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TNB answering calls for renewal energy

▶ TENAGA NASIONAL BHD				
FYE AUG	FY16A	FY17E	FY18F	FY19F
REVENUE (RM mil)	44,532	49,397	51,086	53,772
CORE NET PROFIT (RM mil)	8,384	8,423	8,168	8,266
CORE EPS (sen)	148.6	149.2	144.7	146.5
PE (x)	10.8	9.5	9.8	9.7

▶ Recommendation: Buy
TARGET Price: RM17
by Hong Leong Investment Bank Bhd (July 14)

Comments

TENAGA Nasional Bhd (TNB) is on a restructuring initiative as the company adheres to the fast changing power industry landscape with several policies being put in place by the Energy Commission to improve the transparency and competitiveness of the industry, as well as answering increasing call for renewal energy.

With the implementation of incentive base regulation (IBR) and imbalance cost pass-through (ICPT) since 2014, TNB is currently in position to improve its capital structure and dividend payout, due to more stable cashflow.

Nevertheless, there are still uncertainties from the upcoming review of IBR to lower the return for TNB's transmission and distribution segment. While we expect a high chance of lower adjusted return in the upcoming review, we believe TNB's earnings to be relatively stable in 2018, given the higher asset base and full-year contribution from the Manjung 5 plant.

TNB is still open for potential acquisition in foreign power assets as part of its aspiration to become on of the Top 10 power company globally by 2025. TNB puts utmost importance in partnering with reknowned local energy players to minimise its exposure toward foreign country risk.

Notably, TNB had established a multicurrency sukuk issuance programme of US$2.5b (RM10.74b) (through TNB Global Ventures Capital Bhd) and drawndown US$750m to finance the acquisition of 30% Gama Enerji SA for US$243m, 30% GMR Energy Ltd for US$300m and 50% Vortex Solar UK Ltd for £86m (RM483.66m).

These acquisitions are expected to be profitable in 2018 and contribute positively to TNB's bottom line, further allaying investors' concern on the potential lower earnings from the revision of lower return on WACC under IBR in 2018.

Risks: 1) Disruption in energy fuel supply; 2) IBR-ICPT suspension; 3) unscheduled power plant shutdown; and 4) lower allowable return on assets for transmission and distribution segment for the next IBR review in 2018.

Rating 'Buy'. TNB's earnings and cashflow are expected to be stable due to the implementation of the IBR/fuel cost pass-through mechanisms.

Maintain 'Buy' with unchanged TP of RM17 based on discounted cashflow to equity. We remain positive on TNB's long-term growth and strong cashflow.