Tenaga Nasional Berhad

(5347 | TNB MK) Main | Utilities

Earnings Missed, Fairly Priced

***Maintain* NEUTRAL**

***Unchanged* Target Price: RM14.20**

KEY INVESTMENT HIGHLIGHTS

- **3QFY24 result dragged by impairment and other operating costs; below expectations**
- **Demand growth of +7.3%yoy in 9MFY24 to 98.4TWh**
- **Excess demand of 9.7TWh in 9MFY24 adjusted under revenue-cap mechanism**
- **Maintain NEUTRAL with a unchanged TP of RM14.20**

Below expectations. Tenaga's 3QFY24 result came in within expectations. The group reported a core net profit of RM471.8m for its 3QFY24 (normalised for forex translation gain of RM1.11b). The cumulative 9MFY24 saw the core net profit rising +5.9%yoy to RM2.70b, making up 63.0% of our full-year and 66.0% of consensus.

Key result highlights. Revenue in 9MFY24 grew +7.5%yoy to RM42.36b, driven by a growth in sales demand volume by +7.3%yoy and a +19.5%yoy growth from the group's UK operations. Notwithstanding the stronger revenue and lower fuel prices, operating profit saw a -1.6%yoy decline on the back of impairment on investment in associates and other operating costs which came in higher. ICPT was in a lower under-recovery position of RM7.37b as compared to RM8.49b in the same period last year.

Demand growth. Demand grew +7.3%yoy to 98.4TWh mainly driven by the domestic (+10.1%yoy) and commercial (+9.6%yoy) segments. However, Tenaga's allowed annual revenue for revenue-cap entities is capped at 118.1TWh demand this year (+1.7%yoy), hence, the excess demand of 9.7TWh in 9MFY24 was adjusted under the revenue-cap mechanism.

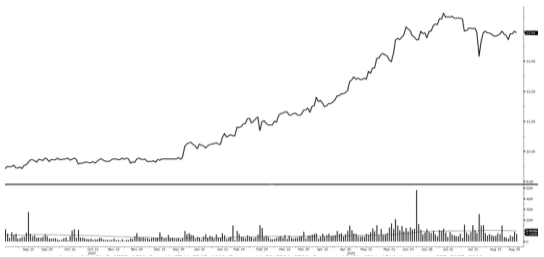
RE updates. Tenaga's RE capacity stood at 4.37GW, made up of 72.9% domestic and 27.1% international, representing 21% of the total generation portfolio.

Earnings estimates. We slash our FY24 earnings estimates by -12.0% to RM3.77b but maintain our FY25 projections.

Recommendation. Maintain **NEUTRAL** on Tenaga with an unchanged **TP** of **RM14.20** (WACC:7.6%). We still like Tenaga as a beneficiary of the energy transition but we believe it is fairly priced at this juncture. The stock, having risen about +39.2% year-to-date, is now trading at 16.9x FY25F PER, which is about +2SD above its long-term historical mean which in our view, already reflects high expectations of its future earnings. Our projections already assume a step-up in regulated asset base growth to a CAGR of +7.7% in RP4 (vs. +4.2% in RP3) to reflect accelerated capex spend on the energy transition.

RETURN STATISTICS	
Price @ 28th Nov 2024 (RM)	13.98
Expected share price return (%)	+1.6
Expected dividend yield (%)	+3.3
Expected total return (%)	**+4.9**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-0.1	0.7
3 months	-3.2	4.7
12 months	41.4	28.1

INVESTMENT STATISTICS

FYE Dec (RMm)	2023	2024F	2025F
Revenue	53,067	56,333	58,903
Operating Profit	7,357	9,226	9,972
Profit Before Tax	3,374	5,342	5,893
Core PATAMI	3,185	3,766	4,705
Core EPS (sen)	56.0	66.2	82.7
PER (x)	25.0	21.1	16.9
DPS (sen)	46.0	46.0	50.0
Dividend Yield (%)	3.3	3.3	3.6

KEY STATISTICS	
FBM KLCI	1,597.49
Issue shares (m)	5787.33
Estimated free float (%)	53.29
Market Capitalisation (RM'm)	81,265.01
52-wk price range	RM9.83-RM15.2
3-mth average daily volume (m)	11.42
3-mth average daily value (RM'm)	165.07
Top Shareholders (%)	
Amanah Saham Nasional Bhd	21.31
Khazanah Nasional Bhd	20.91
Employees Provident Fund	17.99

Analyst
Royce Tan Seng Hooi
royce.tan@midf.com.my
03-2173 8461

Table 1: Tenaga 3QFY24 Result Summary

FYE Dec (RMm)	Quarterly					Cumulative		
	3QFY23	2QFY24	3QFY24	YoY	QoQ	9MFY23	9MFY24	YTD
Revenue	13,466.1	14,366.8	14,351.6	6.6%	-0.1%	39,414.9	42,358.8	7.5%
EBITDA	**4,794.7**	**5,099.5**	**4,494.4**	**-6.3%**	**-11.9%**	**14,342.8**	**14,398.9**	**0.4%**
Depreciation	(2,771.1)	(2,858.3)	(2,882.0)	4.0%	0.8%	-8,368.4	(8,520.5)	1.8%
Operating profit	2,023.6	2,241.2	1,612.4	-20.3%	-28.1%	5,974.4	5,878.4	-1.6%
Net interest expense	(954.7)	(854.7)	(848.4)	-11.1%	-0.7%	(2,964.4)	(2,574.0)	-13.2%
Forex translation gain/(loss)	62.9	130.2	1,112.5	1668.7%	754.5%	(362.5)	1,046.0	-388.6%
Associates/JVs	14.4	245.8	14.4	0.0%	-94.1%	35.7	300.8	742.6%
FV change financial instr.	(32.4)	11.5	(44.1)			14.5	(5.0)	
Pretax profit	1,055.5	1,766.9	1,839.7	74.3%	4.1%	2,699.7	4,672.1	73.1%
Tax	(178.1)	(254.5)	(243.9)	36.9%	-4.2%	(620.5)	(850.3)	37.0%
Minority Interest	21.2	68.3	47.2	122.6%	-30.9%	(107.2)	77.7	-172.5%
Reported net profit	856.2	1,444.1	1,584.3	85.0%	9.7%	2,186.4	3,744.1	71.2%
Core net profit	**793.3**	**1,313.9**	**471.8**	**-40.5%**	**-64.1%**	**2,548.9**	**2,698.1**	**5.9%**
EPS (sen)	15.1	25.4	27.9	85.0%	9.7%	38.4	65.8	71.3%
Core EPS (sen)	**13.9**	**23.1**	**8.3**	**-40.5%**	**-64.1%**	**44.8**	**47.4**	**5.9%**
DPS (sen)	18.00	25.00	-	-	-	18.00	25.00	38.9%
EBITDA margin	35.6%	35.5%	31.3%	*(4.3)*	*(4.2)*	36.4%	34.0%	*(2.4)*
Operating profit margin	15.0%	15.6%	11.2%	*(3.8)*	*(4.4)*	15.2%	13.9%	*(1.3)*
Pretax margin	7.8%	12.3%	12.8%	*5.0*	*0.5*	6.8%	11.0%	*4.2*
Effective tax rate	-16.9%	-14.4%	-13.3%			-23.0%	-18.2%	
Core net profit margin	5.9%	9.1%	3.3%	*(2.6)*	*(5.9)*	6.5%	6.4%	*(0.1)*

Source: Company, MIDFR **Normalised for FX translation gain/(loss)*

Table 2: Tenaga 3QFY24 Result Breakdown

Unit Revenue/Cost Analysis	3QFY23	2QFY24	3QFY24	YoY	QoQ	9MFY23	9MFY24	YTD
Average tariff achieved for TNB sale (sen/kwH)	**40.21**	**41.02**	**40.28**	**0.2%**	**-1.8%**	**40.02**	**40.33**	0.8%
Sales-to-Generation	*92.2%*	*92.4%*	*92.1%*			*92.0%*	*92.2%*	
Demand sales volume (GWh)	**31,448**	**33,121**	**33,359**	**6.1%**	**0.7%**	**91,715**	**98,378**	**7.3%**
Generation volume (GWh)	34,118	35,829	36,235	6.2%	1.1%	99,666	106,696	7.1%
Unit Revenue (sen/kwh)	40.21	41.02	40.28	0.2%	-1.8%	40.02	40.33	0.8%
Unit Generation Cost (sen/kwh)	23.85	25.81	25.32	6.1%	-1.9%	26.49	25.03	
Unit Cost (sen/kwH) - Total cost	**40.09**	**42.70**	**41.89**	**4.5%**	**-1.9%**	**42.65**	**41.76**	-2.1%
Unit Cost (sen/kwH) - Repair & maintenance	2.38	2.24	2.31	-2.7%	3.4%	2.16	2.18	1.0%
Unit Cost (sen/kwH) - General expenses	1.28	1.21	1.43	12.2%	18.1%	1.22	1.30	6.3%
Unit Cost (sen/kwH) - Staff cost	2.68	2.70	2.52	-6.2%	-6.7%	2.87	2.65	-7.4%
Gross Electricity Sale Revenue (RMm):	**13,415.2**	**14,333.6**	**14,281.2**	**6.5%**	**-0.4%**	**39,032.5**	**42,219.9**	8.2%
TNB (without ICPT)	12,646.5	13,587.1	13,438.2	6.3%	-1.1%	36,708.4	39,673.5	8.1%
EGAT	0.2	0.1	0.2	0.0%	100.0%	0.3	0.6	100.0%
SESB	541.7	595.9	570.2	5.3%	-4.3%	1,550.2	1,715.3	10.7%
LPL	-	-	-	-	-	-	-	-
TNBI	227.0	273.0	230.7	1.6%	-15.5%	590.7	706.1	19.5%
Sales Discounts & Accrued Revenue	(0.2)	(122.5)	41.9	>100%	-134.2%	182.9	124.4	-32.0%

Source: Company, MIDFR

Generation Mix (Includes IPPs)	3QFY23 (%)	2QFY24 (%)	3QFY24 (%)	Variance (%) YoY	Variance (%) QoQ	9MFY23 (%)	9MFY24 (%)	Variance (%) YoY
Gas & LNG	35.1	38.1	35.7	0.7	(2.3)	36.1	37.4	1.3
Coal	58.6	50.8	58.3	(0.3)	7.5	57.6	56.1	(1.5)
Distillate	0.2	-	0.1	-	-	0.2	0.1	(0.1)
Oil	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Hydro (RE)	4.5	5.7	3.4	(1.1)	(2.3)	4.5	4.3	(0.2)
Solar (RE)	1.6	1.9	2.4	0.8	0.5	1.6	2.1	0.5
Fuel Cost Composition	**3QFY23 (%)**	**2QFY24 (%)**	**3QFY24 (%)**	**Variance (%) YoY**	**Variance (%) QoQ**	**9MFY23 (%)**	**9MFY24 (%)**	**Variance (%) YoY**
Gas & LNG	35.0	42.3	39.4	4.4	(2.9)	33.2	40.6	7.5
Coal	63.4	54.9	60.2	(3.2)	5.3	65.8	58.8	(7.0)
Distillate	1.3	0.8	0.2	(1.1)	(0.5)	0.9	0.4	(0.5)
Oil	0.3	0.2	0.1	(0.1)	(0.0)	0.1	0.2	0.0
Solar	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company, MIDFR

Demand Sales (GWh)	3QFY23	2QFY24	3QFY24	YoY	QoQ	9MFY23	9MFY24	YTD
Industrial	11,302	11,170	11,651	3.1%	4.3%	33,066	34,031	2.9%
Commercial	10,925	11,641	11,883	8.8%	2.1%	31,605	34,626	9.6%
Domestic	8,580	9,650	9,144	6.6%	-5.2%	25,184	27,726	10.1%
Others	641	660	680	6.1%	3.0%	1,860	1,995	7.3%
Total Demand (GWh)	**31,448**	**33,121**	**33,358**	**6.1%**	**0.7%**	**91,715**	**98,378**	**7.3%**

Source: Company, MIDFR

Cost Analysis (RMm)	3QFY23	2QFY24	3QFY24	YoY	QoQ	9MFY23	9MFY24	YTD
IPP purchase cost	3,797.0	4,694.8	4,612.0	21.5%	-1.8%	11,506.3	13,540.2	17.7%
- Capacity payment	*30.9*	*36.7*	*(67.8)*	*-319.4%*	*-284.7%*	*(60.5)*	*10.2*	*-116.9%*
- Energy payment	*3,766.1*	*4,658.1*	*4,679.8*	*24.3%*	*0.5%*	*11,566.8*	*13,530.0*	*17.0%*
Fuel costs	4,341.8	4,552.9	4,561.4	5.1%	0.2%	14,900.0	13,161.4	-11.7%
Repair & Maintenance	810.8	801.0	837.7	3.3%	4.6%	2,156.3	2,330.9	8.1%
Staff cost	914.9	966.5	911.5	-0.4%	-5.7%	2,855.6	2,830.0	-0.9%
TNB General Expenses	435.4	434.2	518.7	19.1%	19.5%	1,214.4	1,382.0	13.8%
Subsi. COS & Opex	605.2	992.8	1,142.3	88.7%	15.1%	1,508.8	2,795.9	85.3%
Depreciation & Amortisation	2,771.1	2,858.3	2,882.0	4.0%	0.8%	8,368.4	8,520.5	1.8%
Total	**13,676.2**	**15,300.5**	**15,177.8**	**11.0%**	**-0.8%**	**42,509.8**	**44,560.9**	**4.8%**
Total gen cost	8,138.8	9,247.7	9,173.4	12.7%	-0.8%	26,406.3	26,701.6	1.1%
Total non-gen cost	0.6	0.6	0.6					

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement	FY21	FY22	FY23	FY24F	FY25F
Revenue	**52,629.5**	**50,867.7**	**53,066.9**	**56,333.4**	**58,902.8**
Operating expenses	(44,546.5)	(41,458.2)	(45,710.0)	(47,107.2)	(48,930.9)
Operating profit	**8,083.0**	**9,409.5**	**7,356.9**	**9,226.2**	**9,971.8**
Net interest expense	(3,571.5)	(4,065.7)	(3,786.8)	(3,977.4)	(4,176.2)
Associates	193.5	97.6	62.4	93.0	97.6
PBT	**4,805.7**	**5,348.6**	**3,373.6**	**5,341.8**	**5,893.2**
Taxation	(873.6)	(1,791.2)	(770.0)	(1,228.6)	(1,355.4)
Minority Interest	202.9	94.1	(166.7)	(167.0)	(167.0)
Net profit	3,661.8	3,463.3	2,770.3	3766.3	4,704.8
Core net profit	**4,519.8**	**3,804.1**	**3,184.5**	**3,766.3**	**4,704.8**
Balance Sheet	**FY21**	**FY22**	**FY23**	**FY24F**	**FY25F**
PPE	114,105.6	116,577.1	122,024.7	125,465.5	128,668.9
Others	41,472.4	44,289.0	42,087.3	42,087.3	42,087.3
Non-current assets	**155,578.0**	**160,866.1**	**164,112.0**	**167,552.8**	**170,756.2**
Inventories	1,977.1	3,290.8	2,758.0	2,362.0	2,469.7
Receivables	10,547.7	22,827.0	13,219.7	14,044.8	14,685.4
Others	5,339.4	5,904.0	3,677.1	3,677.1	3,677.1
Cash & equivalent	9,158.4	13,034.4	21,004.6	19,899.8	21,209.3
Current assets	**27,022.6**	**45,056.2**	**40,659.4**	**39,983.7**	**42,041.5**
Share capital	11,927.6	12,204.3	12,037.6	12,037.6	12,037.6
Minority Interest	1,784.0	2,449.1	2,449.1	2,449.1	2,449.1
Reserves	44,680.8	46,312.8	46,596.0	48,282.4	50,164.3
TOTAL EQUITY	**58,392.4**	**60,966.2**	**61,082.7**	**62,769.1**	**64,651.0**
Long-term borrowings	44,685.7	50,620.0	54,739.6	57,476.6	60,350.4
Others	52,305.6	56,738.8	56,410.5	56,410.5	56,410.5
Non-current liabilities	**96,991.3**	**107,358.8**	**111,150.1**	**113,887.1**	**116,760.9**
Short-term borrowings	6,992.5	13,262.2	7,030.6	7,030.6	7,030.6
Payables	8,596.7	11,509.7	12,830.7	11,172.4	11,677.9
Others	11,627.7	12,825.4	12,677.3	12,677.3	12,677.3
Current liabilities	**27,216.9**	**37,597.3**	**32,538.6**	**30,880.3**	**31,385.8**

Cash Flow Statement	FY21	FY22	FY23	FY24F	FY25F
PBT	4,805.7	5,348.6	3,373.6	5,341.8	5,893.2
Depreciation & Amortization	10,691.5	11,402.5	11,265.7	12,044.8	12,282.2
Chgs in working capital	(5,984.7)	(10,680.0)	11,461.1	(2,087.4)	(242.8)
Others	3,831.4	3,306.8	6,118.1	(4,686.7)	(4,813.5)
CF from Operations	**13,343.9**	**9,377.9**	**32,218.5**	**10,612.5**	**13,119.1**
Capex	(8,415.5)	(8,428.9)	(10,571.2)	(12,000.0)	(12,000.0)
Others	4,452.9	(6,124.2)	4,789.1	139.5	139.5
CF from Investments	**(3,962.6)**	**(14,553.1)**	**(5,782.1)**	**(11,860.5)**	**(11,860.5)**
Dividends paid	(4,568.4)	(1,938.4)	(1,948.4)	(2,593.8)	(2,822.9)
Net movement in borrowings	1,886.0	12,061.1	(2,112.0)	2,737.0	2,873.8
Others	(6,136.8)	(6,526.9)	(8,924.2)	0.0	(0.0)
CF from Financing	**(8,819.2)**	**3,595.8**	**(12,984.6)**	**143.2**	**51.0**
Net changes in cash	562.1	(1,579.4)	13,451.8	(1,104.8)	1,309.5
Beginning cash	**5,023.0**	**5,634.9**	**4,056.1**	**17,507.9**	**16,403.1**
Forex adjustments	49.8	0.6	0.0	0.0	0.0
Ending cash	**5,634.9**	**4,056.1**	**17,507.9**	**16,403.1**	**17,712.6**

Key Ratios	FY21	FY22	FY23	FY24F	FY25F
PATAMI margin	8.6%	7.5%	6.0%	6.7%	8.0%
ROE	7.7%	6.2%	5.2%	6.0%	7.3%
ROA	2.5%	1.8%	1.6%	1.8%	2.2%
Net gearing	73%	83%	67%	71%	71%
Book value/share (RM)	10.27	10.72	10.74	11.04	11.37
PBV (x)	1.4	1.3	1.3	1.3	1.2
PER (x)	17.6	20.9	25.0	21.1	16.9

Source: Company, MIDFR

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 BNM 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 BNM 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