

29 November 2024

Utilities | Power

## Tenaga Nasional (TNB MK)

**Buy** (Maintained)

### All Eyes On RP4; Reiterate BUY

Target Price (Return): MYR16.60 (+19%)  
 Price (Market Cap): MYR13.98 (USD18,276m)  
 ESG score: 2.7 (out of 4)  
 Avg Daily Turnover (MYR/USD) 161m/37.3m

- **Keep BUY, TP dips to MYR16.60 from MYR16.70 TP, 19% upside with c.4% FY25F yield.** Tenaga Nasional's 3Q24 results missed expectations due to its higher non-fuel opex. We see TNB as a proxy to Malaysia's energy transition growth journey under the National Energy Transition Roadmap (NETR). It should also continue benefiting from the continuous upgrade in transmission and distribution assets, where the demand for energy can be anchored by mushrooming data centre (DC) developments.
- **At just 65% and 66% our and Street FY24 estimates, 9M24 core earnings of MYR2.7bn (+3% YoY) missed expectations,** due to higher-than-expected expenses. Note: Our numbers have imputed Malaysian Financial Reporting Standards (MRFS) 16 changes (9M24: -MYR500m, 9M23: -MYR529m). 3Q24 core profit plunged (-64% QoQ, -42% YoY) on higher non-fuel opex, lower other operating income and lower deferred tax credit. Cumulatively, 9M24 core earnings still improved by 3% YoY on a lower negative fuel margins impact masking higher operating expenses.
- **Outlook.** Electricity demand rose 6.1% YoY in 3Q24, largely driven by the stronger commercial (+8.8%) and domestic (+6.6%) segments. TNB's current renewable energy (RE) capacity increased slightly QoQ, to 4.4GW (21% of total capacity). Pending the outcome of Regulatory Period (RP) 4 – which is to be known by end-2024 – we may see some restructuring in tariffs to account for new initiatives such as energy exports and wheeling charges collection under the third-party access or TPA mechanism. We estimate average regulated capex to increase by 25-40% vs RP 2 levels, to MYR8.6-9.6bn pa, with higher annual demand growth of 3-4% and an unchanged WACC of 7.3%. Based on our sensitivity analysis, we see regulatory net returns rising by 1.34% for every MYR1bn increase in average capex pa.
- **We decrease our FY24-26 earnings estimates by 6%, 4% and 4% after imputing higher opex while our DCF-based TP is lowered to MYR16.60,** with a 6% ESG discount included. Our TP also implies 1.55x FY25 P/BV (+1SD from the 10-year mean). TNB's foreign shareholdings improved to 18.9% as of October (Jun 2024: 14.8%), albeit still well below the peak of 28.7% that was recorded in 2016. Downside risks: Higher operating costs and greater-than-expected plant outages.

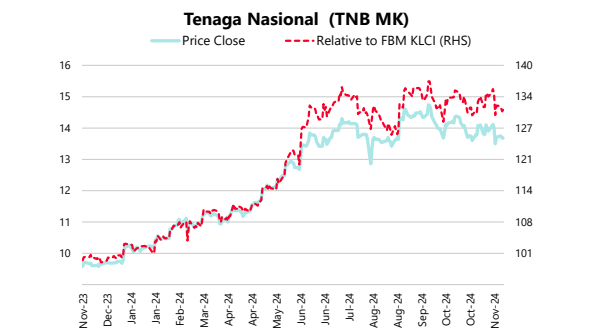
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	39.2	(0.2)	(0.2)	5.4	41.4
Relative	29.4	0.6	4.5	6.5	31.1
52-wk Price low/high (MYR)	9.88 – 15.0				



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	50,868	53,067	54,472	56,984	59,005
Recurring net profit (MYRm)	3,898	3,138	3,863	4,559	4,818
Recurring net profit growth (%)	(9.8)	(19.5)	23.1	18.0	5.7
Recurring P/E (x)	20.24	25.14	20.42	17.31	16.37
P/B (x)	1.3	1.3	1.3	1.3	1.3
P/CF (x)	8.41	2.45	4.76	4.75	4.57
Dividend Yield (%)	2.6	3.3	3.2	3.8	4.0
EV/EBITDA (x)	6.27	6.46	6.19	5.83	5.75
Return on average equity (%)	6.0	4.7	6.5	7.6	7.9
Net debt to equity (%)	83.4	66.7	70.3	72.1	75.4

Source: Company data, RHB

#### Overall ESG Score: 2.7 (out of 4)

##### E: MODERATE

TNB's thermal power plants primarily use coal or fossil fuels to generate power, but the group aims to be completely coal-free by 2050, with an interim target of a 35% reduction in emissions intensity by 2035. However, in FY23, its GHG emissions increased by 1.3%.

##### S: EXCELLENT

Policies on employee relations, health & safety, and community engagement are robust. It has health and safety policies and processes in place, and seeks to maintain a good safety record. Its lost time incident rate improved to 0.74 in 2023 (2022: 0.82) but it recorded four fatalities, hence the lower score for this pillar. Its community engagement focuses on outreach programmes that focus on the availability of electricity to those in need.

##### G: EXCELLENT

Board characteristics are within Bursa Malaysia requirements, with 50% comprising independent directors. Women comprise 42% of the board. TNB ensures timely, reliable and accurate information is provided, and within regulatory and market guidelines. Shareholder rights are protected, as the group ensures shareholders are able to participate and contribute to the general meeting.

## Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	Recurring EPS	0.69	0.56	0.68	0.81	0.85
Utilities	DPS	0.36	0.46	0.44	0.53	0.55
<b>Tenaga Nasional</b>	BVPS	10.37	10.42	10.66	10.71	10.96
TNB MK	Return on average equity (%)	6.0	4.7	6.5	7.6	7.9
Buy						
	<b>Valuation metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
<b>Valuation basis</b>	Recurring P/E (x)	20.24	25.14	20.42	17.31	16.37
DCF	P/B (x)	1.3	1.3	1.3	1.3	1.3
	FCF Yield (%)	1.2	27.4	4.5	3.6	4.1
<b>Key drivers</b>	Dividend Yield (%)	2.6	3.3	3.2	3.8	4.0
i. Stronger earnings from non-regulated assets;	EV/EBITDA (x)	6.27	6.46	6.19	5.83	5.75
ii. High dividend payout ratios.	EV/EBIT (x)	13.87	16.35	14.88	12.79	12.28
	<b>Income statement (MYRm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
<b>Key risks</b>	Total turnover	50,868	53,067	54,472	56,984	59,005
i. Aggressive regulatory reform;	Gross profit	25,133	26,639	27,280	28,377	29,298
ii. Impairment on international assets.	EBITDA	20,812	18,623	19,835	21,366	22,087
	Depreciation and amortisation	(11,403)	(11,266)	(11,590)	(11,635)	(11,751)
<b>Company Profile</b>	Operating profit	9,410	7,357	8,245	9,730	10,336
Tenaga Nasional, the national utility company, generates, transmits and distributes electricity in West Malaysia and Sabah – markets in which it has a near-monopoly.	Net interest	(3,935)	(3,836)	(4,041)	(4,242)	(4,670)
	Pre-tax profit	5,349	3,374	4,504	5,607	6,045
	Taxation	(1,791)	(770)	(841)	(1,098)	(1,133)
	Reported net profit	3,463	2,770	3,863	4,559	4,818
	Recurring net profit	3,898	3,138	3,863	4,559	4,818
	<b>Cash flow (MYRm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Change in working capital	(10,680)	14,261	(2,410)	(3,664)	(3,688)
	Cash flow from operations	9,378	32,219	16,584	16,604	17,266
	Capex	(8,429)	(10,571)	(13,000)	(13,800)	(14,000)
	Cash flow from investing activities	(14,366)	(5,782)	(12,535)	(13,468)	(13,636)
	Dividends paid	(2,181)	(2,538)	(2,511)	(2,963)	(3,132)
	Cash flow from financing activities	3,409	(12,985)	(1,817)	(2,017)	(2,567)
	Cash at beginning of period	6,706	4,893	19,391	21,623	20,509
	Net change in cash	(1,579)	13,452	2,232	1,118	1,063
	Ending balance cash	5,127	18,345	21,623	22,741	21,572
	<b>Balance sheet (MYRm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Total cash and equivalents	13,034	21,005	23,237	22,123	24,300
	Tangible fixed assets	116,577	122,025	123,435	124,189	125,685
	Total investments	1,679	1,667	1,967	1,786	2,347
	Total assets	205,922	204,771	210,897	210,662	215,461
	Short-term debt	13,262	7,031	7,031	7,031	7,031
	Total long-term debt	50,620	54,740	59,940	60,260	65,540
	Total liabilities	144,956	143,689	148,662	148,033	151,446
	Total equity	60,966	61,083	62,235	62,628	64,015
	Total liabilities & equity	205,922	204,771	210,897	210,662	215,461
	<b>Key metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Revenue growth (%)	5.7	4.3	2.6	4.6	3.5
	Recurrent EPS growth (%)	(9.8)	(19.5)	23.1	18.0	5.7
	Gross margin (%)	49.4	50.2	50.1	49.8	49.7
	Operating EBITDA margin (%)	40.9	35.1	36.4	37.5	37.4
	Net profit margin (%)	6.8	5.2	7.1	8.0	8.2
	Dividend payout ratio (%)	58.7	93.7	65.0	65.0	65.0
	Capex/sales (%)	16.6	19.9	23.9	24.2	23.7
	Interest cover (x)	2.23	1.68	1.83	2.13	2.05

Source: Company data, RHB

Figure 1: 9M24 results review

FYE Dec (MYRm)	3Q23	2Q24	3Q24	QoQ (%)	YoY (%)	9M23	9M24	YoY (%)	Comments
Revenue	13,466.1	14,366.8	14,351.6	(0.1)	6.6	39,414.9	42,358.8	7.5	9M24: Higher electricity sales from all segments.
ICPT	1,999.1	2,822.2	2,196.4	(22.2)	9.9	8,491.6	7,371.6	(13.2)	Lower coal prices.
EBITDA	4,794.7	5,099.5	4,494.4	(11.9)	(6.3)	14,342.8	14,398.9	0.4	
Depreciation	(2,771.1)	(2,858.3)	(2,882.0)	0.8	4.0	(8,368.4)	(8,520.5)	1.8	
EBIT	2,023.6	2,241.2	1,612.4	(28.1)	(20.3)	5,974.4	5,878.4	(1.6)	
EBITDA margin (%)	15.0	15.6	11.2			15.2	13.9		
Interest expense	(1,109.9)	(1,013.8)	(978.5)	(3.5)	(11.8)	(3,376.1)	(3,019.4)	(10.6)	Lower finance costs due to loan repayment and interest capitalisation.
Associates	10.5	243.7	28.1	(88.5)	167.6	26.3	286.5	nm	
El/others	(37.5)	(130.2)	(1,112.5)	754.5	2,866.7	428.8	(1,052.0)	nm	
Pre-tax profit	1,055.5	1,766.9	1,875.4	6.1	77.7	2,699.7	4,672.1	73.1	
Pre-tax margin (%)	7.8	12.3	13.1			6.8	11.0		
Tax and zakat	(204.9)	(320.0)	(267.9)	(16.3)	30.7	(631.6)	(846.6)	34.0	
Deferred taxation	26.8	65.5	24.0	(63.4)	(10.4)	11.1	(3.7)	nm	
Effective tax rate (%)	(16.9)	(14.4)	(13.0)			(23.0)	(18.2)		
Profit after tax	877.4	1,512.4	1,631.5	7.9	85.9	2,079.2	3,821.8	83.8	
Minority interest	21.1	68.3	47.2	(30.9)	123.7	(107.3)	77.7	nm	
Net profit	856.3	1,444.1	1,584.3	9.7	85.0	2,186.5	3,744.1	71.2	
Core profit	818.8	1,313.9	471.8	(64.1)	(42.4)	2,615.3	2,692.1	2.9	Below expectations.
Net margin (%)	6.1	9.1	3.3			6.6	6.4		

Source: RHB

Figure 2: DCF valuation

NPV of forecast	143,530.8
Less (net debt)/net cash	(43,733.6)
Total equity value	99,797.2
Shares (m)	5,643.6
Additional discount for rising regulatory risk	0%
ESG premium/ (discount)	(6%)
TP (MYR)	16.60 (rounded up)
WACC	7.2%
Long-term growth rate (%)	2.0%

Source: RHB

## Emissions And ESG

### Trend analysis

In FY23, TNB's total GHG emissions increased by 1.3%. The group also started reporting its scope 3 emissions.

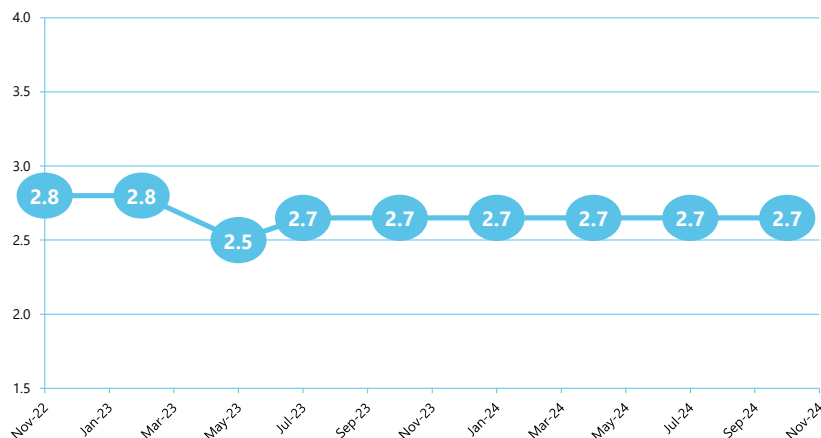
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	39,770,000	38,580,000	38,920,000
Scope 2	280,000	320,000	390,000
Scope 3	na	na	0
Total emissions	40,050,000	38,900,000	39,310,000

Source: Company data, RHB

## Latest ESG-Related Developments

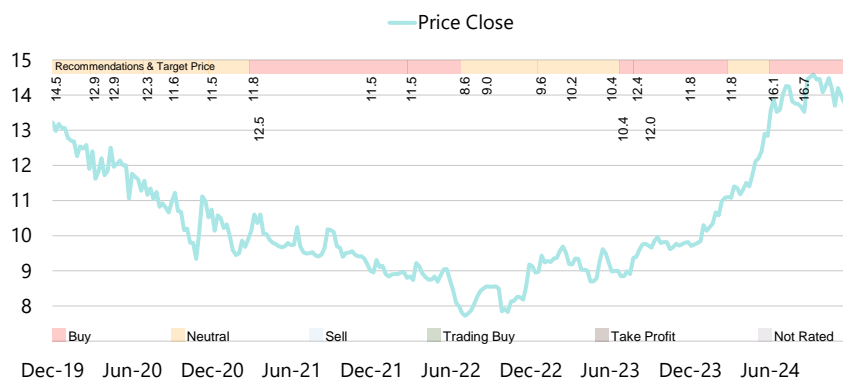
- TNB is reducing its coal capacity through ongoing initiatives under the Future Generation Sources strategy, and is on track to achieve its target of decreasing coal capacity by 50% by 2035 and 100% by 2050, compared to the baseline year of 2021.
- TNB is spearheading at least 3GW worth of RE projects (500MW solar parks and 2.5GW hybrid hydro floating solar projects) from the NETR.
- TNB signed an MoU with Siemens Energy to accelerate the decarbonisation of its thermal power plants by leveraging green hydrogen generated from RE resources.
- In 2023, TNB secured 90MW (135MWp) in solar power generation through the Corporate Green Power Programme (CGPP) and, upon commissioning, the estimated emissions avoidance is around 70,646 tCO2e pa.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-08-29	Buy	16.7	13.9
2024-08-19	Buy	16.7	13.9
2024-06-03	Buy	16.1	13.0
2024-02-28	Neutral	11.8	11.0
2023-11-27	Buy	11.8	9.8
2023-08-27	Buy	12.0	10.0
2023-07-28	Buy	12.4	9.6
2023-06-25	Buy	10.4	9.2
2023-05-30	Neutral	10.4	9.6
2023-02-28	Neutral	10.2	9.4
2022-12-19	Neutral	9.6	9.3
2022-08-17	Neutral	9.0	8.9
2022-08-14	Neutral	8.6	8.6
2022-06-27	Neutral	8.6	8.0
2022-05-31	Buy	11.5	9.2

Source: RHB, Bloomberg

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
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