AUTHOR: No author available SECTION: STARBIZ PAGE: 7 PRINTED SIZE: 132.00cmï¿½ REGION: KL
MARKET: Malaysia PHOTO: Black/white ASR: MYR 3,168.00 ITEM ID: MY0064980199

08 AUG, 2025

TNB to benefit from Spark`s RE pipeline

The Star, Malaysia

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PETALING JAYA: The business prospects and renewable energy (RE) portfolio of Tenaga Nasional Bhd's (TNB) Australian unit, Spark Renewables, should help in delivering the former's RE target.

Affin Hwang Research maintained its earnings forecasts and discounted cash flow (DCF)-derived 12-month target price (TP) of RM16.20 a share for TNB.

It retained its "buy" call on the stock.

However, the Federal Court's decision on the reinvestment allowance poses downside risks to TNB's earnings and target price.

Under a bear-case scenario, TNB's net cash exposure to additional taxation of RM6.5bil is equivalent to RM1.12 per share, which may reduce its DCF-derived TP by 7%.

As TNB is actively pursuing the investment allowance claim under Schedule 7B, it expects the eventual cash outflow to be lower than the RM6.5bil estimates.

Affin Hwang Research said TNB's market capitalisation has declined by RM10bil to RM11bil since the announcement of the Federal Court's judgement on the reinvestment allowance.

It believes the decline in share price has more than reflected the potential cash flow impact of these additional tax liabilities.

Operationally, the research house remains upbeat on TNB's business outlook.

The key downside risks cited for its stock rating are unfavourable regulatory changes, operational hiccups and higher-than-expected operating costs.

It continues to like TNB, a direct beneficiary of Malaysia's energy transition drive and a benefactor of the rising electricity demand, driven by new data centres.

Affin Hwang Research, during its recent technical visit to Sydney, Australia, met with Spark, which is focused on developing and owning RE assets.

The research house is positive on Spark's business prospects.