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TNB's PPA savings yet to be utilised

Tenaga Nasional Bhd
(Jan 23, RM15.10)

Maintain add with a higher target price (TP) of RM18.42 from RM15.92: TNB's first quarter financial year 2015 (1QFY15) core net profit of RM2.1 billion was above our and consensus estimates, accounting for 39% and 36% of full-year forecasts, respectively.

The variance was due to the lower than expected fuel cost and reduced tax rate. Core net profit grew by a whopping 40.7% year-on-year (y-o-y), underpinned by the higher tariff and lower fuel cost.

We raise our FY15 to FY17 earnings estimates by 15% to 20% after making changes to our tax rate and fuel cost assumptions. In the same vein, our TP is raised to RM18.42, based on an unchanged price earnings ratio of 15 times FY16 earnings.

Our "add" call is maintained. We think the strong 1QFY15 results and near-term earnings outlook will catalyse the stock.

TNB's 1QFY15 revenue grew by 15.2% y-o-y, underpinned by the tariff hike (1QFY14 was before the tariff hike) and demand growth of 3.3% y-o-y.

Fuel cost during the quarter rose by 4.1%, mainly due to an improved generation mix that favoured more coal, which accounted for 46.3% of total generation mix compared to only 39.8% in 1QFY14.

At the same time, the prices of coal itself have fallen compared with 1QFY14.

As a result of the better generation mix, TNB's earnings before interest, taxes, depreciation and amortisation (Ebitda) margins expanded by 8.4% points, causing its Ebitda to jump 49.6% y-o-y.

Profit before tax soared 62% y-o-y to RM2.6 billion. After tax and exceptional items, which include foreign exchange (forex) gains, TNB's core net profit came in at RM2.1 billion, higher by 40.7% y-o-y.

TNB hosted a 1QFY15 conference call and briefing for over 60 analysts and fund managers to discuss its results.

We were pleasantly surprised to learn that, during the quarter,

TNB's fuel cost was over-recovered by RM200 million, which could be returned to consumers through a tariff reduction in the next review in July 2015.

Management, however, highlighted that it is up to the government to decide and, in the meantime, the RM200 million would be classified together with the power

purchase agreement (PPA) savings.

Other key takeaways from the briefing are PPA savings have yet to be utilised, TNB's effective-tax rate will be 10% to 12% for FY15 to FY17, and it will wait and see how the offer for Integrax Bhd goes after the offer documents are sent to shareholders. — *CIMB Investment Bank Bhd, Jan 23*

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As a result of the better generation mix, TNB's earnings before interest, tax, depreciation and amortisation margins expanded by 8.4% points. The Edge file photo

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FYE AUG (RM MIL)	2012A	2013A	2014A	2015F	2016F
Revenue	35,848	37,131	42,792	44,384	45,703
Operating Ebitda	9,270	10,459	11,400	12,542	13,103
Net profit	3,196	5,119	5,217	6,395	6,646
Core EPS (RM)	0.54	0.98	1.02	1.18	1.23
Core EPS growth (%)	322	82	5	15	4
FD Core PER (x)	27.01	14.86	14.18	12.28	11.82
DPS (RM)	0.27	0.38	0.43	0.60	0.62
Dividend yield (%)	1.84	2.60	2.96	4.13	4.29
EV/Ebitda (x)	9.80	8.74	7.89	7.07	6.62
P/FCFE (x)	11.89	39.48	45.09	30.61	29.21
Net gearing (%)	36.6	34.7	27.8	24.8	19.4
P/BV (x)	2.42	2.20	1.97	1.97	1.88
ROE (%)	9.3	15.5	14.7	16.1	16.3
Change in core EPS estimates (%)				22.1	15.7
CIMB/consensus EPS (x)				1.08	1.06

Source: CIMB, company reports