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TENAGA NASIONAL

BUY

 Price **RM9.85**
 Target **RM11.90**

Share Profile/Statistics	
Bloomberg Ticker	TNB MK Equity
KLCI	968.88
Issued share capital (m)	4,048.5
Market Capitalisation (RMm)	39,877.7
52 week High (RM)	10.20
52 week Low (RM)	7.44
Average Volume (3m) '000	5,264.1
YTD Returns (%)	24.4
5 yr Average ROE (%)	7.9
5 yr Average ROA (%)	2.2
Net gearing (x)	1.5
Altman Z-Score	1.2
ROCE/WACC	0.5
Beta (x)	0.99
Cash Ratio (x)	0.4
FCF/share (x)	0.3
Price/FCF/share (x)	30.5
Book Value/share (RM)	4.32

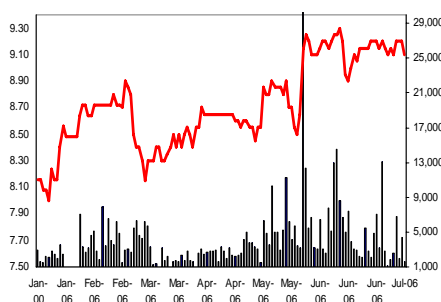
Major Shareholders (%)	
Khazanah Nasional	36.41
EPF	9.24
Skim Amanah Saham Bumi	7.46

Share Performance				
(%)	1m	3m	6m	12m
Absolute	7.0	7.1	15.9	15.1
Relative	5.6	0.2	11.6	9.8

Growth Profile (%)				
	04a	05a	06f	07f
Revenue	7.6	7.1	8.6	15.5
EBITDA	13.6	(0.5)	15.3	15.6
PBT	(15)	22.7	34.5	38.6
NP	(29)	57.3	34.9	40.5

Margin (%)				
	04a	05a	06f	07f
EBITDA	32.8	30.5	32.4	32.4
PBT	8.4	9.6	11.9	14.3
NP	4.6	6.7	8.7	10.5

Historical Price Ratio				
(x)	02a	03a	04a	05a
P/Sales	2.0	1.7	1.8	1.9
P/Earnings	32.1	26.4	38.3	27.4
P/Book	1.7	1.9	2.1	2.2



Powering Ahead

Upbeat outlook. Catalysts for further price upside are (i) re-negotiation on PPAs which could be favourable to TNB; (ii) improving earnings from the financial and operational efforts; (iii) ample funding for capex (no risk of additional interest expenses); and (iv) possible write-back from Perwaja. Tenaga's share price has risen by 13.3% since our last review on its target price in May 2006.

New PPAs under study. The Government plans to re-negotiate the PPAs signed earlier between Tenaga and the IPPs is a massive move and we do not expect the exercise to be completed within the next 12 months. While the financial impact on the IPPs is expected to be DCF-neutral, Tenaga may benefit from lower payments for the electricity it buys from the IPPs. We estimate Tenaga paid RM6bn to the IPPs in FY05.

Tanjung Bin delay - minimal impact on bottomline. We estimated Tenaga may save RM44m in capacity payments arising from the 27-day delay in the commencement of the Unit 1 of Tanjung Bin power plant. However, given Tenaga's large share base, the impact on EPS is minimal. Unit 2 and Unit 3 are expected to commence operations as scheduled on 28 Feb 2007 and 31 Aug 2007, respectively.

On track to meet target. As at 3QFY06, Tenaga has met 71% of its RM600m financial target for FY06. This includes cut in expenses (general, overtime, medical) as well as recovery from delinquent accounts. These efforts should enhance future earnings. In addition, we learnt that Perwaja has been paying its debt and we do not discount the possibility of a write back in FY07. We believe Tenaga will be able to meet its targeted KPI (refer to following tables).

Fair value upgraded. We have arrived at a fair value of RM11.90 based on DCF, with a discount rate of 12%. Our forecasts have taken into consideration the financial enhancement from the cost cutting measures as well as the operational improvements undertaken. At RM11.90, Tenaga is trading at PER07 of 19.1x, which is towards the lower range of its historical PER range.

FYE Aug (RMm)	FY03	FY04	FY05	FY06f	FY07f
Revenue	16,457.8	17,712.1	18,977.5	20,615.4	23,800.8
EBITDA	5,120.6	5,817.5	5,790.0	6,673.8	7,713.8
PBT	1,754.1	1,482.7	1,818.9	2,446.5	3,391.9
Net Profit	1,150.0	814.2	1,280.3	1,786.2	2,510.3
% chg YoY	7.0	(29.2)	57.3	39.5	40.5
Consensus EPS (sen)				45.7	71.1
EPS (sen)	36.9	26.1	41.1	44.1	62.0
Gross DPS (sen)	12.0	12.0	12.0	12.0	12.0
Gross Div. Yield (%)	1.2	1.2	1.2	1.2	1.2
PER (x)	26.7	37.7	24.0	22.3	15.9
P/BV (x)	2.0	2.1	2.0	1.8	1.7
ROE (%)	7.9	5.5	8.3	10.7	13.8

Figure 1: KPIs for FY06

Indicators	Target	YTD 3QFY06
ROA	2.4%	2.6%
Gearing	63%	62.2%
Unplanned Outage Rate	5%	3.3%
Reduction in T&D losses	9.5%	10.7%
Distribution SAIDI	133 minutes	72.9 minutes

Source: Tenaga

Figure 2: FY06 Initiatives

Initiatives	FY06 Target (RM m)	YTD 3QFY06 (RM m)
Recovery of Theft Building	20	32.8
Reduction in General Exp.	50	33.4
Value Creation From Landbank	30	4.3
SESB Turnaround	300	199.3
Reduction in T&D losses	30	(20.4)
Recovery from Delinquent Accounts	130	166.7
Manage Overtime Claims Paid	10	15.3
Manage Medical Claims Paid	No Increase	(5.1)
Debt mix (%) – RM vs Other Currencies	57:43	52:48
Generation Availability	86.5%	89.4%
System Minutes	10	**5.5
Reduction in ACP	32 days	34 days
Closing of Tenders	90% in 90 days	85% in 90 days

Source: Tenaga

Figure 3: Earnings Summary

FY Aug 31 (RM m)	FY03	FY04	FY05	FY06f	FY07f
Turnover	16,457.8	17,712.1	18,977.5	20,615.4	23,800.8
EBITDA	5,120.6	5,817.5	5,790.0	6,673.8	7,713.8
Depreciation	(2,422.1)	(2,639.6)	(2,792.6)	(2,704.1)	(2,737.7)
Net interest income/(exp)	(1,171.7)	(1,254.7)	(1,427.8)	(1,636.6)	(1,704.3)
PBT	1,754.1	1,482.7	1,818.9	2,446.5	3,391.9
Net Profit	1,150.0	814.2	1,280.3	1,786.2	2,510.3
EPS (sen)	36.9	26.1	41.1	55.5	77.9
Gross Div (sen)	12.0	12.0	12.0	12.0	12.0

Source: OSK Research

Figure 4: Balance Sheet

FY Aug 31 (RM m)	FY03	FY04	FY05	FY06f	FY07f
Fixed assets	51,768.4	53,988.5	55,210.1	56,190.2	57,170.3
P,P&E	50,990.2	53,443.7	54,721.0	55,721.0	56,721.0
Associates/ investments	778.2	544.8	489.1	469.2	449.3
Current assets	6,256.9	9,393.1	8,284.7	8,689.0	10,761.0
Cash + ST investment	2,801.8	4,220.3	2,871.4	3,322.2	4,685.0
Debtors	1,817.6	3,503.6	3,563.2	3,710.8	4,165.1
Inventories	1,552.0	1,569.2	1,741.6	1,649.2	1,904.1
Others	85.5	100.0	108.5	6.8	6.8
Current Liabilities	(8,098.6)	(5,427.8)	(6,815.6)	(6,027.3)	(6,582.0)
ST borrowings	(4,508.7)	(1,859.4)	(2,979.6)	(2,633.7)	(2,581.0)
Creditors	(1,721.7)	(3,000.7)	(3,418.7)	(2,535.7)	(2,927.5)
Others	(1,868.2)	(567.7)	(417.3)	(857.9)	(1,073.4)
Net assets	51,798.2	57,860.4	56,563.9	58,735.5	61,234.2
Share capital	3,111.8	3,148.3	3,220.7	4,048.5	4,048.5
Reserves+ RE	11,961.9	11,650.1	12,864.8	14,052.4	15,975.6
Shareholders funds	15,073.7	14,798.4	16,085.5	18,100.9	20,024.1
Minority interests	78.4	91.8	115.3	115.3	115.3
Non Current Liabilities	36,724.5	43,062.0	40,478.4	40,634.6	41,210.1
LT borrowings	26,404.4	30,626.2	27,008.8	27,008.8	27,008.8
Others	10,320.1	12,435.8	13,469.6	13,625.8	14,201.3
Net assets	51,798.2	57,860.4	56,563.9	58,735.5	61,234.2

Source: OSK Research

OSK Research Guide to Investment Ratings

Buy: Total return of the stock may exceed 10% OR outperform the relevant benchmark index over the next 12 months, whichever is higher

Trading Buy: Total return of the stock may exceed 10% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Total return of the stock may fall within the range of +/- 10% (inclusive) over the next 12 months OR is not expected to outperform or underperform the relevant benchmark index by the same quantum over the same period

Take Profit: Target price has been attained. Look to accumulate at lower levels.

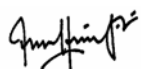
Sell: Total return of the stock may fall more than 10% OR underperform the underlying benchmark index over the next 12 months

* Total Return (capital gain + dividend yield)

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