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TNB to gain from new tariff framework, tax dispute resolution

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KUCHING: Tenaga Nasional Bhd (TNB) is entering 2026 with improved earnings visibility as the latest tariff mechanism under Regulatory Period 4 (RP4) delivers stronger revenue stability and transparency.

In a corporate update, the research arm of MBSB Investment Bank Bhd (MBSB Research) explains that the latest tariff framework through the dynamic Automatic Fuel Adjustment (AFA) removes the lag in fuel-cost recovery.

This helps to protect TNB from fuel price swings and improves the group's cash flow by at least two per cent – significantly improving its earnings stability.

That said, one of the most significant recent developments was the federal government's approval of TNB Investment Allowance (IA) under Schedule 7B which indicates that TNB has already settled all tax assessments and the RM10.6 billion adjustment has been

full recognised at its balance sheet level, with no further impact expected to its income statement.

"The approved IA will be used to offset future taxable income, lowering the group's effective tax rate over time. This definitively removes the tax overhang that has weighed on sentiment," said the research arm.

TNB's growth in 2026 is also expected to be supported by favourable electricity demand trends that is underpinned by the commercial sector which accounts for 37.3 per cent of 99,930GWh total units sold in the first nine months of 2025 (9M25).

The commercial sector demand is largely led by three subsectors, malls, business and accommodation services which make up 18 per cent of demand, data centres (DC) that take up three per cent, and others that make up 16 per cent.

MBSB Research guides that in 2026, they expect DCs to anchor structural demand growth.

"As at 3Q25, TNB has 29 DC projects in operation with a maximum demand of 3.8GW. Moving forward, the utility giant has cumulatively 49 DC projects secured, with a total maximum

demand of 7.1GW," they shared.

In June 2025, power demand from DCs was 603MW and has risen to 701MW in September and 850MW in October.

While demand growth is rapid, the analyst noted that TNB had clarified that DC demand will grow in a "stepwise manner" allowing for sufficient time for generation and grid planning.

In 2025, TNB has reiterated plans to spend up to RM12 billion in regulated capex and as of 9M25, it has spent RM8.35 billion which reflect strong execution in grid reinforcement, DC-related upgrades, smart meter rollout, and energy transition infrastructure such as battery energy storage systems (BESS).

Electricity demand growth is also expected to be strong in 2025 which a project growth of 2.8 per cent to 3.8 per cent.

With a bright outlook ahead, MBSB maintains their 'buy' call on TNB alongside an unchanged discounted cash flow (DCF) derived target price (TP) of RM16.40.



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