

Headline	TNB keen to bid for 2,000MW gas-fired plant for Project 3B		
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► **Recommendation: Buy**
FAIR Value: RM10.45
 by AmResearch Sdn Bhd
 (Oct 07)

Investment Highlights

WE MAINTAIN our 'Buy' call on Tenaga Nasional Bhd (TNB), with an unchanged DCF-derived fair value of RM10.45/share, which implies a FY14F PE of 13x and a P/BV of 1.5x.

A local daily reported over the weekend that the Energy Commission (EC) is expected to call for competitive bidding for two gas-fired power plants with a total capacity of 2,000MW under Track 4A and Track 4B by the end of the year.

We are not surprised by these new gas-fired power plant-ups as the EC needs to continue raising Peninsula Malaysia's power generation capacity post-2019 as well as maintaining a comfortable mix of fuel-based power generation given that coal-fired power generation will rise from 45% in 9MFY13 to over 60% by 2018 when 5,000MW of new coal-fired capacities has started operations from Janamanjung blocks 4-5, Malakoff's new Jimah plant and Project 3B.

The current bidding exercise for Project 3B (involving a greenfield 2,000MW coal-fired power plant) is expected to close on Oct 23, this year, with the results on the tender being released by the end of the year. As TNB maintains its near monopoly status in the transmission and distribution of electricity in Peninsular Malaysia, the

group has the natural advantage in any competitive bid, including Track 4A-4B, for new power generation.

We expect TNB's 4QFY13 results, scheduled to be announced on Oct 31, to come in within expectations against a backdrop of stable gas supply and continuing low coal prices.

Hence, we maintain our FY13F-FY15F net profits with management reaffirming that the current cost sharing mechanism (2/3 of additional fuel costs at market prices for gas usage above 1,100mmscfd with Petroleum Nasional Bhd and the government) will remain in effect until the government announces the new gas and electricity price structure, which is likely to be earnings neutral for TNB.

Valuation

Foreign shareholding has risen to 22.3% from 15% in the beginning of the year.

Nevertheless, the stock still trades at an attractive P/BV of 1.4x- at the lower range of an adjusted 1.1x-2.7x over the past five years.

TNB also offers an attractive FY14F PE of 11x, compared to the stock's three-year average band of 10x-16x.

► TENAGA NASIONAL BHD				
YE TO AUG	2012	2013F	2014F	2015F
REVENUE (RM mil)	35,848.4	37,308.3	39,880.8	41,506.1
CORE NET PROFIT (RM mil)	3,169.5	4,142.2	4,409.0	4,858.9
EPS (sen)	57.6	75.3	80.2	88.4
PER (x)	15.7	12.0	11.3	10.2