

COMPANY RESULTS

Tenaga Nasional (TNB MK)

3Q22: Results In Line, Gearing Inches Up To 51%

3Q22 core net profit rose 26% yoy and 13% qoq to RM1,533m, driven by: a) higher hydro generation mix, and b) higher allowance for doubtful debt. 9M22 core net profit of RM4b is within expectations. The government paid TNB RM4.8b out of the RM5.8b owed for the 2H22 ICPT under-recovery. Receivables from the government now stand at RM15.5b, still a hefty amount to recover. Maintain SELL but raise our target price to RM7.70 given the marginal cash flow improvement.

3Q22 RESULTS

Year to 31 Dec (RMm)	3Q22 (RMm)	3Q21 (RMm)	qoq % chg	yoy % chg	9M22 (RMm)	yoy % chg
Revenue	19,071	12,975	(0.4)	47.0	53,870.2	46.0
Normalised EBITDA	4,628	3,868	7.2	19.6	13,048.4	7.6
Normalised EBITDA margin (%)	24.3	29.8	1.7ppt	5.5ppt	24.2	8.7ppt
Pretax profit	1,534	1,237	4.7	24.0	4,531.9	15.7
Net profit	889	1,004	1.9	(11.4)	2,654.2	(4.7)
Core net profit	1,533	1,221	13.3	25.6	4,025.2	(5.7)
Operating Matrix			qoq % chg	yoy % chg		yoy % chg
Coal prices (US\$)	229.7	124.1	3.7	85.1	209.7	114.4
Coal consumption	8.3	8.0	(1.2)	3.8	24.1	0.4
Gas prices (RM)	36.7	21.4	7.6	71.7	33.5	80.2
Daily gas allocation	860	731	(5.0)	17.6	893.0	14.8
Elec. Sales growth (yoy%)	5.9	-0.4	(1.6)	6.3	1.7	0.7
Average tariff (sen/kwh)	40.2	34.8	(0.7)	15.4	39.9	7.5

Source: Tenaga, UOB Kay Hian

RESULTS

• **9M22 results in line.** Tenaga Nasional's (TNB) 3Q22 headline net profit came in at RM889m (-11% yoy; +2% qoq) on the back of forex losses, higher depreciation, finance cost and effective tax rates. Stripping out forex losses and MFRS 16 impact, 3Q22 core net profit grew to RM1,533m (+26% yoy; +13% qoq). The yoy growth is due to higher allowance for doubtful debt by the government. The sequential growth is due to higher usage of hydro in 3Q22. 9M22 core net profit of RM4b (-6% yoy) is in line with expectations.

KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	43,976	52,630	53,573	54,451	55,352
EBITDA	17,870	19,412	20,399	20,083	20,380
Operating profit	7,247	8,721	9,445	9,299	9,750
Net profit (rep./act.)	3,593	3,662	4,847	4,880	5,089
Net profit (adj.)	4,418	5,141	4,847	4,880	5,089
EPS (sen)	77.7	90.4	85.2	85.8	89.5
PE (x)	10.8	9.3	9.9	9.8	9.4
P/B (x)	0.9	0.8	0.9	0.9	0.9
EV/EBITDA (x)	6.0	5.5	5.2	5.3	5.2
Dividend yield (%)	9.5	4.8	3.0	3.2	6.2
Net margin (%)	8.2	7.0	9.0	9.0	9.2
Net debt/(cash) to equity (%)	77.0	76.5	102.8	99.8	80.5
Interest cover (x)	5.3	5.6	5.8	5.5	5.3
ROE (%)	6.3	6.5	8.7	9.0	9.4
Consensus net profit	-	-	4,446	4,849	5,007
UOBKH/Consensus (x)	-	-	1.09	1.01	1.02

Source: Tenaga Nasional Berhad, Bloomberg, UOB Kay Hian

SELL

(Maintained)

Share Price	RM8.42
Target Price	RM7.70
Upside	-8.6%
(Previous TP)	RM6.60

COMPANY DESCRIPTION

Generates and distributes electricity in Peninsular Malaysia and Sabah.

STOCK DATA

GICS sector	Utilities
Bloomberg ticker:	TNB MK
Shares issued (m):	5,753.1
Market cap (RMm):	48,440.9
Market cap (US\$m):	10,558.2
3-mth avg daily t'over (US\$m):	4.5

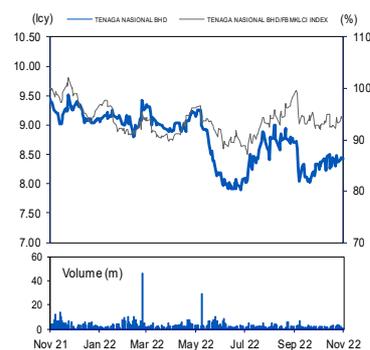
Price Performance (%)

52-week high/low	RM9.51/RM7.89			
1mth	3mth	6mth	1yr	YTD
1.1	(1.9)	(8.5)	(11.4)	(9.9)

Major Shareholders

Khazanah Nasional	25.5
EPF	15.7
Amanah Saham Nasional	15.1
FY22 NAV/Share (RM)	10.33
FY22 Net Debt/Share (RM)	7.45

PRICE CHART



Source: Bloomberg

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• **Key highlights:** a) The government owes TNB RM15.5b for ICPT in 3Q22 – up from RM12.1b in 2Q22. TNB’s gross gearing is now 51% (31 Dec 21: 47%), b) positively, the government has paid RM4.8b out of RM5.8b for 2H22’s ICPT surcharge in Jun-Nov 22, c) in the absence of prompt government repayment, TNB’s gross gearing rose to 51% as of Jun 22 vs 47% in Dec 21.

• **Balance sheet taken over by government.** We expect coal prices to remain stubbornly elevated as we enter the wintering period. We expect the government to “utilise” TNB’s balance sheet to undertake electricity tariff subsidies for Malaysians. While this is a good off-balance sheet financing option for the government, TNB’s investability and autonomy as a purely profit-driven entity with a resemblance of decent corporate governance could be at risk. We remain cautious on the stock.

STOCK IMPACT

• **3Q22 revenue rose 47% yoy to RM19b (flat qoq).** This reflects an under-recovery of RM6.4b due from the government for high fuel costs incurred by TNB to produce electricity for Malaysians. Electricity demand rose 6% yoy and 1% qoq, driven by the industrial and commercial segments.

• **3Q22 generation cost jumped 81% yoy but fell 5% qoq.** The yoy higher generation cost is due to higher coal prices during the quarter (3Q22: US\$229.7/MT; 2Q22: US\$221/MT; 3Q21: US\$124.1/MT). Sequentially lower cost is due to higher usage of hydro in the quarter – up from 3% in 2Q22 to 6% in 3Q22.

EARNINGS REVISION/RISK

• No change to earnings.

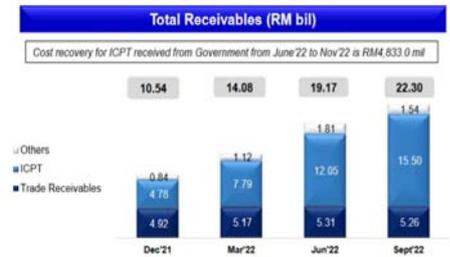
VALUATION/RECOMMENDATION

• **Maintain SELL with a higher target price of RM7.70,** based on -1x SD from meand PER. This reflects the repayment schedule from the government. That said, we remain cautious on the stock as trade receivables remain elevated. The government continues to defer compensation for under-recovery and the probability of TNB having to bear some of the higher costs as part of its GLC undertaking is highly likely.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

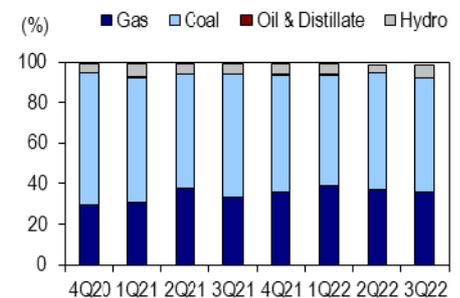
<p>• Environmental</p> <ul style="list-style-type: none"> - Besides targeting to have 8,300MW of renewable energy (RE) generation capacity by 2025 (1.5x from 3,398MW in Dec 20), TNB has also made new pledges to reduce emission intensity by 2035 and achieve zero net emission on top of being coal-free by 2050.
<p>• Social</p> <ul style="list-style-type: none"> - TNB has donated: a) around RM4.36m to those affected by COVID-19, b) necessary medical supplies, such as ventilators, respirators, and personal protective equipment (PPE) to government hospitals, departments, and agencies totalling RM27.5m in 2020, and c) RM1m for lighting up security official posts during MCO enforcement throughout the nation from Mar-Nov 20.
<p>• Governance</p> <ul style="list-style-type: none"> - Good company transparency along with an anti-bribery and whistle-blowing policy. - Succession planning is also in place.

GOVERNMENT OWES TNB RM15.5B IN 3Q22



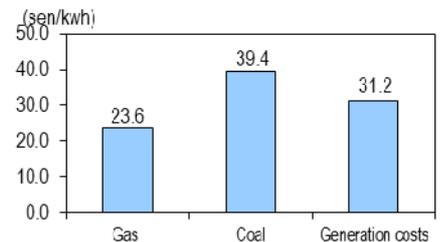
Source: TNB

GENERATION MIX



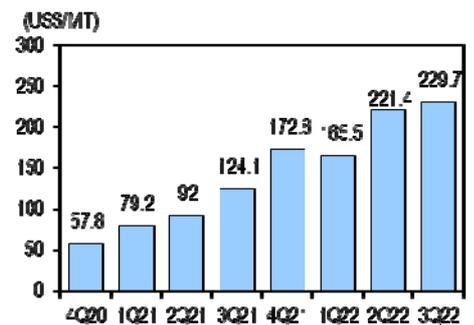
Source: TNB, UOB Kay Hian

GENERATION UNIT COST (3Q22)



Source: TNB, UOB Kay Hian

QUARTERLY COAL PRICES



Source: TNB, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Net turnover	52,630	53,573	54,451	55,352
EBITDA	19,412	20,399	20,083	20,380
Deprec. & amort.	10,692	10,955	10,785	10,629
EBIT	8,721	9,445	9,299	9,750
Total other non-operating income	817	918	918	918
Associate contributions	194	184	193	203
Net interest income/(expense)	(3,447)	(3,520)	(3,633)	(3,815)
Pre-tax profit	4,738	7,027	6,777	7,056
Tax	(874)	(1,977)	(1,694)	(1,764)
Minorities	(203)	(203)	(203)	(203)
Net profit	3,662	4,847	4,880	5,089
Net profit (adj.)	5,141	4,847	4,880	5,089

CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Operating	13,354	47	13,807	24,440
Pre-tax profit	4,738	2,027	1,777	7,056
Tax	(874)	(1,977)	(1,694)	(1,764)
Deprec. & amort.	10,692	10,955	10,785	10,629
Associates	(194)	(184)	(193)	(203)
Working capital changes	(5,985)	(10,774)	3,133	4,906
Non-cash items	0	0	0	0
Other operating cashflows	4,976	0	0	3,815
Investing	(3,967)	(11,810)	(9,000)	(8,301)
Capex (growth)	(6,910)	(11,810)	(9,000)	(9,000)
Investments	4,680	0	0	0
Others	(1,737)	0	0	699
Financing	(8,819)	5,344	(1,722)	(7,698)
Dividend payments	(2,275)	(1,456)	(1,522)	(2,984)
Issue of shares	252	0	0	0
Proceeds from borrowings	583	6,800	(200)	(200)
Others/interest paid	(7,380)	0	0	(4,514)
Net cash inflow (outflow)	568	(6,419)	3,085	8,441
Beginning cash & cash equivalent	6,442	6,706	287	3,373
Changes due to forex impact	(303)	0	0	0
Ending cash & cash equivalent	6,706	287	3,373	11,814

BALANCE SHEET

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Fixed assets	114,106	114,961	113,176	111,547
Other LT assets	41,472	41,656	41,849	42,052
Cash/ST investment	6,706	287	3,373	11,814
Other current assets	20,317	31,014	28,264	23,520
Total assets	182,601	187,918	186,662	188,932
ST debt	6,993	6,893	6,793	6,693
Other current liabilities	20,224	20,148	20,531	20,693
LT debt	43,044	49,944	49,844	49,744
Other LT liabilities	53,948	53,948	53,948	53,948
Shareholders' equity	56,608	54,999	53,358	55,463
Minority interest	1,784	1,987	2,190	2,393
Total liabilities & equity	182,601	187,918	186,662	188,932

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	36.9	38.1	36.9	36.8
Pre-tax margin	9.0	13.1	12.4	12.7
Net margin	7.0	9.0	9.0	9.2
ROA	2.0	2.6	2.6	2.7
ROE	6.5	8.7	9.0	9.4
Growth				
Turnover	19.7	1.8	1.6	1.7
EBITDA	8.6	5.1	(1.6)	1.5
Pre-tax profit	11.9	48.3	(3.6)	4.1
Net profit	1.9	32.4	0.7	4.3
Net profit (adj.)	16.4	(5.7)	0.7	4.3
EPS	16.4	(5.7)	0.7	4.3
Leverage				
Debt to total capital	46.1	49.9	50.5	49.4
Debt to equity	88.4	103.3	106.1	101.8
Net debt/(cash) to equity	76.5	102.8	99.8	80.5
Interest cover (x)	5.6	5.8	5.5	5.3

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