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Energy transition plan to spur TNB prospects

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Data centres added catalyst for power heavyweight

UTILITIES

PETALING JAYA: Tenaga Nasional Bhd's (TNB) business prospects will be driven by the National Energy Transition Roadmap, under which it stands to gain from incremental fee for the use of its grid and the export of electricity to neighbouring markets.

CGS-CIMB Research said the power utility will also see fresh demand for some 3,500 megawatt (MW) of power from data centres being planted up in the country, helped by the recent establishment of a Green Lane Pathway which aims to expedite time to market for data centres from 36 to 48 months to 12 months.

Such facilities are deemed high-value customers for TNB as they consume high volumes of electricity throughout the year, and thus serve to reduce the country's currently high reserve margins which now are at above 40%, not to mention help alleviate pressure on electricity tariffs by optimising Malaysia's generation assets better, the research house noted.

"The company (TNB) has already signed electricity supply agreements for 1,500MW with four players, with an additional five companies with 2,000MW requirements in the pipeline," CGS-CIMB Research stated in a report on TNB.

> "TNB is set to see a significant 33% jump in RE generation capacity to 5.3GW in the next 18 months."
> CGS-CIMB Research

The fresh demand from data centres will be timely, as TNB is set to see a significant 33% jump in renewable energy (RE) generation capacity to 5.3GW in the next 18 months as 1.2GW of renewable energy (RE)-based projects come on stream.

The new capacity should help TNB edge closer to its target of having 8,300MW of RE generation capacity by 2025 (alongside its efforts to transition towards greener energy) from a RE capacity of 3,398MW in 2020.

The fresh RE capacity will also see TNB RE-based generation capacity mix rise from 17% now to about 23% to total generation capacity, CGS-CIMB Research estimated.

While its fundamental outlook remains secure, near-term upside to TNB's earnings and valuation are limited due to the impact on earnings from the high operational expenditure the utility faced in the first half of the year (1H23).

TNB's financial performance in the period was impacted by negative fuel margins, given the timing mismatch between calculations of energy payments versus the actual fuel cost consumed.

Despite coal prices having fallen sharply by some 64% over the past 12 months, TNB's earnings were weighed down by negative fuel margins in 1H23 (RM566mil), and although the lumpy fuel margin drag should narrow in 2H23 as coal prices normalise, CGS-CIMB Research has cut its financial year 2023 (FY23) net profit forecast for TNB by 20% and reduced its FY24 and FY25 estimates by a smaller 3%.

It, however, maintained its discounted cash flow-based target price at RM12 per share as its longer-term forecasts remain largely unchanged.

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