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TNB earnings to improve with IBR

by **PREMALATHA JAYARAMAN**

ALLIANCEDBS Research has maintained its 'Buy' call on Tenaga Nasional Bhd (TNB), based on the healthy growth of power demand and its improving earnings visibility arising from the incentive-based regulation (IBR) framework.

The research firm said the implementation of IBR framework will have a base tariff that reflects capital expenditure and operational expenditure of the transmission and distribution business, as well as returns on regulated assets and power purchase costs charged by generators.

It said the implementation of the imbalance cost pass-through (ICPT) mechanism, which is part of IBR, will offer strong earnings clarity with a tariff revision every six months.

"We believe the government is committed to the energy reform that was started on Jan 1, 2014," it said in a note yesterday.

TNB's net profit has dropped 11.9% to RM1.74 billion in the first-quarter ended Nov 30,

2016, compared to RM1.98 billion a year earlier, due to the strengthening of the US dollar against the ringgit.

The national utility's revenue, on the other hand, increased 5.3% to RM11.2 billion from RM10.7 billion a year before, as a result of the increase in the group's sales of electricity.

AmInvestment Bank Research also maintains its 'Buy' call on TNB with a target price of RM19.36 a share on the back of its improved earnings visibility and exciting merger and acquisition outlook, which is expected to supplement earnings and optimise its capital structure.

The research company said the cumulative ICPT surplus coupled with cost savings derived from the renegotiation of power purchase agreement (PPA) of RM1.4 billion allows for sufficient cover of the current under-recovery rate.

"It suffices for the remainder of financial year 2017, by our estimates," AmInvestment

addded.

Hong Leong Investment Bank (HLIB) Research has also maintained its 'Buy' call on TNB with a target price of RM17 a share, based on TNB's long-term growth and strong cashflow.

It said TNB's earnings and cashflow are expected to be stable due to the implementation of the IBR/ICPT mechanism.

HLIB Research said the expected IBR revision to lower returns on regulated assets by 2018 will be offset by new contributions from associates and power plants.

"Management (of TNB) reassured that ICPT remains in effect and was confident that TNB would not be affected by the recent surge in energy prices.

"TNB will either receive higher effective tariff or in the form of compensation from the government," it said, adding that the government still has savings of RM1.4 billion from the renegotiation of first-generation PPA.



Pic by Hussein Shaharuddin/TMR

TNB's earnings and cash flow are expected to be stable due to the implementation of the IBR/ICPT mechanism