

Ong Tze Hern

(603) 7890 8888 (ext 2113)

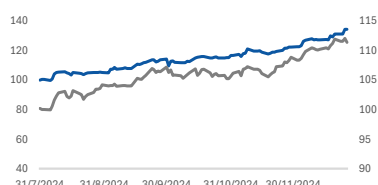
tzehern.ong@apexsecurities.com.my

Recommendation:	BUY
Current Price:	RM 14.18
Previous Target Price:	RM 16.00
Target Price:	↑ RM 16.04
Capital Upside/Downside:	13.1%
Dividend Yield (%):	3.3%
Total Upside/Downside:	16.4%

Stock information	
Board	MAIN
Sector	Utilities
Bursa / Bloomberg Code	5347 / TNB MK
Syariah Compliant	Yes
ESG Rating	★★★
Shares issued (m)	5,812.9
Market Cap (RM' m)	82,427.6
52-Week Price Range (RM)	15.24-9.94
Beta (x)	1.0
Free float (%)	53.3
3M Average Volume (m)	9.3
3M Average Value (RM' m)	131.0

Top 3 Shareholders	(%)
Amanah Saham Nasional Bhd	21.3
Khazanah Nasional Bhd	20.9
Employees Provident Fund Board	18.2

Share Price Performance



	1M	3M	12M
Absolute (%)	1.4	-3.3	41.8
Relative (%)	0.8	-0.5	27.8

Tenaga Nasional Berhad

RP4 Details Announced with LSS5 Win Adding Icing on the Cake

Executive Summary

- TENAGA announced the key details for RP4**, with base Capex at RM26.6bn (+29.2% from RP3), WACC unchanged at 7.3%, and base tariff at 45.62sen/kWh (+14.2% from RP3).
- We are Positive on the RP4 parameters announced.** While the parameters largely align with our expectations, the contingent Capex offers potential upside.
- Separately, TENAGA announced that it has been shortlisted by the EC to develop a 500MW LSS PV Plant at Kuala Muda, Kedah under the LSS5 bidding cycle.**
- We have revised our FY25/FY26 earnings forecast by 5.9%/-1.8% respectively as we factor in the full earnings potential for RP4 in FY25.** Following our earnings revision, we raise our TP to RM16.04 based on DCF valuation (WACC: 7.1%, g: 2.0%). **Maintain BUY.**

Regulatory Period 4 Details announced. Tenaga Nasional Berhad (TENAGA) has released the details for Regulatory Period 4 (RP4). The allowed Capex is set at RM42.8bn (averaging RM14.3bn annually). This comprises RM26.6bn of base Capex (averaging RM8.9bn annually) and RM16.3bn of contingent capex (averaging RM5.4bn annually). Allowed Opex is set at RM20.8bn (averaging RM6.9bn annually). The WACC remains unchanged from RP3 at 7.3%. Additionally, the base tariff for RP4 is set at 45.62sen/kWh (RP3: 39.95sen/kWh). Detailed breakdowns are provided below:

Figure 1: Base Tariff Increased by 14.2% from RP3

Parameter	RP3 (2022-2024)	RP4 (2025-2027)	Change (%)
Base Tariff (sen/kWh)	39.95	45.62	+14.2%
WACC	7.3%	7.3%	0.0%
Allowed Capex (RM bn) *	20.6	26.6	+29.2%
Allowed Opex (RM bn)	18.0	20.8	+15.7%

*Only base capex is included

Source: Company, Apex Securities

Base Capex and WACC Align with Expectations. We are **Positive** on the RP4 parameters announced. Although the parameters align with our expectations of an annual base Capex of RM9bn and a WACC maintained at 7.3%, the contingent Capex offers potential upside.

Contingent Capex Likely Not Yet Accounted for in the Allowed Return. Based on the latest guideline by the Energy Commission (EC), Contingent Projects are associated with Unpredictable Capex driven by unique investment needs. These projects depend on specific conditions occurring during the RP, which may not be certain at the outset. A Regulated Business Entity (RBE) may request adjustments to its annual revenue requirement if the triggering condition materialises, justifying the need for investment. Contingent Projects are classified under unpredictable Capex and are managed through an ex-ante mechanism, which integrates them into the Regulated Asset Base (RAB) and Annual Revenue Requirement upon approval. In summary, these projects are likely not yet accounted for in the allowed return or the base tariff announced for RP4.

Contingent Capex Could Offer Upside. While no specific details on contingent Capex have been disclosed, we believe they could include investments such as Battery Energy Storage Systems (BESS), contingent on the technology becoming more commercially viable. In a best-case scenario where all contingent Capex is fully utilised, we estimate a 10.2% increase in annual average allowed return or equivalent to an additional c.RM500m in returns annually compared to the base case, where only base Capex is incurred (Figure 2).

Figure 2: Estimated Allowed Return Under Base-Case and Best-Case

Parameter	Base Case			Best Case		
	2025	2026	2027	2025	2026	2027
Opening RAB (RM bn) *	67.5	71.6	75.4	67.5	77.0	85.8
Annual Approved Capex (RM bn) ^	8.9	8.9	8.9	14.3	14.3	14.3
Depreciation Rate Assumption (%)	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%
Depreciation Expense Assumption (RM bn)	4.8	5.1	5.4	4.8	5.5	6.1
WACC (%)	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%
Estimated Annual Allowed Return (RM bn) #	5.3	5.5	5.8	5.5	6.1	6.8
Present Value After Discounting by WACC (RM bn)	4.9	4.8	4.7	5.1	5.3	5.5
Annual Average of Present Value (RM bn)	4.8			5.3		

* Opening RAB for the year = Closing RAB the year before

^ Assume total Capex is averaged over three years

Estimated Allowed Return = (Opening RAB + 0.5 X (Capex)) X WACC

Source: Company, Apex Securities

Differences Funded through KWIE. In the same announcement, TENAGA disclosed that the current electricity tariff schedule, which has been in place since 2014, will remain unchanged, with no adjustments to the tariff rate or structure until 30 Jun 2025. The new tariff schedule for RP4 is proposed to take effect on 1 Jul 2025. Any differences between 1 Jan to 30 Jun 2025 will be funded through the Kumpulan Wang Industri Elektrik (KWIE).

Secured 500MW LSS5 Project. Separately, TENAGA announced that it has received a Letter of Notification from the EC as a shortlisted bidder for the development of a 500MW Large Scale Solar (LSS) Photovoltaic Plant at Kuala Muda, Kedah. The project is likely part of Package 3 under the LSS5 initiative (Figure 3). LSS5 offers a total capacity of 2GW and is expected to achieve commercial operation by 2026. While the earnings contribution from this project is not expected to be significant for TENAGA, this marks a positive milestone as the Group accelerates its efforts towards decarbonising operations and enhancing its renewable energy portfolio.

Figure 3: Key Features of LSS5

Package	Key Features	Quota	Key Bidder Criteria
Package 1	Rooftop or ground-mounted solar projects Capacity Range: 1MW-10MW	250MW	- Companies or consortiums incorporated in Malaysia with at least 51% Bumiputera equity ownership.
Package 2	Rooftop or ground-mounted solar projects Capacity Range: 10MW-30MW	250MW	- Companies or consortiums incorporated in Malaysia with at least 51% Bumiputera equity ownership. - Consortium consisting of at least one Bumiputera company incorporated in Malaysia and a foreign company with Bumiputera equity ownership in the consortium of at least 51%.
Package 3	Rooftop or ground-mounted solar projects Capacity Range: 30MW-500MW	1,000MW	- Companies incorporated in Malaysia with at least 51% local equity ownership. - Consortium consisting of at least one local company incorporated in Malaysia and a foreign company with local equity ownership in the consortium of at least 51%.
Package 4	Floating solar projects Capacity Range: 10MW-500MW	500MW	

Source: Energy Commission, Apex Securities

Earnings Revision. We have revised our FY25/FY26 earnings forecast by 5.9%/-1.8% respectively as we factor in the full earnings potential for RP4 in FY25. Previously, we anticipated that FY25 earnings may not fully capture the potential growth from RP4 due to the delay in implementing the new base tariff, where any shortfall in allowed return was expected to be accounted for over the remainder of the RP4. TENAGA has clarified that these differences will be funded through the Kumpulan Wang Industri Elektrik (KWIE) in its latest announcement.

Valuation & Recommendation. Following our earnings revision, we raise our TP to **RM16.04** based on DCF valuation (WACC: 7.1%, g: 2.0%). Maintain **BUY**. No ESG premium or discount has been applied, given the Group's three-star ESG rating.

Risk. Rapid plunge in coal prices, unplanned shutdowns of power plants, weakening of Ringgit, policy risk.

Financial Highlights

Income Statement

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Revenue	50,867.7	53,066.9	56,369.3	69,097.0	72,313.2
EBITDA	20,588.5	18,413.1	19,784.6	20,655.7	21,638.6
Depreciation & Amortisation	-11,402.5	-11,265.7	-11,343.5	-11,270.5	-12,010.9
EBIT	9,186.0	7,147.4	8,441.0	9,385.2	9,627.8
Net Finance Income/ (Cost)	-3,935.0	-3,836.2	-3,495.7	-3,788.2	-3,931.2
Associates & JV	97.6	62.4	96.5	105.3	111.1
Pre-tax Profit	5,348.6	3,373.6	5,041.9	5,702.3	5,807.6
Tax	-1,791.2	-770.0	-1,210.0	-1,368.6	-1,393.8
Profit After Tax	3,557.4	2,603.6	3,831.8	4,333.8	4,413.8
Minority Interest	94.1	-166.7	100.8	114.0	116.2
Net Profit	3,463.3	2,770.3	3,731.0	4,219.7	4,297.6
Exceptionals	-468.6	-299.0	0.0	0.0	0.0
Core Net Profit	3,931.9	3,069.3	3,731.0	4,219.7	4,297.6

Key Ratios

FYE Dec	FY22	FY23	FY24F	FY25F	FY26F
EPS (sen)	60.4	48.0	64.2	72.6	73.9
P/E (x)	23.5	29.5	22.1	19.5	19.2
P/B (x)	1.4	1.4	1.4	1.3	1.3
EV/EBITDA (x)	8.4	8.4	7.8	7.8	7.6
DPS (sen)	46.0	46.0	48.0	47.0	48.0
Dividend Yield (%)	3.2%	3.2%	3.4%	3.3%	3.4%
EBITDA margin (%)	40.5%	34.7%	35.1%	29.9%	29.9%
EBIT margin (%)	18.1%	13.5%	15.0%	13.6%	13.3%
PBT margin (%)	10.5%	6.4%	8.9%	8.3%	8.0%
PAT margin (%)	7.0%	4.9%	6.8%	6.3%	6.1%
NP margin (%)	6.8%	5.2%	6.6%	6.1%	5.9%
CNP margin (%)	7.7%	5.8%	6.6%	6.1%	5.9%
ROE (%)	5.9%	4.7%	6.2%	6.9%	6.8%
ROA (%)	1.7%	1.4%	1.9%	2.1%	2.0%
Gearing (%)	159.4%	151.6%	138.1%	139.5%	144.3%
Net gearing (%)	138.0%	117.3%	112.3%	119.5%	124.5%

DCF Valuation	Value (RM m)	Valuation method
Enterprise Value	172,007.8	WACC: 7.1%, g: 2.0%
(-) Net Debt/(Cash)	76,093.9	
(-) Minority Interests	2,471.8	
Total Equity Value	93,442.1	
Enlarged share base (m share)	5,826.9	
Equity Value/share (RM)	16.04	
ESG premium/discount	0.0%	
Fair Value (RM)	16.04	

* Gearing Ratio includes lease liabilities

Source: Company, Apex Securities

Balance Sheet

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Cash	4,893.4	19,390.5	14,451.2	11,123.1	11,341.2
Receivables	22,827.0	10,408.2	12,046.0	12,494.3	12,877.7
Inventories	3,290.8	2,758.0	2,432.3	2,435.3	2,545.5
Other current assets	14,045.0	8,091.5	8,217.9	8,704.9	8,828.0
Total Current Assets	45,056.2	40,648.2	37,147.4	34,757.5	35,592.3
Fixed Assets	116,577.1	121,932.1	124,067.5	129,003.1	133,488.9
Intangibles	0.0	0.0	0.0	0.0	0.0
Other non-current assets	44,289.0	42,163.3	38,986.0	41,585.1	44,408.6
Total Non-Current Assets	160,866.1	164,095.4	163,053.5	170,588.2	177,897.5
Short-term debt	13,262.2	7,330.6	4,830.6	4,330.6	5,080.6
Payables	11,509.7	12,830.7	13,697.5	13,664.7	14,282.8
Other current liabilities	12,825.4	12,677.3	12,779.6	13,173.8	13,273.4
Total Current Liabilities	37,597.3	32,838.6	31,307.7	31,169.2	32,636.9
Long-term debt	50,620.0	54,439.6	51,939.6	51,439.6	52,189.6
Other non-current liabilities	56,738.8	56,382.7	54,817.8	59,057.6	63,302.2
Total Non-Current Liabilities	107,358.8	110,822.3	106,757.4	110,497.2	115,491.8
Shareholder's equity	58,517.1	58,825.8	59,778.1	61,207.6	62,773.1
Minority interest	2,449.1	2,256.9	2,357.7	2,471.8	2,587.9
Total Equity	60,966.2	61,082.7	62,135.8	63,679.4	65,361.1

Cash Flow

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Pre-tax profit	5,348.6	3,373.6	5,041.9	5,702.3	5,807.6
Depreciation & amortisation	11,402.5	11,265.7	11,343.5	11,270.5	12,010.9
Changes in working capital	-8,117.6	15,703.8	-239.4	-36.9	136.6
Others	744.4	1,900.3	2,777.3	2,828.4	2,935.8
Operating cash flow	9,377.9	32,243.4	18,923.3	19,764.4	20,890.9
Capex	-8,428.9	-10,599.2	-10,000.0	-13,000.0	-13,000.0
Others	-5,937.3	4,814.5	0.0	0.0	0.0
Investing cash flow	-14,366.2	-5,784.7	-10,000.0	-13,000.0	-13,000.0
Dividends paid	-2,181.3	-2,537.5	-2,778.7	-2,790.2	-2,732.1
Others	5,590.2	-10,774.3	-11,083.8	-7,302.3	-4,940.7
Financing cash flow	3,408.9	-13,311.8	-13,862.5	-10,092.5	-7,672.8
Net cash flow	-1,579.4	13,146.9	-4,939.3	-3,328.1	218.1
Forex	0.6	22.2	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Beginning cash	5,634.9	4,056.1	19,390.5	14,451.2	11,123.1
Ending cash	4,056.1	17,225.2	14,451.2	11,123.1	11,341.2

ESG Matrix Framework:

Environment

Parameters	Rating	Comments
Climate	★★	Scope 1 and Scope 2 GHG emissions totaled 39.3m tCO ₂ e in 2023, marking a 1.1% yoy increase from 2022. TENAGA aims to reduce its GHG emissions intensity by 35% by 2035 and achieve Net Zero Emissions by 2050.
Waste & Effluent	★★★★	Implemented the Scheduled Waste Roadmap 2018-2030 to strengthen hazardous waste management. In 2023, a 47% recycling rate for hazardous waste was achieved, surpassing the 30% target set for 2025.
Energy	★★	Generation mix in 2023 remained dominated by fossil fuels, with coal accounting for 41.7% and gas 32.4%. The Group plans to reduce its coal capacity by 50% by 2035 and fully phase it out by 2050. In 2023, TENAGA's renewable energy capacity reached 4.4GW, reflecting a 15.7% yoy increase, though still significantly below its target of 8.3GW by 2025.
Water	★★	In power generation operations, 80% of water consumption is used for steam generation and power plant cooling systems. Total water consumed amounted to 10,096 ML in 2023, reflecting a 4.1% yoy reduction.
Compliance	★★★	The Group is in compliance with local and international environmental regulations.

Social

Diversity	★★★★	Established the TNB Diversity & Inclusion policy in 2022. As of 2023, 15% of non-executive staff and 41% of executive staff are female.
Human Rights	★★	TENAGA is poised to introduce the Group's comprehensive stance on labour rights.
Occupational Safety and Health	★★	In 2023, four work-related fatalities were reported. The Lost Time Incident Rate (LTIR) stood at 0.74, below the target of 1.0.
Labour Practices	★★★★	TENAGA complies with all relevant labor laws and supports the rights to freedom of association and collective bargaining.

Governance

CSR Strategy	★★★★★	Aspire to bring positive impact to the community by allocating 1% of its PAT for various corporate responsibility programmes. In 2023, the Group invested over RM99m in community initiatives.
Management	★★★	In 2023, women made up 26% of the senior management team, falling short of the 30% female representation target set for 2025. Among the board members, 42% (5 out of 12) were female, while 50% (6 out of 12) were independent directors.
Stakeholders	★★★★★	Regularly engages with stakeholders to understand and address their needs. For instance, the Group organises annual one-to-one engagements with NGOs, annual feedback sessions with government bodies and regulators, annual general meeting (AGM) for investors, and quarterly results briefings for analysts.

Overall ESG Scoring: ★★★

Recommendation Framework:

BUY: Total returns* are expected to exceed 10% within the next 12 months.

HOLD: Total returns* are expected to be within +10% to -10% within the next 12 months.

SELL: Total returns* are expected to be below -10% within the next 12 months.

TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.

TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.

*Capital gain + dividend yield

Sector Recommendations:

OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.

NEUTRAL: The industry defined by the analyst is expected to be within +10% to -10% within the next 12 months.

UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

ESG Rating Framework:

★★★★★ : Appraised with 3% premium to fundamental fair value

★★★★ : Appraised with 1% premium to fundamental fair value

★★★ : Appraised with 0% premium/discount to fundamental fair value

★★ : Appraised with -1% discount to fundamental fair value

★ : Appraised with -5% discount to fundamental fair value

Disclaimer: The report is for internal and private circulation only and shall not be reproduced either in part or otherwise without the prior written consent of Apex Securities Berhad. The opinions and information contained herein are based on available data believed to be reliable. It is not to be construed as an offer, invitation or solicitation to buy or sell the securities covered by this report.

Opinions, estimates and projections in this report constitute the current judgment of the author. They do not necessarily reflect the opinion of Apex Securities Berhad and are subject to change without notice. Apex Securities Berhad has no obligation to update, modify or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

Apex Securities Berhad does not warrant the accuracy of anything stated herein in any manner whatsoever and no reliance upon such statement by anyone shall give rise to any claim whatsoever against Apex Securities Berhad. Apex Securities Berhad may from time to time have an interest in the company mentioned by this report. This report may not be reproduced, copied or circulated without the prior written approval of Apex Securities Berhad.

As of **Friday, 27 Dec, 2024**, the analyst(s), whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) nil.