Earnings rise on new peak demand

TNB's 9MFY16 results were broadly within our expectations. Electricity demand grew sharply on the El Nino dry and hot weather spell. Management reiterated that it expects to unveil its plan to optimise its capital structure and revise its dividend policy by year-end. We maintain our BUY call and RM16.50 TP on TNB.

9MFY16 results broadly within our expectations

TNB's 9MFY16 results were broadly within our expectations and above consensus, as core net profit of RM5.88bn (+15.1% yoy) accounted for 80% and 83% of full-year estimates, respectively. No dividends were declared.

3QFY16 a record quarter for new electricity peak demand

9MFY16 revenue rose by 5.6% yoy, driven by new electricity peak demand of 17,788MW in Apr-16 (+5.2% vs. previous peak of 16,901MW in Jun-14) due to El Nino. TNB's 9MFY16 EBITDA improved 1.3ppts yoy to 33.6% on higher revenue despite higher general expenses (+32.2% yoy) involving a bad-debt provision for the steel and iron sector.

But electricity demand growth moderates

TNB registered strong electricity demand growth of 4.5% yoy in 9MFY16 (9MFY15: +2.5% yoy), mainly driven by 6.2% yoy growth in 3QFY16. While this may imply that our FY16 electricity demand growth assumption of 2.7% yoy appears conservative, weekly maximum demand has trended steadily lower after hitting the Apr-16 peak as the El Nino phenomenon dissipated. Together with still-sluggish demand from the industrial segment (9MFY16: -0.6% yoy) and our recent house downward revision of 2016E GDP growth to 4.2% yoy from 4.5% yoy, we expect TNB's 4QFY16 earnings to be weaker qoq. We estimate that every 1ppt change in electricity demand growth would lead to a 2% change in EPS.

Turkey operations intact

Despite political turbulence in Turkey, management guided that there was no material impact to the operations of its 30% associate, Gama Enerji.

Reaffirm BUY and TP of RM16.50; a country top pick in 2016

We maintain our BUY rating and DCF-derived (WACC: 8.1%, LT growth: 3.0%) 12-month target price of RM16.50. We still like TNB for its undemanding valuation and growing generation market share. Our TP translates into an FY17E PER of 12x. Stronger-than-expected electricity demand growth and earnings are key potential catalysts. TNB remains a country top pick.

Earnings & Valuation Summary

FYE 31 Aug	2014	2015	2016E	2017E	2018E
Revenue (RMm)	42,792.4	43,286.8	45,352.1	46,643.5	47,981.3
EBITDA (RMm)	4,348.8	13,921.8	14,135.0	14,441.8	14,813.5
Pretax profit (RMm)	7,114.7	7,133.7	8,136.3	8,452.1	8,599.0
Net profit (RMm)	6,467.0	6,118.4	7,366.1	7,652.1	7,786.1
EPS (sen)	114.6	108.4	130.5	135.6	138.0
PER (x)	12.5	13.2	11.0	10.6	10.4
Core net profit (RMm)	5,385.6	6,937.7	7,366.1	7,652.1	7,786.1
Core EPS (sen)	95.4	122.9	130.5	135.6	138.0
Core EPS growth (%)	11.2	28.8	6.2	3.9	1.8
Core PER (x)	15.0	11.6	11.0	10.6	10.4
Net DPS (sen)	25.0	29.0	32.5	35.2	38.2
Dividend Yield (%)	1.7	2.0	2.3	2.5	2.7
EV/EBITDA (x)	22.6	7.4	7.2	6.8	6.4
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			1.0	1.1	1.1

Source: Company, Affin Hwang forecasts, Bloomberg

Results Note

Tenaga

TNB MK
Sector: Utilities

RM14.32 @ 28 Jul 2016

BUY (maintain)
Upside 15%

Price Target: RM16.50
Previous Target: RM16.50

Price Performance

	1M	3M	12M
Absolute	+2.4%	+0.8%	+17.0%
Rel to KLCI	+0.9%	+1.8%	+19.9%

Stock Data

Issued shares (m)	5,643.6
Mkt cap (RMm)/(US$m)	80,816.5/19,931.1
Avg daily vol - 6mth (m)	10.6
52-wk range (RM)	10.26-14.60
Est free float	37%
BV per share (RM)	8.75
P/BV (x)	1.64
Net cash/(debt) (RMm) (3Q16)	(30,813)
ROE (2016E)	13.9%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Khazanah Nasional	29.7%
EPF	15.2%
PNB	7.9%

Source: Affin Hwang, Bloomberg

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Risks

Risks to our call: 1) delays in implementing the ICPT mechanism; 2) weak electricity demand growth; 3) a rise in coal prices; 4) a weaker RM; 5) disruptions in gas supply and 6) overpriced acquisitions.

Upside catalysts include: 1) value-accretive acquisitions; 2) lower-than-expected LNG price and usage; and 3) a stronger RM.

Fig 1: Results Comparison

FYE 31 Dec (RMm)	3QFY16	QoQ % chg	YoY % chg	9MFY16	YoY % chg	Comments
Revenue	12,128.7	*15.6*	*22.4*	33,294.8	*5.6*	Peninsular Malaysia electricity demand grew 6.2% yoy in 3QFY16 (9MFY16: +4.5%).
Op costs	(8,101.9)	*8.4*	*3.2*	(22,610.5)	*4.2*	Higher yoy in 9MFY16 mainly on higher non-fuel costs such as general expenses (+32.2% yoy) due to provisions for bad debt for certain industrial customers in the steel and iron industry.
Other income	188.3	*4.3*	*(25.5)*	508.2	*(14.3)*	
EBITDA	**4,215.1**	*30.1*	*94.0*	**11,192.5**	*9.8*	
EBITDA margin (%)	34.8	*+3.9ppt*	*+12.8ppt*	33.6	*+1.3ppt*	
Depn and amort	(1,468.0)	*5.0*	*14.3*	(4,205.9)	*11.2*	
EBIT	**2,747.1**	*49.2*	*209.2*	**6,986.6**	*9.0*	
Int expense	(259.7)	*8.4*	*1.8*	(758.9)	*5.5*	Net debt stood at RM30.8bn as at end-3QFY16 (3QFY15: RM21.3bn).
Int and other inc	28.7	*(51.5)*	*>100*	148.7	*0.4*	
Associates	25.4	*(3.8)*	*(21.6)*	68.7	*21.4*	
Forex translation	(39.8)	*Nm*	*Nm*	(275.2)	*>100*	3QFY16 forex translation loss due to weakening of RM vs. Yen (3QFY16: 3.73/100 Yen vs. 2QFY16: RM3.72/100 Yen).
Forex transaction	30.1	*>100*	*>100*	24.6	*>100*	
Pretax profit	**2,531.8**	*68.9*	*>100*	**6,194.5**	*8.3*	
Tax	(224.6)	*21.8*	*Nm*	(610.1)	*29.8*	
Tax rate (%)	8.9	*-3.4ppt*	*+13.2ppt*	9.8	*+1.6ppt*	Low effective tax rate due to reinvestment allowances.
MI	1.5	*>100*	*(93.4)*	21.0	*(54.5)*	
Net profit	**2,308.7**	*76.3*	*>100*	**5,605.4**	*5.8*	
EPS (sen)	40.8	*74.6*	*>100*	99.0	*5.5*	
Core net profit	**2,348.5**	*58.0*	*>100*	**5,880.6**	*15.1*	Within Affin but above street estimates.

Source: Affin Hwang, Company data

Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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