UOBKayHian

Company Update | Malaysia

Monday, 21 September 2026

Tenaga Nasional (TNB MK)

Absorbs RM120m-150m Subsidy For Additional Domestic Users

Highlights

- Contrary to our expectation, Tenaga announced that the group will absorb the RM120m-150m impact from the electricity tariff fuel surcharge exemption for the period Sep-Dec 26.
- Albeit a minimal 2% earnings impact, the decision above is now an overhang on Tenaga's near-term share price performance – given rising regulatory interference and we are unsure if this will be a one-off.
- Downgrade Tenaga to HOLD with a lowered DCF-fair value of RM14.60. In arriving at our fair value, we have prudently raised our discount rate from 7.8% to 8.2% (incorporating a 100bp increase in risk premium for the stock).

Analysis

- **Tenaga shares government's burden; absorbs subsidy.** Contrary to our expectation, Tenaga Nasional (Tenaga) announced last Friday that the group will absorb the RM120m-150m impact from the electricity tariff fuel surcharge exemption for the period Sep-Dec 26. To recap, the RM120m-150m arose as a result of the government expanding electricity bill protection for domestic users from 600kWh to 800kWh.
- **Negative for Tenaga.** Earnings impact is 2% to 2026's forecast. However, the decision above implies that the Automatic Fuel Adjustment (AFA) mechanism may be subject to government intervention in the near future and we expect investors to gradually discount the sanctity of the Incentive Based Regulation (IBR) and cost pass-through framework.
- **Downgrade Tenaga to HOLD, overhang to persist into the near future.** As we cannot say with certainty that this is a one-off (there is now an overhang that Tenaga may be asked to absorb the subsidy if Jan-Mar 27 electricity usage remains high), we downgrade Tenaga from BUY to HOLD with a lower DCF-based target price of RM14.60. In arriving at our fair value, we have prudently raised our discount rate from 7.8% to 8.2% (incorporating a 100bp increase in risk premium for the stock).

Key Financials

Year to 31 Dec (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	56,737	67,723	69,555	71,480	73,306
EBITDA	19,953	20,518	22,704	23,652	24,323
Operating profit	8,720	8,532	10,052	11,027	11,666
Net profit (rep./act.)	3,978	4,768	4,810	5,078	5,164
Net profit (adj.)	4,126	4,767	4,810	5,078	5,164
EPS	72.6	81.8	82.5	87.1	88.6
PE (x)	19.7	17.5	17.7	16.4	16.1
P/B (x)	1.6	1.6	1.6	1.5	1.5
EV/EBITDA (x)	5.9	6.3	6.0	5.8	5.8
Dividend yield (%)	3.6	3.7	3.9	4.3	4.6
Net margin (%)	6.2	5.8	6.9	7.1	0.0
Net debt/(cash) to equity (%)	75.0	90.7	97.4	99.6	102.6
Interest cover (x)	4.2	4.4	4.6	4.4	4.3
ROE (%)	7.6	9.5	9.3	9.6	9.5
Consensus net profit			4,860	5,149	5,457
UOBKH/Consensus (x)			0.99	0.99	0.95

Source: TNB, Bloomberg, UOB Kay Hian

Analyst(s)

Chong Lee Len
leelen@uobkh.com
+603 2147 1992

HOLD (Downgraded)	
Share Price	RM13.04
Target Price	RM14.60
Upside	+12.3%
Previous TP	RM16.30

Stock Data

Sector	Utilities
Bloomberg ticker	TNB MK
Shares issued (m)	5,829.1
Market cap (RMm)	77,644.2
Market cap (US$m)	19,037.4
3-mth avg daily t'over (US$m)	20.8

Price Performance (%)

52-week high/low: RM14.90/RM12.50

1mth	3mth	6mth	1yr	YTD
(8.0)	(8.5)	(6.2)	(0.9)	(2.9)

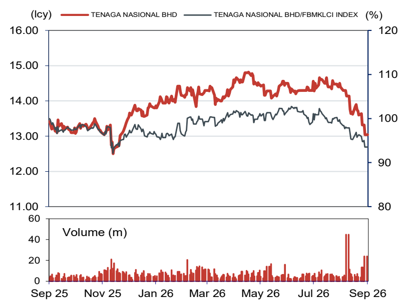
Major Shareholders (%)

Employee Provident Fund	24.9
Khazanah Nasional	16.3
Amanah Saham Nasional	11.2

Balance Sheet Metrics

FY26F NAV/Share (RM)	9.0
FY26F Net Debt/Share (RM)	8.7

Price Chart



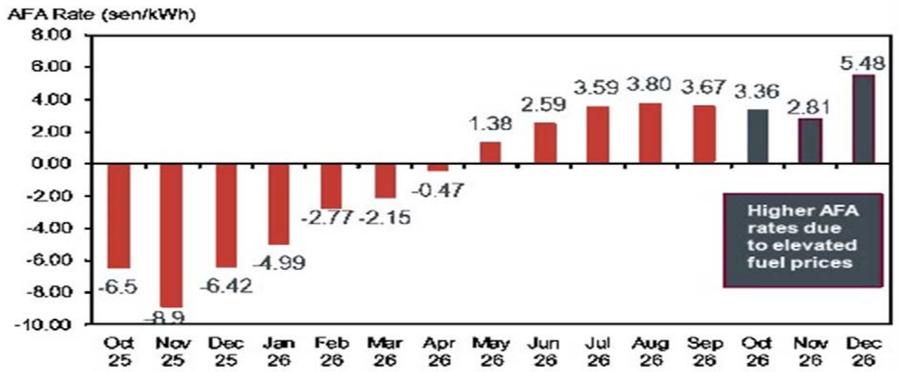
Source: Bloomberg

Company Description

Generates and distributes electricity in Peninsular Malaysia and Sabah.

- **First time Tenaga is called to share subsidy burden.** In theory, the IBR and AFA structure was put in place to protect Tenaga's earnings from fuel price volatility. All previous government subsidy decisions (since 2014, when IBR was launched in Malaysia) were paid for by the government, even when coal prices doubled in 2022 and government trade receivables ballooned to RM15.5b.
- **Higher subsidy exemption from 600kWh to 800kWh casts a wider net.** With the government's decision to cast a wider net, a total of 8m or 90% of domestic users are now exempted from paying the AFA surcharge for Sep-Dec 26. This suggests an additional 1m domestic users who will be protected from higher electricity bills.
- **Rising AFA due to the Middle East crisis.** Based on Tenaga's forecast, the AFA has been rising since May 26 and could continue increasing to a peak surcharge of 5.48 sen/kwh in Dec 26. This is a result of higher gas and coal prices globally. Tenaga expects coal to rise to US$120/tonne in Dec 26 (from US$115/tonne in Jun 26).

Rising Electricity Tariffs Due To Middle East Tensions



Source: TNB, UOB Kay Hian

Valuation/Recommendation

- **Downgrade to HOLD with a DCF-based target price of RM14.60** (discount rate: 8.2%, growth rate: 4%). At our target price, the stock trades at mean valuation.

Earnings Revision/Risk

- Trim 2026 net profit by 3%.
- **Key risks** include: a) lumpy and unprofitable overseas renewable energy (RE) projects, and b) forex risk to operating cash flow.

Share Price Catalyst/Risk

- **Key re-rating catalysts** include: a) listing of a profitable genco and/or RE division, and b) benefitting from the ASEAN Power Grid rollout.

Environment, Social, Governance (ESG) Updates

Environmental

- Besides targeting 8,300MW in RE generation capacity by 2025 (1.5x from 3,398MW in Dec 20), Tenaga has also made new pledges to reduce emission intensity by 2035 and be coal-free by 2050.

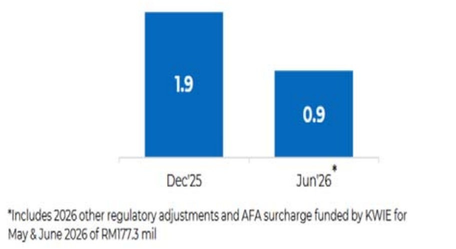
Social

- Tenaga contributed RM101.3m towards education, economic social, environment and sports, benefitting 713,748 individuals nationwide.

Governance

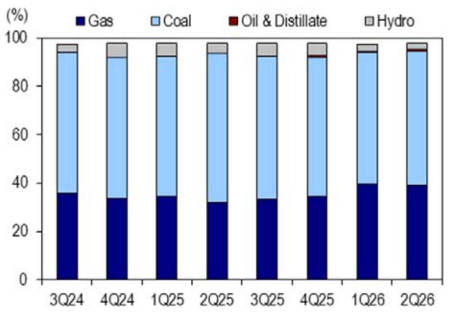
- The board comprises six Independent Directors and four Non-Independent Non-Executive Directors. Meanwhile, women comprise 36% (four directors) of the board.

Regulatory Trade Receivables (RMb)



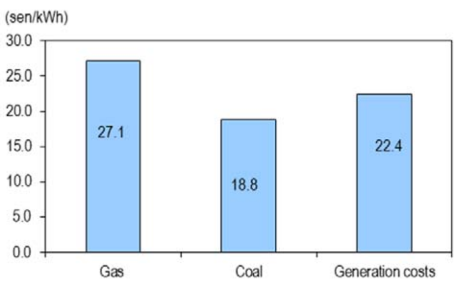
Source: TNB

Generation Mix



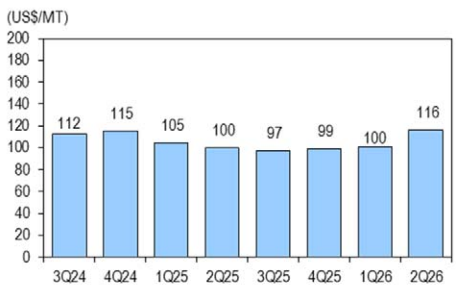
Source: TNB, UOB Kay Hian

Generation Unit Cost (2Q26)



Source: TNB, UOB Kay Hian

Quarterly Coal Prices



Source: TNB, UOB Kay Hian

RE Portfolio (Capacity, MW)

Source: TNB

Profit & Loss

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Net turnover	67,723	69,555	71,480	73,306
EBITDA	20,518	22,704	23,652	24,323
Deprec. & amort.	11,986	12,653	12,625	12,657
EBIT	24,277	23,660	24,908	25,825
Associate contributions	88	92	97	102
Net interest income/(expense)	(3,363)	(3,976)	(4,612)	(5,145)
Pre-tax profit	6,177	6,168	6,512	6,623
Tax	(1,407)	(1,357)	(1,433)	(1,457)
Minorities	(2)	(2)	(2)	(2)
Net profit	4,768	4,810	5,078	5,164
Net profit (adj.)	4,767	4,810	5,078	5,164

Balance Sheet

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Fixed assets	132,885	137,099	141,340	145,550
Other LT assets	36,953	37,045	37,142	37,244
Cash/ST investment	12,867	7,908	4,893	1,734
Other current assets	15,650	18,255	18,518	18,767
Total assets	198,355	200,307	201,893	203,295
ST debt	11,952	11,852	11,752	11,652
Other current liabilities	24,636	25,186	25,474	25,770
LT debt	47,134	47,034	46,934	46,834
Other LT liabilities	61,659	61,659	61,659	61,659
Shareholders' equity	50,790	52,391	53,887	55,192
Minority interest	2,185	2,186	2,188	2,190
Total liabilities & equity	198,355	200,307	201,893	203,295

Cash Flow

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Operating	15,570	21,697	22,245	22,912
Pre-tax profit	6,177	6,168	6,512	6,623
Tax	(1,407)	(1,357)	(1,433)	(1,457)
Deprec. & amort.	11,986	12,653	12,625	12,657
Associates	(88)	(92)	(97)	(102)
Working capital changes	945	350	25	46
Non-cash items	0	0	0	0
Investing	(13,192)	(16,366)	(16,463)	(16,618)
Capex (growth)	(16,246)	(16,867)	(16,867)	(16,867)
Investments	7	0	0	0
Others	3,047	500	404	249
Financing	(6,994)	(8,002)	(8,798)	(9,453)
Dividend payments	(3,089)	(3,326)	(3,582)	(3,859)
Issue of shares	110	0	0	0
Proceeds from borrowings	1,679	(200)	(200)	(200)
Others/interest paid	(5,693)	(4,476)	(5,016)	(5,394)
Net cash inflow (outflow)	(4,616)	(2,670)	(3,015)	(3,159)
Beginning cash & cash equivalent	15,213	10,512	7,908	4,893
Changes due to forex impact	(85)	0	0	0
Ending cash & cash equivalent	10,512	7,842	4,893	1,734

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	30.3	32.6	33.1	33.2
Pre-tax margin	9.1	8.9	9.1	9.0
Net margin	6.2	5.8	7.1	7.1
ROA	2.4	2.4	2.5	2.5
ROE	9.5	9.3	9.6	9.5
Growth				
Turnover	19.4	2.7	5.5	8.2
EBITDA	2.8	10.7	4.2	2.8
Pre-tax profit	6.2	(0.1)	5.6	1.7
Net profit	19.9	0.9	5.6	1.7
Net profit (adj.)	15.5	0.9	5.6	1.7
EPS	15.5	0.9	5.6	1.7
Leverage				
Debt to total capital	0.4	0.4	0.4	0.4
Debt to equity	1.2	1.1	1.1	1.1
Net debt/(cash) to equity	0.9	1.0	1.0	1.0
Interest cover	4.4	4.6	4.4	4.3