Tenaga Nasional

Absorbing Short Term AFA Surcharge

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OUTPERFORM ↔

Price:	**RM13.04**
Target Price:	**RM16.30** ↓

We view TENAGA's absorption of the RM120m–RM150m fuel surcharge with caution following the government's expansion of the subsidized domestic electricity monthly threshold to 800kWh (from 600kWh) through end-2026. While the immediate financial drag is manageable, the primary concern stems from potential regulatory lag if full cost pass-through mechanics under RP4 face continued friction. We trim our FY26 forecast by 2% and lower TP to RM16.30 (from RM17.00) to reflect the potential regulatory lag. Even so, we view the recent sell-down as a buying opportunity for its multi-year capex upcycle story. Maintain OUTPERFORM.

To absorb the RM120m–RM150m fuel surcharge. Last Friday, TENAGA confirmed that it will absorb the financial impact from the expanded domestic electricity tariff fuel surcharge exemption following the government's announcement last Thursday. The subsidized electricity threshold for households has been raised to 800kWh per month (from 600kWh) through to year-end. TENAGA estimates that exempting these consumers from the Automatic Fuel Adjustment (AFA), the RM10 monthly retail charge, and the Sales and Service Tax will cost RM120m-RM150m. Notably, TENAGA highlighted that 20% of households exceeded the 600kWh usage threshold in July, which are subject to these additional charges, up from 13% in January.

Focus on regulatory pass-through risk and direct earnings drag. We view this development negatively. TENAGA has historically been shielded by the IBR framework under the fuel-cost pass-through mechanism. This cost absorption sets an uncomfortable precedent and exposes TENAGA's earnings profile to elevated risk should high fuel cost persist, translating into absorption pressures into FY27. As it stands, the current exemption runs only through end-2026, creating a <3% downside impact on FY26 earnings (concentrated in 4QFY26). While we are not overly concerned by this one-off short-term earnings drag, any future policy extensions may compromise the IBR mechanism workings and introduce structural earnings volatility.

Outlook. TENAGA has a new avenue of growth fuelled by electricity demand from data centre investment of >8,000MW by 2035, equivalent to 30% of total generation capacity in Malaysia. We estimate that a total of 700MW of data centres are slated to come on stream this year. This should continue to drive demand growth higher, in turn improving operation efficiency and boosting its non-regulated earnings.

Forecasts. We have factored in the RM150m exemption hit into 4QFY26, resulting in a trim in our FY26 net profit forecast by 2% while keeping FY27 estimates unchanged. Our FY26 NDPS estimate is adjusted downward proportionally, based on an unchanged 60% payout ratio. Our electricity demand growth assumptions for FY26 and FY27 also remain intact at 5.0% and 3.5%, respectively.

Valuations. To account for potential regulatory lag and execution friction in full fuel-cost pass-through under RP4, we have added a 25-bps Equity Risk Premium to our Cost of Equity (to 10.69% from 10.44%), lifting our WACC to 7.01% from 6.90%. As such, our DCF-derived TP is reduced to RM16.30 (from RM17.00), on an unchanged terminal growth rate of 2.0%. There is no adjustment to our TP per our ESG 3-star rating (see Page 5).

Investment case. We continue to like TENAGA for: (i) its dominance in power generation, transmission and distribution in Malaysia, (ii) its defensive earnings backed by a resilient domestic economy and assets

Share Price Performance

KLCI	1,665.56
YTD KLCI chg	-0.9%
YTD stock price chg	-5.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TNB MK
Market Cap (RM m)	76,012.0
Shares Outstanding	5,829.1
52-week range (H)	14.82
52-week range (L)	12.50
3-mth avg. daily vol.	6,258,630
Free Float	70%
Beta	0.8

Major Shareholders

Employees Provident Fund	25.0%
Khazanah Nasional Bhd	16.3%
Amanah Saham Nasional	11.2%

Summary Earnings Table

FY Dec (RM m)	2025A	2026F	2027F
Turnover	67,723	67,862	69,411
EBIT	8,532	9,589	9,747
PBT	6,177	6,348	6,683
Net Profit (NP)	**4,768**	**4,789**	**5,043**
Core Profit	**4,767**	**4,789**	**5,043**
Consensus (NP)		4,721	5,071
Earnings Rev. (%)		-2.3	-
Core EPS (sen)	77.6	82.8	87.1
EPS Growth (%)	1.3	0.5	5.3
NDPS (sen)	46.6	49.7	52.3
BV/Share (RM)	8.92	9.25	9.60
NTA/Share (RM)	8.77	9.09	9.44
Core PER (x)	16.8	15.8	15.0
PBV (x)	1.46	1.41	1.36
Price/NTA (x)	1.49	1.43	1.38
Net Gearing (x)	0.71	0.63	0.56
Dividend Yield (%)	3.6	3.8	4.0

that are largely regulated, (iii) its new avenue of sustainable earnings growth fuelled by electricity demand from data centres and transmission & distribution (T&D) investment to cater for developing data centres, and (iv) its heavyweight index-linked stock status. Maintain **OUTPERFORM** as TENAGA is a long-term beneficiary of the influx of FDI to build data centres in the country.

Risks to our recommendation include: (i) breakdown in the full fuel-cost pass-through mechanism, (ii) a global economic slowdown curbing industrial/commercial electricity demand, and (iii) non-compliance with stakeholder ESG standards.

Income Statement

FY Dec (RM m)	2023A	2024A	2025A	2026F	2027F
Revenue	53067	56737	67723	67862	69411
EBITDA	18623	19952	20518	21875	22618
Depreciation	-11266	-11232	-11986	-12285	-12870
EBIT	7357	8720	8532	9589	9747
Interest Income	544	629	631	989	978
Interest Expense	-4331	-4098	-3995	-4330	-4142
Associate	62	108	88	100	100
Exceptional	-49	-11	217	0	0
PBT	3374	5815	6177	6348	6683
Taxation	-770	-1224	-1407	-1523	-1604
Minority Interest	167	-31	-2	-35	-36
Net Profit	2770	4560	4768	4789	5043
Core Net Profit	3746	4708	4767	4789	5043

Balance Sheet

FY Dec (RM m)	2023A	2024A	2025A	2026F	2027F
Fixed Assets	122025	125611	126093	126807	126937
Intangibles	1206	953	852	893	914
Other FA	40882	34662	30994	29682	29104
Inventories	2758	2544	2960	3150	3205
Receivables	14967	15741	22406	23501	24038
Other CA	3544	1269	1135	1151	1160
Cash	19391	19601	18100	18879	19181
Total Assets	204771	200380	202540	204065	204538
Payables	16154	17819	26590	28051	28631
ST Borrowings	7031	6276	3269	3321	3338
Other ST Liability	9354	15712	14049	14176	14251
LT Borrowings	54750	51131	52026	49643	47243
Other LT Liability	56400	57433	52565	52798	52924
Minority Int.	2257	2199	2431	2550	2608
Net Assets	**58826**	**49813**	**51610**	**53525**	**55543**
Share Capital	12500	12700	12700	12700	12700
Reserves	46326	37113	38910	40825	42842
Equity	**58826**	**49813**	**51610**	**53525**	**55543**

Cashflow Statement

FY Dec (RM m)	2023A	2024A	2025A	2026F	2027F
Operating CF	33192	24503	-2306	20242	19224
Investing CF	-5782	-11595	-15300	-14326	-13585
Financing CF	-12985	-12752	16105	-5136	-5337
Change In Cash	14426	156	-1501	779	301
Free CF	27410	12908	-17606	5916	5638

Financial Data & Ratios

FY Dec	2023A	2024A	2025A	2026F	2027F
Growth (%)					
Revenue	4.3	6.9	19.4	0.2	2.3
EBITDA	-10.5	7.1	2.8	6.6	3.4
Operating Income	-21.8	18.5	-2.2	12.4	1.6
Pre-tax Income	-36.9	72.4	6.2	2.8	5.3
Net Income	-20.0	64.6	4.6	0.4	5.3
Core Net Income	-21.3	25.7	1.3	0.5	5.3
Profitability (%)					
EBITDA Margin	35.1	35.2	30.3	32.2	32.6
Operating Margin	13.9	15.4	12.6	14.1	14.0
PBT Margin	6.4	10.2	9.1	9.4	9.6
Net Margin	5.2	8.0	7.0	7.1	7.3
Core Net Margin	7.1	8.3	7.0	7.1	7.3
Effective Tax Rate	22.8	21.1	22.8	24.0	24.0
ROE	6.4	8.7	7.9	9.1	9.2
ROA	3.9	4.3	4.9	4.5	4.5
DuPont Analysis					
Net margin (%)	5.2	8.0	7.0	7.1	7.3
Assets Turnover (x)	0.3	0.3	0.3	0.3	0.3
Leverage Factor (x)	3.5	4.0	3.9	3.8	3.7
ROE (%)	4.7	9.2	9.2	8.9	9.1
Leverage					
Debt/Asset (x)	0.3	0.3	0.3	0.3	0.2
Debt/Equity (x)	1.1	1.2	1.1	1.0	0.9
Net Cash/(Debt)	-40776	-37360	-36797	-33705	-31030
Net Debt/Equity (x)	0.69	0.75	0.71	0.63	0.56
Valuations					
Core EPS (sen)	64.7	81.3	77.6	82.8	87.1
NDPS (sen)	46.0	51.0	46.6	49.7	52.3
BV/share (RM)	10.2	8.6	8.9	9.2	9.6
NTA/share (RM)	10.0	8.4	8.8	9.1	9.4
Core PER (x)	15.5	18.4	16.8	15.8	15.0
Net Div. Yield (%)	4.6	3.4	3.6	3.8	4.0
PBV (x)	1.28	1.52	1.46	1.41	1.36
P/NTA (x)	1.31	1.54	1.49	1.43	1.38
EV/EBITDA (x)	6.3	5.1	5.2	5.0	4.7

Source: Kenanga Research

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net. Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
CHEEDING HOLDINGS BHD	OP	0.575	0.780	35.7%	458.4	Y	03/2027	5.0	5.3	0.0%	5.0%	11.5	10.9	2.6	25.5%	1.0	1.7%
GAS MALAYSIA BHD	MP	4.97	4.90	-1.4%	6,381.5	Y	12/2026	29.3	30.9	-2.4%	5.6%	17.0	16.1	3.9	23.6%	23.4	4.7%
KEEMING GROUP BHD	OP	2.48	2.00	-19.4%	806.0	Y	03/2027	9.8	12.9	39.1%	31.3%	25.2	19.2	7.4	37.6%	0.0	0.0%
KAWAN RENERGY BHD	OP	0.365	0.570	56.2%	200.8	Y	10/2026	3.4	4.7	-20.9%	39.2%	10.8	7.8	1.5	15.1%	1.0	2.7%
KJTS GROUP BHD	OP	1.00	1.60	60.0%	690.7	Y	12/2026	4.3	5.6	65.4%	29.6%	23.3	18.0	2.7	14.3%	0.0	0.0%
MALAKOFF CORP BHD	OP	0.825	0.990	20.0%	4,031.7	Y	12/2026	2.9	4.8	28.8%	63.1%	28.3	17.3	0.9	3.4%	2.3	2.8%
PEKAT GROUP BHD	OP	2.11	2.10	-0.5%	1,497.0	Y	12/2026	9.0	11.3	28.9%	25.9%	23.5	18.6	3.6	19.2%	1.3	0.6%
PETRONAS GAS BHD	MP	17.50	18.80	7.4%	34,627.8	Y	12/2026	95.9	97.2	12.1%	1.4%	18.3	18.0	2.4	13.1%	72.0	4.1%
SAMAIDEN GROUP BHD	OP	1.95	2.90	48.7%	1,091.1	Y	06/2027	10.4	13.4	21.3%	29.0%	18.7	14.5	2.6	15.2%	3.0	1.5%
SOLARVEST HOLDINGS BHD	OP	3.33	3.76	12.9%	3,204.1	Y	03/2027	15.5	19.2	45.1%	23.5%	21.5	17.4	6.5	34.1%	0.0	0.0%
SWIFT ENERGY TECHNOLOGY BHD	OP	0.235	0.470	100.0%	235.2	Y	09/2026	1.3	2.0	-29.3%	53.8%	18.1	11.8	3.0	19.1%	0.0	0.0%
TENAGA NASIONAL BHD	OP	13.04	16.30	25.0%	76,012.0	Y	12/2026	83.6	88.1	0.5%	5.3%	15.6	14.8	1.4	9.1%	49.7	3.8%
YTL POWER INTERNATIONAL BHD	OP	5.58	6.40	14.7%	48,717.2	N	06/2027	25.1	28.8	4.1%	14.8%	22.2	19.4	2.1	9.6%	8.0	1.4%
SECTOR AGGREGATE					**177,953.5**					**4.3%**	**8.3%**	**18.2**	**16.8**	**3.1**	**18.4%**		**1.8%**

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Community Investment	★	★	★		
	Workers Safety & Wellbeing	★	★	★	★	
	Corporate Governance	★	★	★	★	
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★			
SPECIFIC	Transition to Renewables	★	★	☆		
	Reliable Energy & Fair Tariff	★	★	★		
	Effluent/Waste Management	★	★	★		
	Ethical Practices	★	★	★		
	Supply Chain Management	★	★	★		
	Customer Satisfaction	★	★	★		
	OVERALL	★	★	★		

☆	denotes half-star
★	-10% discount to TP
★★	-5% discount to TP
★★★	TP unchanged
★★★★	+5% premium to TP
★★★★★	+10% premium to TP

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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