

15 August 2022

Utilities | Power

Tenaga Nasional (TNB MK)

Neutral (Maintained)

TNB Genco Listing? Maintain NEUTRAL

- **NEUTRAL, DCF-based TP of MYR8.60, 0% upside.** It is not entirely surprising if Tenaga Nasional were to explore the listing of its power generation business, TNB Power Generation (TNB Genco) following the internal reorganisation since 2019. As it is too early to assess the quoted USD4bn price tag, TNB GenCo may need to demonstrate a strong case in growing its renewable energy (RE) portfolio given its high coal exposure.
- **TNB Genco listing?** Last Friday, Reuters reported that TNB aims to start the process next year for a potential USD1bn listing of TNB Genco, which may be valued at about USD4bn. The proceeds of the offering will be used to grow TNB Genco's RE portfolio. However, Tenaga has not made a "definitive decision in relation to these potential initiatives" and is currently focused on improving its operational performance.
- **It is not entirely surprising if TNB were to explore such a corporate exercise** post internal reorganisation to split its core businesses into separate holding companies since 2019. The separate listing would allow investors to have choices in owning TNB's various businesses with a different nature. Currently, TNB has total installed capacity of 24GW (45% in coal, 34% in gas and 16% in RE). Note that TNB Genco does not own the international businesses, which accounted for c.5.1GW or 21% of the total installed capacity. The power generation mix in West Malaysia (including independent power producers (IPPs)) was still dominated by coal (59%) in 2021, followed by gas (34%) and hydro (5%). TNB Genco recorded MYR19.5bn in revenue, MYR3.6bn in EBITDA (18.5% EBITDA margins) and MYR661m in PAT in FY21. While we do not have the detailed disclosure on the financials to assess, a USD4bn valuation would simply imply a trailing FY21 P/E of 26.8x – pricey, since its regional utilities peers are trading at mid-teen levels. TNB GenCo may also need to show a strong case in growing its RE businesses, as certain regional institutional funds may have restrictions on investing in utilities companies with high coal exposure. As such, we think such a plan will take at least 2-3 years to materialise. TNB is hosting its investor day on Tuesday, and we hope to obtain further clarification from management on this matter.
- **PPA extension for LSS4 project.** On a separate note, TNB has received the 4-year extension of a power purchase agreement (PPA) to 25 years for the 50MWac large scale solar photovoltaic plant facility at Bukit Selambau, Kedah under the Large Scale Solar 4@MENtARI (LSS4 project). The financial closing date has been delayed to 30 Sep 2022 (from 30 Jun 2022) while the scheduled commercial operation date will be on 31 Dec 2023. The project is on track to achieve the financial close by end-September. Overall it is positive to TNB as this enables it to recoup investments more efficiently, and slightly improve the internal rate of return (IRR). We maintain our estimates as the impact to earnings and valuation is rather minimal.

Target Price (Return): MYR8.60 (+0%)
 Price (Market Cap): MYR8.63 (USD11,171m)
 ESG score: 2.60 (out of 4)
 Avg Daily Turnover (MYR/USD) 33.0m/7.48m

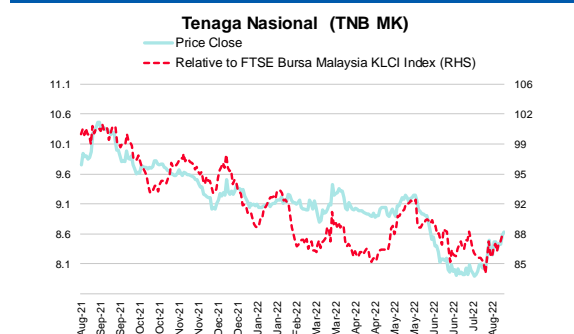
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(7.6)	7.5	(2.9)	(5.8)	(11.0)
Relative	(3.7)	1.9	(0.8)	(1.2)	(11.3)
52-wk Price low/high (MYR)				7.89 – 10.5	



Source: Bloomberg

Overall ESG Score: 2.60 (out of 4)

E: MODERATE

TNB's thermal power plants rely heavily on coal, or fossil fuels to produce power. In 2021, it said that its strategy will include an emphasis on being a leader of sustainable energy solutions in Malaysia and abroad. It has set a target of being coal-free by 2050. In 2021, TNB cut GHG emissions by 7.96m tCO₂e (a 33% increase of emission mitigated compared to 2020) – achieved by low carbon generation, energy efficiency and using renewable energy.

S: EXCELLENT

Policies on employee relations, health & safety, and community engagement are robust. It has health and safety policies and processes, and maintains a good record. Loss-time injury frequency improved to 1.03 in 2021 (2020: 1.29) but it recorded eight fatalities, hence the lower score for this pillar. Community engagement focuses on outreach that focuses on availability of electricity to those in need.

G: EXCELLENT

Board characteristics are within Bursa Malaysia requirements, with 67% comprising independent directors. Women comprise 33% of the Board. TNB ensures timely, reliable and accurate information is provided. Shareholder rights are protected, as the group ensures shareholders are able to participate in and contribute to the AGMs.

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	43,976	52,630	51,832	52,900	54,003
Recurring net profit (MYRm)	3,542	4,322	4,466	5,035	5,276
Recurring net profit growth (%)	(25.7)	22.0	3.3	12.7	4.8
Recurring P/E (x)	13.75	11.27	10.90	9.67	9.23
P/B (x)	0.9	0.9	0.8	0.8	0.8
P/CF (x)	3.14	3.65	2.26	2.86	2.60
Dividend Yield (%)	9.3	4.6	5.3	6.0	6.3
EV/EBITDA (x)	4.73	4.85	4.46	4.45	4.32
Return on average equity (%)	6.3	6.5	7.8	8.5	8.6
Net debt to equity (%)	62.7	72.7	63.8	62.9	57.9

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (MYR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Malaysia	Recurring EPS	0.63	0.77	0.79	0.89	0.93
Utilities	DPS	0.80	0.40	0.46	0.52	0.54
Tenaga Nasional	BVPS	9.89	10.03	10.36	10.74	11.13
TNB MK	Return on average equity (%)	6.3	6.5	7.8	8.5	8.6
Neutral						
	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Recurring P/E (x)	13.75	11.27	10.90	9.67	9.23
	P/B (x)	0.9	0.9	0.8	0.8	0.8
	FCF Yield (%)	17.7	10.1	19.7	10.3	15.8
	Dividend Yield (%)	9.3	4.6	5.3	6.0	6.3
	EV/EBITDA (x)	4.73	4.85	4.46	4.45	4.32
	EV/EBIT (x)	11.55	11.27	10.00	10.02	9.71
Valuation basis						
DCF						
Key drivers						
i. Stronger earnings from non-regulated assets;						
ii. High dividend payout ratios.						
Key risks						
i. Aggressive regulatory reforms;						
ii. Impairment on international assets.						
Company Profile						
Tenaga Nasional is engaged in the generation, transmission and distribution of electricity in West Malaysia and Sabah. The national utility company has a near-monopoly in the transmission and distribution of electricity in West Malaysia and Sabah.						
	Income statement (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total turnover	43,976	52,630	51,832	52,900	54,003
	Gross profit	19,964	27,478	26,068	26,477	26,865
	EBITDA	17,981	18,775	19,515	19,653	19,756
	Depreciation and amortisation	(10,622)	(10,692)	(10,818)	(10,925)	(10,977)
	Operating profit	7,359	8,083	8,697	8,728	8,779
	Net interest	(3,226)	(3,370)	(3,012)	(2,919)	(2,825)
	Pre-tax profit	4,235	4,738	5,877	6,121	6,397
	Taxation	(619)	(874)	(1,377)	(1,046)	(1,072)
	Reported net profit	3,593	3,662	4,466	5,035	5,276
	Recurring net profit	3,542	4,322	4,466	5,035	5,276
	Cash flow (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Change in working capital	240	(5,748)	3,436	(1,573)	35
	Cash flow from operations	15,519	13,354	21,574	17,034	18,720
	Capex	(6,910)	(8,416)	(12,000)	(12,000)	(11,000)
	Cash flow from investing activities	(5,493)	(3,967)	(11,377)	(11,355)	(10,332)
	Dividends paid	(5,236)	(4,568)	(2,591)	(2,920)	(3,060)
	Cash flow from financing activities	(7,443)	(8,819)	(7,226)	(7,484)	(7,553)
	Cash at beginning of period	6,292	6,442	6,706	9,678	7,872
	Net change in cash	2,582	568	2,971	(1,805)	834
	Ending balance cash	8,874	7,009	9,678	7,872	8,707
	Balance sheet (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total cash and equivalents	13,415	9,208	12,180	10,375	11,209
	Tangible fixed assets	112,596	114,106	115,287	116,362	116,386
	Total investments	1,339	1,867	2,060	2,372	2,815
	Total assets	181,433	182,601	185,440	185,050	186,580
	Short-term debt	6,409	6,993	6,993	6,993	6,993
	Total long-term debt	43,044	44,686	43,686	42,686	41,686
	Total liabilities	123,983	124,208	125,138	122,593	121,857
	Total equity	57,450	58,392	60,302	62,458	64,723
	Total liabilities & equity	181,433	182,601	185,440	185,050	186,580
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	(13.7)	19.7	(1.5)	2.1	2.1
	Recurrent EPS growth (%)	(25.7)	22.0	3.3	12.7	4.8
	Gross margin (%)	45.4	52.2	50.3	50.1	49.7
	Operating EBITDA margin (%)	40.9	35.7	37.7	37.2	36.6
	Net profit margin (%)	8.2	7.0	8.6	9.5	9.8
	Dividend payout ratio (%)	125.7	61.6	58.0	58.0	58.0
	Capex/sales (%)	15.7	16.0	23.2	22.7	20.4
	Interest cover (x)	2.08	2.25	2.39	2.45	2.51

Source: Company data, RHB

Figure 1: DCF valuation

NPV of forecast	112,777.5	
Less (net debt)/net cash	(42,469.8)	
Total Equity Value	70,307.7	
Shares (m)	5,643.6	
Additional discount for rising regulatory risk	-25%	
ESG premium/ (discount)	-8%	
TP (MYR)	8.60	(Rounded up)
WACC	7.2%	
Long-term growth rate (%)	1.0%	

Source: RHB

Recommendation Chart

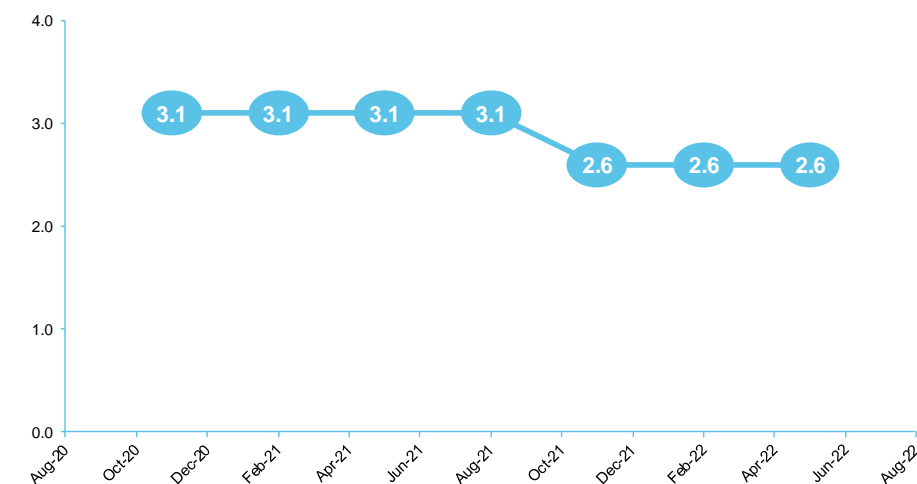


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-06-27	Neutral	8.6	8.0
2022-05-31	Buy	11.5	9.2
2022-02-25	Buy	11.5	9.0
2021-11-26	Buy	11.5	9.4
2021-03-14	Buy	12.5	10.8
2021-03-01	Buy	11.8	10.3
2020-11-26	Neutral	11.5	11.0
2020-08-31	Neutral	11.6	10.9
2020-07-02	Neutral	12.3	11.6
2020-06-10	Neutral	12.9	12.0
2020-04-16	Neutral	12.9	12.2
2020-03-02	Neutral	12.9	12.5
2019-12-09	Neutral	14.5	13.2
2019-11-28	Neutral	14.5	13.7
2019-09-25	Neutral	14.5	13.7

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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