

Headline	TNB key beneficiary to govt's reform measures		
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<p>TAKE YOUR BUSINESS AS FAR AS YOUR MIND CAN TRAVEL</p> <p>EXIM BANK MALAYSIA</p> <p>www.exim.com.my</p>	► TENAGA NASIONAL BHD				
	YE TO AUG	FY15	FY16F	FY17F	FY18F
	REVENUE (RM mil)	45,141.3	46,684.0	48,078.7	50,226.7
	CORE NET PROFIT (RM mil)	6,041.7	7,204.8	7,300.7	8,165.0
	FD CORE EPS (sen)	107.1	127.7	129.4	144.7
	PE (x)	13.6	11.4	11.3	10.1

► **Recommendation:**
Buy
FAIR Value: RM19.20
 by AmInvestment Bank
 Bhd (Aug 12)

Investment Highlights
MAINTAIN Tenaga Nasional Bhd (TNB) as a 'Buy' but with a higher fair value of RM19.20.

We continue to like the stock as the group is a key beneficiary (stable earnings and cashflow) of the reform measures implemented by the government in the power sector, and potential upside to dividend payouts going forward.

TNB confirmed last Wednesday that it has received a letter from the Energy Commission (EC) Malaysia in relation to its participation, via a consortium with Tadmax Resources Bhd, in the 1,000MW combined cycle gas turbines power plant in Pulau Indah, Selangor.

Separately, the Energy, Technology and Water Ministry said that the project award is

conditional to: 1) Tadmax implementing the project in a consortium with TNB and conclude the head or shareholders' agreement within two months from Aug 2; 2) Tadmax to conduct a feasibility study of the whole project development within a year at its own cost; and 3) all the conditions precedent to be complied to by Aug 1, 2018. The power plant's scheduled commercial operation date is set at Jan 1, 2023.

Although the direct award of the project is less than ideal, we note that it will only be operational in 2023 and therefore would not add into unnecessary reserve margin in the medium term.

At this juncture, financial details are still sketchy. It is also not clear whether EC will continue to impose the 34.7 sen/kWh levelised tariff as the benchmark, given the substantial depreciation of the ringgit.

Newspaper reports last Friday also highlighted other

potential hurdles, including land issue, location of the plant and additional transmission cost if the plant is built at Pulau Indah.

These issues may risk some delay to the project as what SIPP Energy Sdn Bhd is going through. However, if the deal materialises, naturally, we would expect TNB to take the lead, given its deep pocket and technical know-how.

Recall that for Project 4A, the principal owner (SIPP Energy) will end up with only a minority stake. We have adjusted earnings forecasts downward by 4%-5% after taking into account the potential demand slowdown in 4Q16 and other operating cost factors.

Fair value, however, was adjusted higher to RM19.20 from RM17.30 previously.

Note that we have imputed 2% base tariff hike in 2018. TNB received 2.69% base tariff hike for the first regulatory period.