Tenaga Nasional (TNB MK)

2Q26: In Line; EBITDA Margin 29% On Higher Non-Fuel Opex

Highlights

- 2Q26 normalised net profit rose 6% yoy to RM1,053m (-16% qoq) on the back of a higher regulatory revenue base. This brings 1H26 normalised net profit to RM2,306m (+5% yoy), in line with expectations.
- 2Q26 electricity demand surged +8% yoy on the back of a 14% yoy increase in commercial demand from data centres and retail. Peninsular Malaysia's peak demand hit a new high recently at 22,014MW on 6 Aug 26.
- Maintain BUY with a DCF-based target price of RM16.30.

2Q26 Results

Year to 31 Dec (RMm)	2Q26	qoq%	yoy%	1H26	yoy%
Revenue	18,236	6.6	8.3	35,340	7.5
EBITDA	4,179	(7.0)	2.2	8,674	4.3
EBITDA margin (%)	22.9	(3.4)ppt	(1.4)ppt	24.5	(0.8)ppt
Pretax profit	1,254	(19.9)	(21.7)	2,819	(10.7)
Net profit	889	(19.0)	(23.3)	1,986	(10.4)
Core net profit	1,053	(16.0)	5.5	2,306	4.8
Coal prices (US$)	115.7	15.4	15.6	216.0	111.1
Coal consumption	8.9	6.0	(7.3)	17.3	(3.9)
Gas Reference Market prices (RM)	45.9	22.4	16.1	83.4	105.8
Daily gas allocation	1,130	12.0	35.2	2,139.0	155.9
PM Elec. Sales gwth (yoy)	8.4	1.5ppt	6.5ppt	1.4	0.6ppt
Average tariff (sen/kwh)	45.6	1.6	12.7	45.3	19.7

Source: TNB, UOB Kay Hian

Analysis

- **2Q26: Results within expectations.** Tenaga Nasional (TNB) reported a 2Q26 normalised net profit of RM1,053m (+6% yoy; -16% qoq). The yoy earnings growth was driven by a higher regulatory revenue base but this was partly offset by higher repair & maintenance costs, computer expenses and higher depreciation charges given higher asset base.
- **First interim dividend.** TNB declared its 1H26 interim DPS of 25 sen/share – similar to 1H25. We project a full-year net DPS of 57 sen/share, based on a 70% dividend payout ratio. This translates to a net dividend yield of 4%.

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	22,854	23,652	24,323
Operating profit	8,720	8,532	10,202	11,027	11,666
Net profit (rep./act.)	3,978	4,768	4,927	5,078	5,164
Net profit (adj.)	4,126	4,767	4,927	5,078	5,164
EPS	72.6	81.8	84.5	87.1	88.6
PE (x)	19.7	17.5	16.9	16.4	16.1
P/B (x)	1.6	1.6	1.6	1.5	1.5
EV/EBITDA (x)	5.9	6.3	5.9	5.8	5.8
Dividend yield (%)	3.6	3.7	4.0	4.3	4.6
Net margin (%)	6.2	5.8	7.1	7.1	0.0
Net debt/(cash) to equity (%)	75.0	90.7	97.0	99.6	102.6
Interest cover (x)	4.2	4.4	4.6	4.4	4.3
ROE (%)	7.6	9.5	9.5	9.6	9.5
Consensus net profit	n.a	n.a	4,860	5,149	5,457
UOBKH/Consensus (x)	n.a	n.a	1.01	0.99	0.95

Source: TNB, Bloomberg, UOB Kay Hian

Analyst(s)

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

BUY (Maintained)

Share Price	RM14.30
Target Price	RM16.30
Upside	+14.0%

Stock Data

Sector	Utilities
Bloomberg ticker	TNB MK
Shares issued (m)	5,829.1
Market cap (RMm)	83,356.7
Market cap (US$m)	20,669.7
3-mth avg daily t'over (US$m)	18.8

Price Performance (%)

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

1mth	3mth	6mth	1yr	YTD
(1.1)	1.0	1.4	6.4	4.2

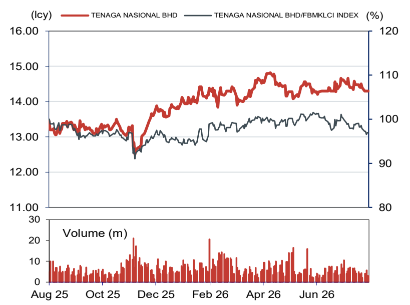
Major Shareholders (%)

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.

- **Strong 2Q26 electricity demand growth of 8% yoy and 9% qoq** on the back of a 14% yoy and 9% qoq increase in commercial demand, from data centre, retail and business service. Peninsular Malaysia's peak demand hit a new high of 22,014MW on 6 Aug 26.
- **Higher gas cost in the quarter.** 2Q26 generation costs jumped to 22.45 sen/kwh in 2Q25 (+16% yoy; +15% qoq) as a result of higher Tier 2 gas prices and higher coal prices. Global coal prices jumped to US$115.7/MT, an increase of 16% yoy and 15% qoq while blended gas prices jumped to RM45.9/mmbtu, an increase of 16% yoy and 22% qoq.
- **TNB genco saw higher revenue and profits in 1H26** of RM12b and RM411m respectively. This is due to: a) positive fuel margin of RM12m; b) higher units generation; and c) improved plant performance.

Valuation/Recommendation

- **Maintain BUY with a DCF-based target price of RM16.30** (discount rate: 8%, growth rate: 1%). Our equity risk premium on the stock at 7.8% reflects TNB's tariff autonomy and the gradual decoupling of tariffs from the government's purview. At our target price, the stock trades at 18.7x 2026F EPS, +2SD above five-year mean PE.

Earnings Revision/Risk

- No changes to earnings.
- **Key risks** include: a) lumpy and unprofitable overseas renewable energy (RE) projects, and b) forex risk to operating cashflow.

Share Price Catalyst/Risk

- **Key re-rating catalysts** include: a) recognition of contingent capex in the 2026-27 earnings window, b) listing of a profitable genco and/or RE division, and c) 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), TNB has also made new pledges to reduce emission intensity by 2035 and being coal-free by 2050.

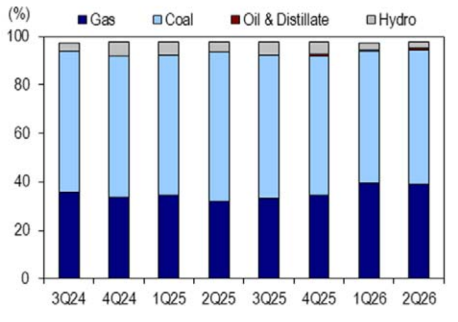
Social

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

Governance

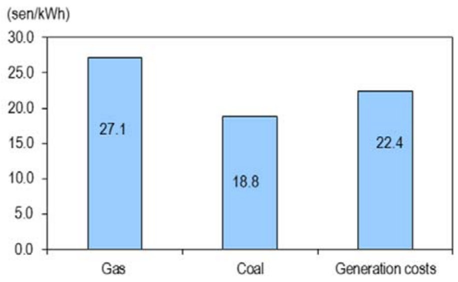
- The board comprises 11 members consisting of six Independent Directors and four Non-Independent Non-Executive Directors. Meanwhile, women comprise 36% (four directors) of the board.

Generation Mix



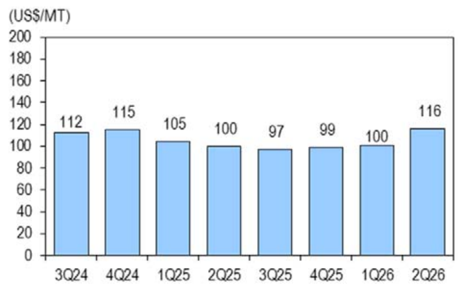
Source: TNB, UOB Kay Hian

Generation Unit Cost (2Q26)



Source: TNB, UOB Kay Hian

Quarterly Coal Prices



Source: TNB, UOB Kay Hian

TNB's 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	22,854	23,652	24,323
Deprec. & amort.	11,986	12,653	12,625	12,657
EBIT	24,277	23,810	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	6,318	6,512	6,623
Tax	(1,407)	(1,390)	(1,433)	(1,457)
Minorities	(2)	(2)	(2)	(2)
Net profit	4,768	4,927	5,078	5,164
Net profit (adj.)	4,767	4,927	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	21,764	22,245	22,912
Pre-tax profit	6,177	6,318	6,512	6,623
Tax	(1,407)	(1,390)	(1,433)	(1,457)
Deprec. & amort.	11,986	12,653	12,625	12,657
Associates	(88)	(92)	(97)	(102)
Working capital changes	945	300	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)	(2,604)	(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	7,908	4,893	1,734

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	30.3	32.9	33.1	33.2
Pre-tax margin	9.1	9.1	9.1	9.0
Net margin	6.2	5.8	7.1	7.1
ROA	2.4	2.5	2.5	2.5
ROE	9.5	9.5	9.6	9.5
Growth				
Turnover	19.4	2.7	5.5	8.2
EBITDA	2.8	11.4	3.5	2.8
Pre-tax profit	6.2	2.3	3.1	1.7
Net profit	19.9	3.3	3.1	1.7
Net profit (adj.)	15.5	3.3	3.1	1.7
EPS	15.5	3.3	3.1	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