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DayOne Data Centre potential catalyst for TNB profit

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PETALING JAYA: Tenaga Nasional Bhd (TNB) could see stronger earnings and better utilisation of its capital expenditure (capex) if its proposed 1.5GW on-site power generation deal with DayOne Data Centre in Selangor comes to fruition.

The potential project could provide another avenue for TNB to support the growing power requirements of data centres while expanding its renewable energy and battery storage capabilities.

According to RHB Research, assuming TNB develops a 1.5GW solar project with 50% battery energy storage system capacity and a 70% stake in the project under a 21-year agreement, the project is estimated to generate a 10% internal rate of return or IRR and contribute RM448mil to earnings.

"We estimate the realisation of this to lead to an 8% upside in our 2028 net profit forecast and target price (for TNB)," the research house said.

RHB Research maintained its "buy" call on TNB with a RM16.50 target price, implying about 20% upside, alongside an estimated financial year 2026 (FY26) dividend yield of around 4%.

The brokerage also sees potential for the arrangement to involve the Corporate Renewable Energy Supply Scheme (Cress), under which TNB could supply renewable energy to DayOne.

"We believe TNB is likely to explore the supply of renewable energy to DayOne, under Cress," it said.

The research house noted that TNB had earlier this year signed a 21-year Cress agreement to supply renewable energy to DayOne from a 595MWac Hybrid Hydro Floating Solar or HHFS project in Kenyir.

It estimates that the Kenyir project could contribute 3% of TNB's 2028 net profit.

The potential on-site generation project would further strengthen TNB's exposure to the data centre sector, while supporting its capex plans.

RHB Research said new data centres are also required to sign energy supply agreements (ESAs) with TNB for power supplied from the grid.

"TNB has signed 8.4GW in ESAs so far, and is targeting to sign another 5GW over the next few years," it said.

The collaboration with DayOne could therefore result in more ESAs entering TNB's pipeline, supporting capex utilisation.

Management remains hopeful of achieving two-thirds of its Regulatory Period 4 capex approvals, which RHB Research estimates could boost 2026 earnings per share and its target price by 7%.

"We believe the valuation premium is justified, as TNB is the prime beneficiary of the National Energy Transition Roadmap, with the regulated framework providing a stable earnings base," RHB Research added.