Tenaga Nasional (TNB MK)

Government Shelters Citizens From Higher Tariffs, IBR Shelters TNB's Earnings

Highlights

- The government is protecting domestic users from tariff shock by exempting household usage of up to 800kWh (from 600kWh) from the AFA surcharge from Sep to Dec 26.
- Since May 26, the government has been covering the AFA surcharge for domestic users consuming up to 600kWh. This amounted to RM380m of compensation to TNB (May-Jul 26), and the government has been progressively paying TNB using the KWIE fund drawdown. We expect TNB's earning to remain neutral as the government protects the Rakyat from fuel price shocks.
- We believe the recent share price weakness is due to potential rising regulatory receivables from the government. In the past decade, the IBR framework has been upheld. We maintain BUY with a DCF-based target price of RM16.30.

Analysis

- **Households using up to 800kWh to be exempted from Automatic Fuel Adjustment (AFA)...** Amid the haze and rising temperatures, the government has expanded electricity bill protection for domestic users to now cover those consuming 800kWh per month (from 600 kWh previously) from September to 31 Dec 26. This was announced by Prime Minister Datuk Seri Anwar Ibrahim in a Facebook post yesterday, following a meeting with the Energy Transition and Water Transformation Ministry (PETRA), the regulator Energy Commision, and Tenaga Nasional (TNB).
- **...amid higher household electrlcity consumption.** The government deems the measure as an immediate step to ease the cost-of-living pressures faced by households, particularly as the haze and hotter weather have driven up electricity consumption in some homes.
- **Rising AFA due to the Middle East crisis.** Based on Tenaga Nasional's (TNB) forecast, the AFA has been rising since May 26 and is expected to continue rising to a peak surcharge of 5.48 sen/kwh in Dec 26. This is a result of higher gas and coal prices globally.

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			4,860	5,149	5,457
UOBKH/Consensus (x)			1.01	0.99	0.95

Source: TNB, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	RM13.32
Target Price	RM16.30
Upside	+22.3%

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)

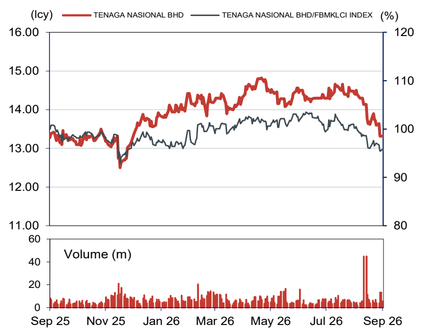
Major Shareholders (%)

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



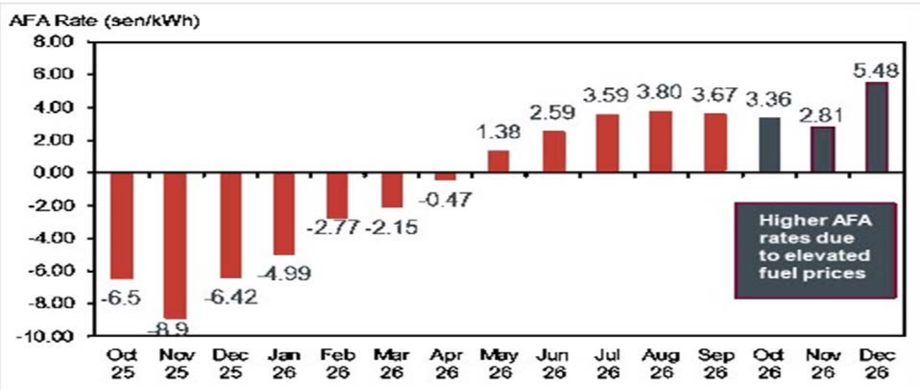
Source: Bloomberg

Company Description

Generates and distributes electricity in Peninsular Malaysia and Sabah.

- **Neutral impact on TNB's earnings; government to utilise KWIE fund.** The government started utilising the KWIE fund in May 26 to shield domestic users from higher electricity tariffs. For May to Jul 26, total government compensation amounted to RM380m, of which the government has paid TNB for the months of May and June.
- **Going forward, TNB guided that the compensation will be paid on a monthly basis.** We note that trade receivables from the government have eased from RM1.9b (Dec 25) to RM0.9b (Jun 25).As such, we expect the government to continue utilising the KWIE fund to protect domestic users consuming up to 800kWh for the period of Sep to Dec 26. This will be neutral to TNB's earnings while trade receivables may fluctuate with the timing of government's compensation.

Rising Electricity Tariffs Due to Middle East Tensions



Source: TNB, UOB Kay Hian

Valuation/Recommendation

- **Maintain BUY with a DCF-based target price of RM16.30** (discount rate: 8%, growth rate: 1%). Our equity risk premium of 7.8% on the stock 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.

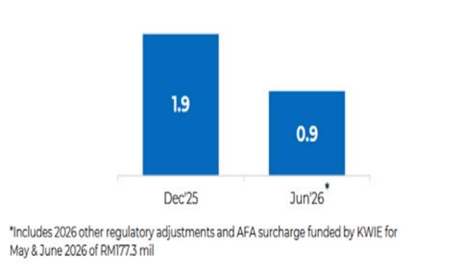
Social

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

Governance

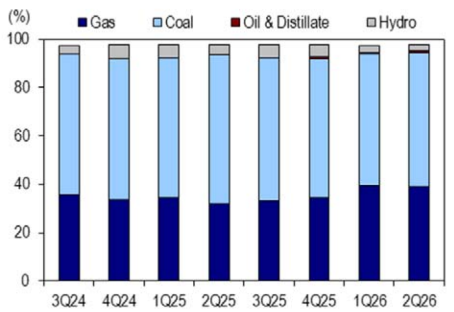
- The board comprises 11 members consisting of six Independent Directors and four Non-Independent Non-Executive Directors. Meanwhile, women comprise 36% (four directors) of the board.

Regulatory Trade Receivables (RMb)



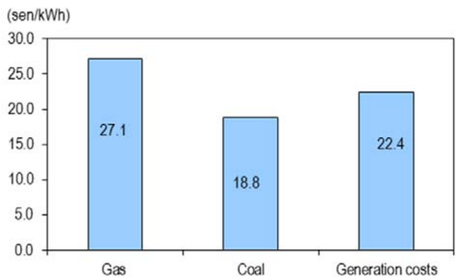
Source: TNB

Generation Mix



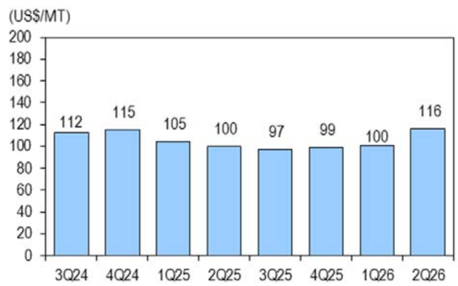
Source: TNB, UOB Kay Hian

Generation Unit Cost (2Q26)



Source: TNB, UOB Kay Hian

Quarterly Coal Prices



Source: TNB, UOB Kay Hian

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