM10.00** (WACC: 8.5%) as we believe the positives from receding receivables and easing fuel cost has been largely priced in at current share price levels, while dividend yield of 4.3% is decent. The recent lifting of RE export ban and plans for cross border RE trade however, is a potential medium-term catalyst, in our opinion.

Table 1: Tenaga 1QFY23 Result Summary

FYE Dec (RMm)	1Q22	4Q22	1Q23	YoY	QoQ
Revenue	12,153.1	12,915.1	12,625.6	3.9%	-2.2%
EBITDA	**5,137.8**	**4,497.8**	**4,883.7**	**-4.9%**	**8.6%**
Depreciation	(2,768.2)	(2,997.8)	(2,801.6)	1.2%	-6.5%
Operating profit	2,369.6	1,500.0	2,082.1	-12.1%	38.8%
Net interest expense	(956.8)	(1,044.8)	(1,021.0)	6.7%	-2.3%
Forex translation gain/(loss)	42.7	358.8	28.1		
Associates/JVs	36.0	(4.9)	23.0	-36.1%	-569.4%
FV change of financial instruments	40.2	5.6	(8.0)		
Pretax profit (ex-forex translation)	1,489.3	457.9	1,074.6	-27.8%	134.7%
Tax	(660.8)	(8.8)	(171.8)		
Minority Interest	(21.9)	(1.2)	(71.4)	226.0%	5850.0%
Reported net profit	893.1	809.1	1,002.3	12.2%	23.9%
Core net profit	**850.4**	**450.3**	**974.2**	**14.6%**	**116.3%**
EPS (sen)	15.7	14.2	17.6	12.2%	23.9%
Core EPS (sen)	**15.0**	**7.9**	**17.1**	**14.6%**	**116.3%**
DPS (sen)	-	26.00	-	NA!	NA
EBITDA margin	42.3%	34.8%	38.7%	*(3.6)*	*3.9*
Operating profit margin	19.5%	11.6%	16.5%	*(3.0)*	*4.9*
Pretax margin (ex-forex transation)	12.3%	3.5%	8.5%	*(3.7)*	*5.0*
Effective tax rate	-44.4%	-1.9%	-16.0%		
Core net profit margin	7.0%	3.5%	7.7%	*0.7*	*4.2*

Source: Company, MIDFR

Chart 1: Tenaga receivables trend



Source: Company, MIDFR

Table 2: Tenaga 1QFY23 Result Breakdown

Unit Revenue/Cost Analysis	1Q22	4Q22	1Q23	YoY	QoQ
Average tariff achieved for TNB sale (sen/kwH)	38.99	39.90	39.31	0.8%	-1.5%
Sales-to-Generation	*90.9%*	*91.6%*	*92.5%*		
Demand sales volume (GWh)	**28,959**	**29,415**	**29,113**	**0.5%**	**-1.0%**
Generation volume (GWh)	31,869	32,117	31,484	-1.2%	-2.0%
Unit Generation Cost (sen/kwh)	26.25	37.53	29.22	11.3%	-22.1%
Unit Cost (sen/kwH) - Total cost	42.15	56.37	45.87	8.8%	-18.6%
Unit Cost (sen/kwH) - Repair & maintenance	1.49	2.16	1.97	32.3%	-8.5%
Unit Cost (sen/kwH) - General expenses	1.40	2.16	1.31	-6.3%	-39.5%
Unit Cost (sen/kwH) - Staff cost	2.90	3.05	2.98	2.6%	-2.2%
Gross Electricity Sale Revenue (RMm):	**11,993.3**	**12,338.4**	**12,255.5**	**2.2%**	**-0.7%**
TNB	11,290.1	11,735.3	11,443.6	1.4%	-2.5%
EGAT	0.3	0.2	0.1	NA	-50.0%
SESB	468.3	492.3	478.8	2.2%	-2.7%
TNBI (UK Wind)	37.1	34.4	35.5	-4.3%	3.2%
TNBI (Vortex)	46.7	26.0	34.8	-25.5%	33.8%
Sales Discounts & Accrued Revenue	150.8	(20.4)	197.8	31.2%	1069.6%
TNBI (CEI UK Ltd)	0.0	70.6	64.9	NA	-8.1%

Generation Mix (Includes IPPs)	1Q22 (%)	4Q22 (%)	1Q23 (%)	Variance (%) YoY	Variance (%) QoQ
Gas & LNG	39.1	36.7	39.5	0.4	2.8
Coal	54.1	55.1	53.7	(0.3)	(1.4)
Distillate	1.1	0.6	0.1	(1.0)	(0.5)
Oil	0.0	0.0	0.0	0.0	(0.0)
Hydro (RE)	4.8	6.2	5.1	0.2	(1.1)
Solar (RE)	0.9	1.5	1.6	0.7	0.1
Fuel Cost Composition	**1Q22 (%)**	**4Q22 (%)**	**1Q23 (%)**	**Variance (%) YoY**	**Variance (%) QoQ**
Gas & LNG	32.9	24.9	34.3	1.5	9.4
Coal	63.6	74.2	65.2	1.6	(9.0)
Distillate	2.6	0.6	0.4	(2.2)	(0.1)
Oil	0.8	0.3	0.0	(0.8)	(0.3)
Solar	0.0	0.0	0.0	0.0	0.0

Source: Company, MIDFR

Cost Analysis (RMm)	1Q22	4Q22	1Q23	YoY	QoQ
IPP purchase cost	3,440.6	5,097.7	3,708.3	7.8%	-27.3%
- Capacity payment	*(99.2)*	*(58.4)*	*(106.3)*	*7.2%*	*82.0%*
- Energy payment	*3,539.8*	*5,156.1*	*3,814.6*	*7.8%*	*-26.0%*
Fuel costs	4,926.5	6,955.1	5,491.1	11.5%	-21.0%
Repair & Maintenance	475.1	692.5	621.1	30.7%	-10.3%
Staff cost	925.4	979.1	938.3	1.4%	-4.2%
TNB General Expenses	445.7	694.9	412.4	-7.5%	-40.7%
Subsi. COS & Opex	450.3	685.8	470.3	4.4%	-31.4%
Depreciation & Amortisation	2,768.2	2,997.8	2,801.6	1.2%	-6.5%
Net loss on impairment of financial instrument	-	-	-		
Total	**13,431.8**	**18,102.9**	**14,443.1**	**7.5%**	**-20.2%**
Total gen cost	8,367.1	12,052.8	9,199.4	9.9%	-23.7%

Demand Sales (GWh)	1Q22	4Q22	1Q23	YoY	QoQ
Industrial	11,268	11,246	10,882	-3.4%	-3.2%
Commercial	9,399	10,050	9,981	6.2%	-0.7%
Domestic	7,699	7,508	7,646	-0.7%	1.8%
Others	593	612	604	1.9%	-1.3%
Total Demand (GWh)	**28,959**	**29,416**	**29,113**	**0.5%**	**-1.0%**

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement	FY20	FY21	FY22	FY23F	FY24F
Revenue	**43,976.0**	**52,629.5**	**50,867.7**	**50,802.0**	**52,980.7**
Operating expenses	(36,617.2)	(44,546.5)	(41,458.2)	(40,704.1)	(42,513.4)
EBIT	**7,358.8**	**8,083.0**	**9,409.5**	**10,098.0**	**10,467.3**
Net interest expense	(3,351.0)	(3,571.5)	(4,065.7)	(3,892.1)	(4,086.7)
Associates	76.5	193.5	97.6	88.6	93.0
PBT	**4,163.8**	**4,805.7**	**5,598.1**	**6,294.4**	**6,473.6**
Taxation	(619.0)	(873.6)	(1,791.2)	(1,510.7)	(1,553.9)
Minority Interest	23.7	202.9	94.1	90.0	90.0
Net profit	3,592.7	3,661.8	3,463.3	4,693.7	4,829.7
Core net profit	**3,635.1**	**4,519.8**	**3,712.8**	**4,693.7**	**4,829.7**
Balance Sheet	**FY20**	**FY21**	**FY22**	**FY23F**	**FY24F**
PPE	112,596.1	114,105.6	116,577.1	114,680.4	119,128.0
Others	41,034.7	41,472.4	44,289.0	52,239.9	52,239.9
Non-current assets	**153,630.8**	**155,578.0**	**160,866.1**	**166,920.3**	**171,367.9**
Inventories	1,583.8	1,977.1	3,290.8	2,130.0	2,221.4
Receivables	6,893.7	10,547.7	22,827.0	12,665.7	13,208.9
Others	5,909.6	5,339.4	5,904.0	3,680.9	3,680.9
Cash & equivalent	13,415.4	9,158.4	13,034.4	7,952.3	8,016.6
Current assets	**27,802.5**	**27,022.6**	**45,056.2**	**26,429.0**	**27,127.8**
Share capital	11,675.2	11,927.6	12,204.3	12,294.3	12,294.3
Minority Interest	1,616.7	1,784.0	2,449.1	2,449.1	2,449.1
Reserves	44,158.0	44,680.8	46,312.8	52,182.0	54,596.8
TOTAL EQUITY	**57,449.9**	**58,392.4**	**60,966.2**	**66,925.4**	**69,340.2**
Long-term borrowings	43,043.5	44,685.7	50,620.0	45,435.8	47,707.6
Others	52,138.6	52,305.6	56,738.8	52,070.8	52,070.8
Non-current liabilities	**95,182.1**	**96,991.3**	**107,358.8**	**97,506.6**	**99,778.4**
Short-term borrowings	6,409.1	6,992.5	13,262.2	8,000.0	8,000.0
Payables	10,534.1	8,596.7	11,509.7	9,410.4	9,870.1
Others	11,858.1	11,627.7	12,825.4	11,507.0	11,507.0
Current liabilities	**28,801.3**	**27,216.9**	**37,597.3**	**28,917.4**	**29,377.1**

Cash Flow Statement	FY20	FY21	FY22	FY23F	FY24F
PBT	4,163.8	4,805.7	5,598.1	6,294.4	6,473.6
Depreciation & Amortization	10,622.4	10,691.5	11,402.5	7,546.3	7,913.0
Chgs in working capital	(991.9)	(5,984.7)	(10,680.0)	9,222.8	(174.8)
Others	1,724.3	3,831.4	3,057.3	(7,529.4)	(1,643.9)
CF from Operations	**15,518.6**	**13,343.9**	**9,377.9**	**15,534.1**	**12,567.8**
Capex	(6,909.7)	(8,415.5)	(10,500.0)	(13,000.0)	(12,500.0)
Others	1,416.7	4,452.9	(4,053.1)	139.5	139.5
CF from Investments	**(5,493.0)**	**(3,962.6)**	**(14,553.1)**	**(12,860.5)**	**(12,360.5)**
Dividends paid	(5,235.8)	(4,568.4)	(1,938.4)	(2,346.9)	(2,414.8)
Net movement in borrowings	2,004.5	1,886.0	12,061.1	(10,446.4)	2,271.8
Others	(4,211.9)	(6,136.8)	(6,526.9)	11,610.0	0.0
CF from Financing	**(7,443.2)**	**(8,819.2)**	**3,595.8**	**(1,183.3)**	**(143.0)**
Net changes in cash	2,582.4	562.1	(1,579.4)	1,490.3	64.2
Beginning cash	**2,440.8**	**5,023.0**	**5,634.9**	**4,056.1**	**5,546.4**
Overdrafts, Deposits & Forex	(0.2)	49.8	0.6	0.0	0.0
Ending cash	**5,023.0**	**5,634.9**	**4,056.1**	**5,546.4**	**5,610.6**

Key Ratios	FY20	FY21	FY22	FY23F	FY24F
PATAMI margin	8.3%	8.6%	7.3%	9.2%	9.1%
ROE	6.3%	7.7%	6.1%	7.0%	7.0%
ROA	2.0%	2.5%	1.8%	2.4%	2.4%
Net gearing	63%	73%	83%	68%	69%
Book value/share (RM)	10.18	10.35	10.80	11.86	12.29
PBV (x)	1.0	0.9	0.9	0.8	0.8
PER (x)	15.1	12.2	14.8	11.7	11.4

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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