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PETALING JAYA: Contingent capital expenditure (capex) at utility company Tenaga Nasional Bhd (TNB) is expected to rise amid structural demand growth and on more favourable tax treatment.

BIMB Securities, which has maintained a “buy” rating on the stock and revised the target price to RM16.63 from RM17.84, said the company has guided for higher utilisation of contingent capex from 80% to 85% compared to an earlier guidance of 70%.

The company reported a net profit that increased 19.8% in the financial year ended Dec 31, 2025 (FY25) compared to FY24 on revenue that rose 19.4%.

The brokerage, which revised core net profit 9% lower for FY26, expects it to grow by 13.6% this year. For FY27, core net profit has also been lowered by 12%.

The higher contingent capex utilisation implies potential regulated capex of RM39.6bil to RM40.4bil over the regulatory period 4 (RP4) from July 2025 to end-December 2027.

The regulated capex approved for RP4 was RM42.8bil or RM26.6bil base capex and RM16.3bil contingent capex.

The government has also approved contingent capex to be treated the same as base capex with 7.3% pre-tax return and to

be recognised within the year, which, according to the company, meaningfully removes a key regulatory overhang, shortens earnings recognition lag, and sharpens medium-term earnings before interest and taxation (Ebit) visibility.

“In FY25, execution started strongly, with regulated capex reaching RM12bil (RM10.3bil base; RM1.7bil contingent), a sharp step-up from RM8.8bil in FY24 and already 30% of the RP4 envelope in year one,” it said, adding that the company expects RM13bil in 2026 (RM9.3bil base; RM3.7bil contingent) and RM15bil in 2027, pointing to an accelerating regulated asset base build-out.

“Assuming execution discipline is sustained, TNB appears to be entering a multi-year regulated earnings upcycle, with contingent spend increasingly front-loaded as approvals come through, translating into progressively stronger ebit contribution across the remaining RP4 years,” it said.

The company’s net profit growth would be underpinned by resilient commercial demand, ongoing electrification and grid digitalisation, higher regulated returns from RP4 capex, and a stable 24% effective tax rate.