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PR Value	RM 12,825		



# Earnings risks from sector reform seen for TNB

**Tenaga Nasional Bhd**  
**(Aug 9, RM15.78)**

**Maintain hold with an unchanged target price of RM15:** Tenaga Nasional Bhd (TNB) organised a site tour for 12 analysts and fund managers at the Sultan Mahmud Power Station in Kenyir, Terengganu, accompanied by TNB head of investor relation Anis Ramli. The 400mw (four turbines of 100mw) hydroelectric plant, which also serves as a flood mitigation scheme, is located 55km south-west of Kuala Terengganu at the Kenyir River. Sultan Mahmud Power Station commenced operation in 1985 and its service level agreement will expire in 2025.

As at end-December 2017, hydroelectric power only made up 19% of TNB's total power generation capacity, significantly lower than coal (38.8%) and gas (39.1%). The major hydroelectric plants in Malaysia owned by TNB include Sultan Mahmud Power Station (400mw), Pergau Hydroelectric (600mw) in Kelantan, and Temenggor Power Station (348mw) in Perak.



The Sultan Mahmud Power Station's average utilisation rate is around 44%, as it is a peak load power plant.

The earth core rockfill type Kenyir Dam is elevated at 155m above sea level, with a maximum flood level of 153m. Its maximum operating level is 145m while its minimum operating level is 120m. If the dam's water level exceeds 145m, the excess water will flow out through the ungated spillway, which has a maximum capacity of 7,000 cubic metre per second. The Kenyir Lake reservoir has a surface area of 369 sq km, with a catchment area of 1,260 sq km.

We gather that the Kenyir dam's

water level is usually higher during the December to February period in conjunction with the monsoon season. The water level in November will be lower as TNB will ramp up its electricity generation to use up more water in order to buffer for the higher rainfall in December to February. Sultan Mahmud Power Station's average utilisation rate is around 44%, as it is a peak load power plant.

We maintain our "hold" call on TNB in view of potential changes

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### Tenaga Nasional Bhd

FYE AUG (RM MIL)	2016A	2017A	2018F	2019F	2020F
Revenue	42,645	63,244	47,599	48,559	49,539
Operating Ebitda	14,743	18,567	16,595	17,213	17,723
Net profit	7,368	9,660	7,091	6,750	6,184
Core EPS (RM)	1.37	1.68	1.26	1.20	1.10
Core EPS growth (%)	14.7	22.4	(25.3)	(4.8)	(8.4)
FD core PER (x)	11.33	9.26	12.40	13.03	14.22
DPS (RM)	0.32	0.86	0.63	0.60	0.55
Dividend yield (%)	2.05	5.49	4.02	3.82	3.50
EV/Ebitda (x)	7.92	6.58	7.44	7.21	7.03
P/FCFE (x)	24.35	14.76	39.63	28.02	28.98
Net gearing (%)	57.7	62.0	60.6	58.6	56.7
P/BV (x)	1.68	1.54	1.45	1.37	1.31
ROE (%)	15.6	17.3	12.0	10.8	9.4
CIMB/consensus EPS (x)			0.98	0.94	0.84

Sources: CIMB Research, company reports

in regulations and policies for the utility sector and lingering earnings risks given that its stable regulated earnings may not be able to offset the earnings downside from the expected step-up in tax rate due to a reduction in reinvest-

ment allowance. Our target price remains unchanged at RM15.00, based on a 10% discount to sector average calendar year 2019 forward price-earnings ratio of 14 times to factor in risks from a sector reform.  
— CGSCIMB Research, Aug 8