



AmInvestment Bank

Company report

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TENAGA NASIONAL

(TNB MK, TENA.KL)

23 Jun 2025

Contingent capex to pick up

HOLD

(Upgraded)

Rationale for report: Company Update

Price RM14.22
Target Price RM14.18
52-week High/Low RM15.24/RM12.66

Key Changes

Target Price
EPS

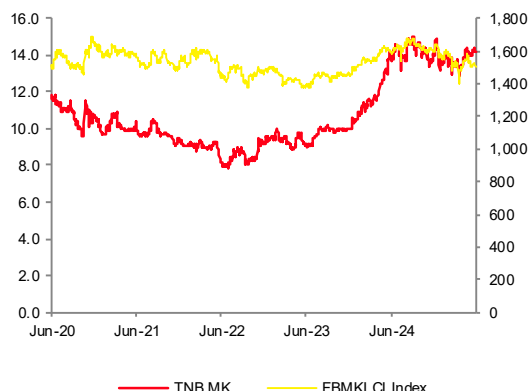


YE to Dec	FY24	FY25F	FY26F	FY27F
Revenue (RMmil)	65,834.8	70,260.2	73,038.2	75,766.4
Net Profit (RMmil)	3,448.3	4,382.7	4,580.1	4,595.5
EPS (sen)	60.1	75.4	78.8	79.1
EPS growth (%)	24.5	25.4	4.5	0.3
Consensus net profit (RMmil)		4,693.0	4,996.0	5,286.0
DPS (sen)	51.0	52.0	55.0	60.0
PE (x)	23.7	18.9	18.0	18.0
EV/EBITDA (x)	6.1	6.5	6.7	6.9
Div yield (%)	3.6	3.7	3.9	4.2
ROE (%)	5.8	7.2	7.5	7.6
Net gearing (%)	62.6	73.8	82.2	91.8

Stock and Financial Data

Shares Outstanding (million)	5,812.9
Market Cap (RM'mil)	82,659.4
Book value (RM/share)	10.70
P/BV (x)	1.3
ROE (%)	5.8
Net Gearing (%)	62.6
Major Shareholders	Khazanah Nasional (20.4%) EPF (18.3%)
Free Float (%)	79.6
Avg Daily Value (RM mil)	99.6

Price performance	3mth	6mth	12mth
Absolute (%)	+0.7	+2.0	+3.0
Relative (%)	+5.5	+8.1	+9.3



Investment Highlights

We upgrade Tenaga Nasional (TNB) to **HOLD** from **UNDERWEIGHT** with a higher target price of **RM14.18/share** (vs. **RM12.60/share** previously). We believe that TNB deserves to trade higher than its five-year average PE of 16x as the operational parameters under RP4 (2025F to 2027F) are more favourable than previous RPs. For instance, the allowable demand growth under RP4 is estimated to be 4.5% to 4.7% vs. 1.7% for RP3. Contingent capex of **RM16.3bil** over three years is also allowed to be claimed back under RP4 although the recovery mechanism has yet to be finalised.

- HOLD with a higher TP of RM14.18/share (vs. RM12.60/share previously).** We have applied a PE of 18x on TNB's FY26F EPS of 78.8 sen to arrive at its TP of RM14.18/share. The PE of 18x is slightly above the five-year average of 16x. We think that TNB deserves to trade at a premium as its earnings are increasingly secured and defensive underpinned by the favourable parameters under RP4.
- Contingent capex is expected to pick up in 2HFY25.** We believe that most of the contingent capex would be in respect of energy transition e.g. batteries and distribution automation systems and project roll-outs such as data centres and schools. Contingent capex is estimated to be RM1bil to RM2bil in FY25F (1QFY25: RM128mil).
- Fuel margin gains in 2QFY25?** As coal prices have stabilised, we believe that TNB would be recording fuel margin gains in 2QFY25 in contrast to losses of RM33.7mil in 1QFY25. Hence, we expect GenCo to record a higher net profit in 2QFY25 compared to only RM25.4mil in 1QFY25 (FY24: RM178.9mil). According to *Bloomberg*, Newcastle coal price has risen by 8.3% so far in 2QFY25.
- Trade debtors are declining.** Trade debtors are not expected to be a major issue as it has declined from RM5.1bil as at end-March 2024 to RM4.4bil as at end-March 2025. Out of the RM4.4bil, about 34.1% have been outstanding for more than five months. Also out of the RM4.4bil, roughly 39% came from the residential sector.

Company profile

Tenaga Nasional (TNB) is involved in the generation and sale of electricity to consumers. TNB generates electricity from fossil fuels and renewable sources such as solar and wind. TNB is also involved in the transmission and distribution of electricity in Malaysia as it owns the grid infrastructure.

TNB's earnings are from the generation, transmission and distribution of electricity.

TNB's customers are in the industrial, commercial and residential segments in Malaysia. Industrial customers include petrochemical and steel companies. Commercial customers include data centres, shopping malls and educational facilities.

TNB's operations are mainly in Malaysia and the United Kingdom.

TNB's competitive advantage lies in its monopoly of the energy supply chain in Malaysia. TNB is the largest power producer in the country and the group also owns the grid network.

Investment thesis and catalysts

We recommend a HOLD on TNB as the group's earnings are defensive and its dividend yield is decent at more than 3%.

Share price kickers are stronger-than-expected dividends and earnings.

Valuation methodology

Our target price of RM14.18/share is based on a FY26F PE of 18x, which is slightly higher than the five-year average of 16x. We applied a higher PE as TNB's earnings are secured and protected by the recovery mechanisms under RP4.

Risk factors

Key risks are regulatory risks in respect of future RP and a fall in coal prices.

A fall in coal prices would result in fuel margin losses for GenCo as it has to revalue coal inventory at lower prices.

EXHIBIT 1: ESG MATRIX

	Environmental assessment	Parameters	Weightage	Rating					Rationale
1	GHG emissions	Net zero by 2050F	25%	*	*	*			GHG emissions intensity of 0.56 tCO ₂ e/MWh in FY24 vs. 0.55 in FY23
2	Exposure to renewables	More than 20% of generation mix or capacity	25%	*	*	*			6.8% of generation mix from hydro and solar in P Msa in FY24 vs. 6.1% in FY23
3	Biodiversity management	% of revenue	25%	*	*	*			Spent RM1.8mil on biodiversity and sustainability efforts in FY24 vs. RM1.5mil in FY23
4	Contribution of coal to earnings	Less than 20%	25%	*	*	*			21% of revenue from coal in FY24 vs. 23% in FY23
	Weighted score for environmental assessment		100%	*	*	*			
	Social assessment								
1	Workers welfare	Learning and development hours	33%	*	*	*			1.6mil learning hours in FY24 vs. 1.1mil in FY23
2	Work site safety	Zero fatal fatalities	33%	*	*	*			4 fatalities in FY24 vs. 5 in FY23 (including contractors)
3	Lost Time Injury Frequency	Below 1	33%	*	*	*			0.87 in FY24 vs. 0.74 in FY23
	Weighted score for social assessment		100%	*	*	*			
	Governance assessment								
1	Related party transactions	Value of RPTs	40%	*	*	*			More than RM3bil in FY24, mainly purchases of electricity from associates
2	Women in workforce	% in workforce	30%	*	*	*			21.7% of workforce were women in FY24 vs. 21.6% in FY23
3	Remuneration to directors	Total value of remuneration or % of salary costs	30%	*	*	*	*		RM10.6mil in FY24 vs. RM7.2mil in FY23
	Weighted score for governance assessment		100%	*	*	*			
	Environmental score		50%	*	*	*			
	Social score		30%	*	*	*			
	Governance score		20%	*	*	*			
	Overall ESG Score		100%	*	*	*			

Source: AmInvestment Bank

EXHIBIT 2: VALUATION

Target PE (x)	18
FY26F EPS (sen)	78.8
ESG premium	-
12-month target price (RM)	14.18

EXHIBIT 3: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	2023	2024	2025F	2026F	2027F
Revenue	63,665.1	65,834.8	70,260.2	73,038.2	75,766.4
EBITDA	18,298.7	19,630.8	19,714.1	19,985.3	20,071.0
Depreciation	(11,266.0)	(11,232.4)	(10,691.5)	(10,716.4)	(10,801.6)
Operating income (EBIT)	7,032.7	8,398.4	9,022.7	9,268.9	9,269.4
Other income & associates	62.4	107.5	139.8	181.7	236.2
Net interest	(3,786.8)	(3,469.1)	(3,503.8)	(3,538.8)	(3,574.2)
Exceptional items	65.3	778.0	0.0	0.0	0.0
Pretax profit	3,373.6	5,814.8	5,658.6	5,911.7	5,931.4
Taxation	(770.0)	(1,085.2)	(1,244.9)	(1,300.6)	(1,304.9)
Minorities/pref dividends	166.7	(31.0)	(31.0)	(31.0)	(31.0)
Profit from discount ops	0.0	0.0	0.0	0.0	0.0
Net profit	2,770.3	4,698.6	4,382.7	4,580.1	4,595.5
Core net profit	2,894.0	3,448.3	4,382.7	4,580.1	4,595.5
Balance Sheet (RMmil, YE 31 Dec)	2023	2024	2025F	2026F	2027F
Fixed assets	121,932.1	125,611.1	126,919.6	128,203.2	129,401.6
Intangible assets	-	-	-	-	-
Other long-term assets	42,163.8	39,136.8	39,276.6	39,458.2	39,694.4
Total non-current assets	164,095.9	164,747.9	166,196.2	167,661.4	169,096.0
Cash & equivalent	19,390.5	19,601.1	17,599.9	18,534.1	20,121.8
Stock	2,758.0	2,543.6	2,798.0	3,077.8	3,385.5
Debtors	14,855.0	10,857.4	11,943.1	13,137.5	14,451.2
Other current assets	3,644.3	7,306.1	2,539.1	2,995.6	3,541.4
Total current assets	40,647.8	40,308.2	34,880.1	37,744.9	41,499.9
Creditors	12,830.7	14,215.4	12,793.9	11,514.5	10,363.0
Short-term borrowings	7,330.6	6,275.6	6,903.2	7,593.5	8,352.8
Other current liabilities	12,677.4	13,477.1	3,787.1	3,702.3	3,702.3
Total current liabilities	32,838.7	33,968.1	23,484.1	22,810.3	22,418.2
Long-term borrowings	54,439.6	51,131.0	56,244.1	61,868.5	68,055.4
Other long-term liabilities	56,382.9	57,387.3	57,387.3	57,387.3	57,387.3
Total long-term liabilities	110,822.5	108,518.3	113,631.4	119,255.8	125,442.7
Shareholders' funds	58,825.8	60,371.1	61,731.1	61,079.7	60,443.5
Minority interests	2256.9	2198.6	2229.6	2260.6	2291.6
BV/share (RM)	10.42	10.70	10.94	10.82	10.71
Cash Flow (RMmil, YE 31 Dec)	2023	2024	2025F	2026F	2027F
Pretax profit	2,603.6	4,729.6	4,413.7	4,611.1	4,626.5
Depreciation	11,266.0	11,232.4	10,691.5	10,716.4	10,801.6
Net change in working capital	18,918.2	7,044.7	1,337.4	1,345.0	1,313.8
Others	(544.3)	(628.7)	(635.0)	(641.3)	(647.8)
Cash flow from operations	32,243.5	22,378.0	15,807.6	16,031.2	16,094.1
Capital expenditure	(10,599.2)	(11,184.2)	(12,000.0)	(12,000.0)	(12,000.0)
Net investments & sale of fixed assets	(30,500.6)	(5,287.0)	0.0	0.0	0.0
Others	35,314.7	5,133.5	0.0	0.0	0.0
Cash flow from investing	(5,785.1)	(11,337.7)	(12,000.0)	(12,000.0)	(12,000.0)
Debt raised/(repaid)	(3,573.4)	(5,705.2)	5,740.7	6,314.7	6,947.2
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(2,537.5)	(3,074.3)	(3,022.7)	(5,231.6)	(5,231.6)
Others	(7,201.4)	(4,316.5)	(4,138.8)	(4,180.2)	(4,222.0)
Cash flow from financing	(13,312.3)	(13,096.0)	(1,420.8)	(3,097.0)	(2,506.4)
Net cash flow	13,146.1	(2,055.7)	2,386.8	934.2	1,587.7
Net cash/(debt) b/f	4,056.6	17,225.7	15,213.1	17,599.9	18,534.1
Forex	23.0	43.1	0.0	0.0	0.0
Net cash/(debt) c/f	17,225.7	15,213.1	17,599.9	18,534.1	20,121.8
Free cash flow	21,644.3	11,193.8	3,807.6	4,031.2	4,094.1
FCF/share	377.4	195.2	65.5	69.3	70.4
Key Ratios (YE 31 Dec)	2023	2024	2025F	2026F	2027F
Revenue growth (%)	-13.0	3.4	6.7	4.0	3.7
EBITDA growth (%)	-11.7	7.3	0.4	1.4	0.4
Pretax margins (%)	5.3	8.8	8.1	8.1	7.8
Net profit margins (%)	4.4	7.1	6.2	6.3	6.1
Interest cover (x)	4.8	5.7	5.6	5.6	5.6
Effective tax rate (%)	22.8	18.7	22.0	22.0	22.0
Net dividend payout (%)	95.2	62.3	69.0	114.2	113.8
Debtors turnover (days)	85	60	62	66	70
Stock turnover (days)	16	14	15	15	16

Source: Company, AmlInvestment Bank estimates

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