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Analysis: Tax ruling setback to weigh on Tenaga but impact manageable



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KUCHING: Tenaga Nasional Bhd (TNB) may need to set aside funds in its financial year ending Dec 2025 (FY25) after the Federal Court's decision to side with the Inland Revenue Board (IRB) in a long-running tax dispute involving its capital allowance claims.

The ruling on Wednesday overturned earlier decisions by the High Court and Court of Appeal and could have wider implications on TNB's other pending tax cases, analysts warned.

AmInvestment Bank Bhd said the net impact of the RM1.3 billion additional tax assessment

would slash TNB's FY25 forecast net profit by 28.5 per cent to RM3.1 billion. The original notice of assessment totalled RM1.8 billion, but the IRB later granted a penalty remission that lowered the amount.

The Federal Court held that the utility giant should have applied for investment allowance under Schedule 7B (for services sector) instead of reinvestment allowance under Schedule 7A.

TNB said it will now pursue a claim under the appropriate investment allowance but warned of a possible negative impact to its FY25 earnings.

However, AmInvestment Bank warned that the case is likely to set a precedent for several of TNB's outstanding tax disputes, including those for the years of assessment (YA) 2015 to 2017 (RM4 billion), 2020 (RM685.8 million),

and 2021 (RM705.2 million).

Case management for YA2015 to 2017 is scheduled for July 17, 2025, while the hearings for YA2020 and YA2021 are set for July 31, 2025. The house also noted concerns that TNB's dividend payments could come under pressure as it deals with the additional tax bills.

It is currently forecasting a gross dividend per share (DPS) of 52 sen for FY25, up slightly from 51 sen in FY24, implying a yield of 3.6 per cent. It is also maintaining a 'Hold' rating and a target price of RM14.18 per share based on a price-earnings ratio (PE) of 18 times FY26 forecast earnings.

Analysts with Maybank Investment Bank (Maybank IB) also noted that the court's decision is negative for Tenaga's remaining unresolved cases and could prolong an already longstanding tax overhang.

Still, it noted that any potential provision would likely be one-off, and that the overall dispute amount is 'manageable' relative to Tenaga's cash reserves.

"Tenaga has RM5.05 billion worth of tax disputes outstanding, which represents about 6 per cent of its market capitalisation, or RM0.87 per share," it said.

Nonetheless, the research house said Tenaga's operational earnings remain resilient with potential upside risk from contingent capital expenditure deployment.

It also maintained its 'buy' recommendation on the stock with an unchanged target price of RM15.50, as well as a 50 per cent dividend payout assumption implying a yield of about 3 per cent.

