Company report

Gan Huey Ling, CFA
gan-huey-ling@ambankgroup.com
03 2036 2305

POWER

TENAGA NASIONAL

(TNB MK, TENA.KL)

28 May 2025

Higher staff and repair costs in 1QFY25

UNDERWEIGHT

(Maintained)

Rationale for report: Company Results

Price	**RM14.00**
Target Price	**RM12.60**
52-week High/Low	RM15.24//RM12.32

Key Changes

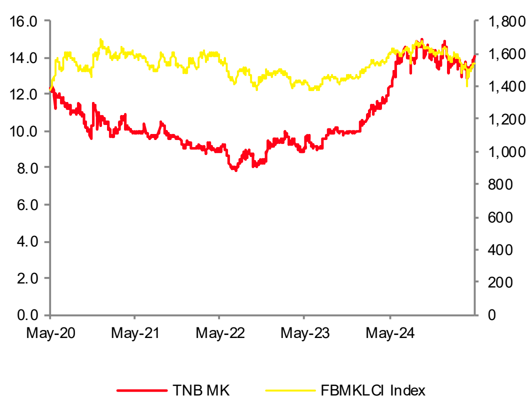
Target Price	⇔
EPS	⇔

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)		4,797.0	5,054.0	5,279.0
DPS (sen)	51.0	52.0	55.0	60.0
PE (x)	23.3	18.6	17.8	17.7
EV/EBITDA (x)	6.0	6.4	6.6	6.9
Div yield (%)	3.6	3.7	3.9	4.3
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)	81,380.6
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)	85.6

Price performance	3mth	6mth	12mth
Absolute (%)	+0.4	-1.7	+13.1
Relative (%)	+6.0	+3.5	+17.8



Investment Highlights

Although Tenaga Nasional's (TNB) core net profit rose by 15% YoY to RM1bil in 1QFY25, this was below consensus estimate of RM4.8bil for the full year. We think that consensus may have been too aggressive on GenCo's earnings. TNB was affected by a 6% increase in repairs and maintenance expenses and 6.8% rise in staff costs in 1QFY25. TNB also recognised a fuel margin loss of RM33.7mil due to the fall in coal prices. TNB recorded a positive revenue adjustment of RM2bil in respect of the Price and Revenue Cap, which will be funded by the Electricity Industry Fund. This arose as actual demand growth fell below the estimated allowable demand growth of 4.7% under RP4. We maintain UNDERWEIGHT on TNB due to its demanding FY26F PE of 17.8x.

- **UNDERWEIGHT with a TP of RM12.60/share.** TNB's valuations are demanding at 17.8x FY26F earnings. Our TP for TNB is based on a FY26F PE of 16x, which is the five-year average. In the past five years, TNB's PE ranged from a low of 11x to a high of 20x.

- **TNB's 1QFY25 core net profit of RM1bil (excluding unrealised forex gains of RM38.9mil) was within our forecast but 8% below consensus.** GenCo recorded a small net profit of RM25.4mil in 1QFY25 compared to a net loss of RM80.4mil in 1QFY24. This was mainly driven by the re-commissioning of Manjung 4. Recall that Manjung 4 suffered a loss in capacity payments of RM140.8mil in 1QFY24 due to a forced outage.

- **Electricity demand in Peninsular Malaysia (ex-RP4 cap) eased by 1.2% YoY in 1QFY25.** This was mainly due to a 5.5% fall in demand from the industrial sector and 4% decline from the residential segment. On a positive note, electricity demand from the commercial sector grew by 5.1%.

- **TNB recognised an over-recovery of costs of RM175.2mil in 1QFY25 in contrast to the under-recovery of RM2.4bil in 1QFY24.** The over-recovery of costs can be attributed to the decline in coal and gas prices. Since reaching a 52-week high of US$153/tonne on 7 October 2024, Newcastle coal prices have retraced to US$105/tonne.

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 sale, transmission and distribution of electricity.

We believe that almost all of TNB's earnings were from transmission and distribution of electricity in FY23. GenCo was in the red due to fuel margin losses.

TNB's customers are in the industrial, commercial and residential segments in Malaysia. Industrial customers include petrochemical and steel companies. Commercial customers include 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 an UNDERWEIGHT on TNB as its FY26F PE of 17.8x is demanding.

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

Valuation methodology

Our target price for TNB is based on a FY26F PE of 16x, which is the five-year average.

Risk factors

Key risks are regulatory risks in respect of RP4 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: EARNINGS SUMMARY

YE Dec	FY24	FY25	QoQ	FY24	FY25	YoY
(RMmil)	**4Q**	**1Q**	**Chg**	**3M**	**3M**	**Chg**
Turnover	**16,104**	**15,864**	**(1%)**	**15,993**	**15,864**	**(1%)**
Sales of electricity	13,799	13,435	**(3%)**	13,605	13,435	**(1%)**
ICPT	1,726	(175)	**(>100)**	2,353	(175)	**(>100)**
Others	579	2,604	**>100**	35	2,604	**>100**
Operating expenses	**(14,397)**	**(13,704)**	**(5%)**	**(14,083)**	**(13,704)**	**(3%)**
IPP	(4,087)	(4,459)	**9%**	(4,233)	(4,459)	**5%**
Fuel costs	(4,299)	(3,554)	**(17%)**	(4,335)	(3,554)	**(18%)**
Repair & maintenance	(917)	(733)	**(20%)**	(692)	(733)	**6%**
Staff costs	(894)	(1,017)	**14%**	(952)	(1,017)	**7%**
Depreciation	(2,712)	(2,865)	**6%**	(2,780)	(2,865)	**3%**
Others	(1,490)	(1,075)	**(28%)**	(1,090)	(1,075)	**(1%)**
Other operating income	**363**	**181**	**(50%)**	**173**	**181**	**5%**
EBIT	**2,070**	**2,341**	**13%**	**2,084**	**2,341**	**12%**
Net inc/(exp)	(895)	(800)	**(11%)**	(871)	(800)	**(8%)**
Associates/JVs	(193)	20	**>100**	20	20	**0%**
EI	161	(6)	**(>100)**	(203)	(6)	**(97%)**
Pretax profit	**1,143**	**1,555**	**36%**	**1,030**	**1,555**	**51%**
Taxation	(235)	(513)	**(>100)**	(352)	(513)	**46%**
Minority interest	47	17	**(63%)**	38	17	**(54%)**
Net profit	**955**	**1,059**	**11%**	**716**	**1,059**	**48%**
EPS (sen)	**16**	**18**	**11%**	**12**	**18**	**47%**
Normalized net profit	**794**	**1,009**	**27%**	875	1,009	**15%**
EBIT margin	13%	15%		13%	15%	
Pretax margin	7%	10%		6%	10%	
Effective tax rate	18%	33%		35%	33%	
Gross DPS	26	-		-	-	

Source: Bursa Announcement

EXHIBIT 2: ESG MATRIX

	Environmental assessment	Parameters	Weightage	Rating					Rationale
1	GHG emissions	Net zero by 2050F	25%	*	*	*			GHG emissions intensity of 0.56 tCO2e/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 Msia 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 evironmental 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 electtricity 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 3: VALUATION

Target PE (x)	16
FY26F EPS (sen)	78.8
ESG premium	-
12-month target price (RM)	12.60

EXHIBIT 4: 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 discont 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, AmInvestment Bank estimates

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