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Power infrastructure push to benefit TNB

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Strong earnings likely on 13MP RE agenda

ENERGY

PETALING JAYA: Tenaga Nasional Bhd (TNB) is a key beneficiary and critical enabler of renewable energy (RE) under the 13th Malaysia Plan or 13MP, according to CGS International (CGSI) Research.

In a note to clients, the research house said the recently unveiled plan reinforced the government's clean energy push and with over RM90bil planned through 2030.

It saw strong upside to TNB's long-term earnings, backed by growing regulated returns and its central role in the country's energy transition.

"We estimate power demand to hit a new quarterly high in the second quarter of 2025 (2Q25) reversing its 1Q25 weakness. Step-up load from data centres (DCs) is emerging as the key growth driver.

"As of 1Q25, DC load utilisation stood at just 485MW – only 7% of TNB's 6.4GW in signed electricity supply agreements."

This alone suggested a robust 5% to 6% compounded annual growth rate (CAGR) in power demand over the next six years, more than double the 2.3% CAGR seen in 2019 to 2024, underpinned by sustained foreign direct inflows and structural shifts in the power landscape, it said.

The research house said the Federal Court's ruling on TNB's 2018 tax case had revived concerns over RM7.2bil in potential cash tax liabilities dating back to 2003.

"Given that the issue stemmed from a procedural misstep, not ineligibility, we believe a constructive resolution remains possible via the ongoing schedule 7B resubmission under the purview of the Finance minister.

"The market is overlooking long-term recurring earnings upside while TNB's regulated earnings offer defensive appeal."

CGS International Research

"To address investor concerns, we conduct a scenario analysis outlining the effect on cashflows and dividends under various outcomes, which suggests manageable gearing impact and scope to sustain dividend per share even under a worse-case outcome," added CGSI Research.

It noted that TNB shed as much as RM10bil in market value post the tax ruling, implying that investors might had priced in a worst-case outcome.

"Even under this scenario, our target price would fall to RM16.77 – still 22% above current levels.

"In our view, the market is overlooking long-term recurring earnings upside while TNB's regulated earnings offer defensive appeal," it said.

TNB was trading at RM13.60 at the time of writing.

Maybank Investment Bank Research (Maybank IB), in its report, said while not a material earnings contributor, Spark Renewables which is TNB's RE platform in Australia, plays a role in its RE talent development (operational expertise in developed/liberalised RE markets) and could contribute to the longer-term fulfilment of TNB's environmental, social, and govern-

ance targets.

"We view TNB's risk-reward favourably, with the tax overhang already partly priced-in. Maintain 'buy' with an unchanged target price of RM15.50," it said.

It noted that Australia's overall outlook for RE appeared attractive, with growing policy support and favourable structural trends.

Solar and wind presently account for 50% of Australia's capacity and 40% of generation.

The government, it added, had set an 82% RE generation target by 2030 and is aggressively improving and expanding the transmission grid.

"A significant proportion of Australia's coal capacity (25%) will likely be retired over the next decade, due mainly to unfavourable market dynamics."

Spark is a wholly-owned subsidiary of TNB headquartered in Sydney.

It owns and operates a 120MW solar farm.

According to Maybank IB, Spark is also developing more than 2,000MW of solar, wind and battery storage projects across three sites in New South Wales.