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TNB`s core EPS forecast expected to increase

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PETALING JAYA: A higher allowed capital expenditure (capex) for Tenaga Nasional Bhd (TNB) in the Regulatory Period 4 (from 2025 to 2027) could enhance its returns, according to CIMB Research.

The research house estimated that for every RM1bil of capex above the RM35.5bil mark will add 3.6 sen a share to its discounted cash flow-based fair value for TNB.

"Our current financial year 2025 (FY25) to FY27 core earnings per share (EPS) forecasts may also be enhanced by 2% to 7%, based on the maximum allowed capex of RM42.8bil," it stated in a report on the power utility company.

TNB last month announced that the government has approved the implementation of RP4 and allowed total capex of RM42.8bil, consisting of a base capex of RM26.6bil and contingent capex of RM16.3bil over the three year period.

Total allowed operating expenditure (opex) was set at RM20.8bil and the regulatory rate of return was set at 7.3%.

TNB also proposed a 14% rise in the base electricity tariff rate to 45.62 sen per kilowatt hours (kWh) from July this year (subject to government approval) due to rising prices of coal and natural gas which it acquires to generate electricity.

CIMB Research estimated electricity rate could in fact be higher than the new base rate proposed.

"We estimate that the average effective tariff was 46.16/kWh in the first half of financial year 2024 (1H24), after including Imbalance Cost Pass-Through (ICPT) surcharges.

"For RP4, we estimate there may still be some ICPT surcharges (as the current coal cost is higher than the RP4 projection), which may bring the average effective tariff to 48 to 49 sen/kWh. Based on this, the actual increase in the average effective tariff could be about 5% versus 1H24," the research house added.

Nevertheless, CIMB Research said clarity is needed on issues like the base tariff rate and what the contingent capex would be used for.

Given the anticipated strong electricity demand growth, driven by new data centres over the next three years and the government's commitment to the decarbonisation agenda, the research house believes a big portion, if not all, of the RM16.3bil contingent capex could be spent in RP4.

"Another issue that we will require further clarification on is whether the contingent capex will be part of the regulated asset base and thus earn the regulated rate of return, or if a separate mechanism will determine the return on these investments." it stated.