

Headline	New 1,000mw power plant to boost TNBs earnings		
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New 1,000MW power plant to boost TNB's earnings

Tenaga Nasional Bhd
(Aug 11, RM14.58)

Maintain buy with a target price of RM17: Recall that Tadmax Resources Bhd last Wednesday announced that it had received a letter of award from the Energy Commission (EC) to develop a new 1,000mw combined-cycle gas-fired power plant (CCGT) in Pulau Indah (Selangor), and Tenaga Nasional Bhd (TNB) was to be invited to participate in the project.

TNB yesterday announced that it had received the notification from the EC in relation to the offer for it

to participate in the project.

Judging from TNB and Tadmax announcements, we think that TNB is not obliged to participate in the project if it has poor commercial viability. However, should TNB find the potential returns of the project attractive, we believe that it will participate in the project.

We estimate that the CCGT will cost about RM3 billion. TNB recently commenced operation of its 1,071mw CCGT plant in Prai (TNB Prai).

The plant, reportedly the most efficient gas-fired plant in Southeast

Asia, was built at a cost of RM2.5 billion. The cost of building the 1,000mw CCGT project in Pulau Indah may be higher than that for TNB Prai due to a weaker ringgit and higher building material costs.

Assuming a construction cost of RM3 billion, a 50:50 equity stake between TNB and Tadmax, and a funding ratio of 70% debt and 30% equity, TNB's capital commitment in the project would be only RM450 million, spread over three to four years of the construction period. This will raise TNB's financial year 2017 (FY17) and

Tenaga Nasional Bhd

FYE AUG (RM MIL)	2014A	2015A	2016F	2017F	2018F
Revenue	40,859	43,287	45,473	45,474	47,716
Operating Ebitda	12,054	13,922	15,066	15,591	16,149
Net profit	6,467	6,118	7,502	7,632	7,708
Core EPS (RM)	1.07	1.20	1.33	1.35	1.37
Core EPS growth (%)	11.0	12.3	10.9	1.7	1.0
FD core P/E (x)	13.61	12.12	10.92	10.74	10.63
DPS (RM)	0.29	0.29	0.37	0.38	0.38
Dividend yield (%)	2.00	2.00	2.57	2.62	2.64
EV/Ebitda (x)	8.21	6.99	6.73	6.25	5.61
P/FCFE (x)	n.a	n.a	18.20	13.79	9.18
Net gearing (%)	39.9	33.3	37.5	27.5	14.5
P/BV (x)	1.90	1.74	1.56	1.41	1.29
ROE (%)	14.9	15.0	15.0	13.8	12.7
CIMB/consensus EPS (x)	-	-	1.03	1.03	1.03

Source: Company data, CIMB forecasts

FY18 net gearing by less than 1%.

We believe TNB will require a minimum project internal return ratio of 6% before it participates in the project. If it goes ahead, the project will only start contributing profit in late 2019 at the earliest, as a gas-fired plant typically takes about three to four years to construct.

The project should also have little impact on TNB's valuation as the investment size is small relative

to its market cap of RM82 billion.

We are positive about this development as it is an opportunity for TNB to boost its earnings. Without the project, TNB is still attractive to investors as it is embarking on an initiative to optimise its under-leveraged capital structure, which could potentially result in a higher dividend payout. This may rerate TNB's share price. — *CIMB Research, Aug 11*