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TNB's FY25 to FY27 net profit estimates raised

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PETALING JAYA: Analysts have lifted their earnings forecasts for Tenaga Nasional Bhd (TNB) over a three-year period, as they factor in power purchase agreement (PPA) extensions for three gas-fired plants and lower interest expense.

In a note, RHB Research raised net profit estimates for the financial year ending Dec 31, 2025 (FY25), FY26 and FY27 by 11%, 21% and 25%, respectively.

RHB Research said it also adjusted net profit projections to remove the Malaysian Financial Reporting Standards 16 impact on depreciation and finance costs for "right-of-use" assets.

TNB is trading below its three-year mean price/earnings – unjustified, as it is the prime beneficiary of rising electricity demand, said RHB Research.

The research house said as Regulatory Period 4's (RP4) framework provides a stable regulated earnings base, it has identified three catalysts that should boost TNB's earnings and valuation this year which include reinvestment allowance approvals reducing the effective tax rate (ETR), contingency capital expenditure (capex) approvals and a new gas plant award and extension.

"In the third quarter of financial year 2025 (3Q25), TNB recognised a one-off RM10.6bil tax treatment in its balance sheet, thereby removing any potential impact on its profit and loss.

"More importantly, the government has allowed it to recognise RIA for past qualifying capex to potentially reduce the ETR.

"From our sensitivity test, we note that every two percentage point reduction could improve its earnings per share (EPS) and fair value by 3%.

"We expect a decision to be finalised this year," said RHB Research.

The research house said its earnings currently reflect a 7.3% approved return on the RM26bil base capex for RP4.

"We see upside from further RM16bil contingency capex approvals, which could see total RP4 capex surge by 61% to RM42bil.

"We expect contingency capex approvals to accelerate this year – on finalisation of Corporate Renewable Energy Supply Scheme, large-scale solar 6, and MyBeST projects, which would require grid upgrades, it said.

It noted that TNB targets to get two-thirds contingency capex approvals, which should provide an 8% upside to FY26 EPS.

Its target price of RM15.60 is pegged to 19 times FY26 price-to-earnings, which is a fair premium, it said.

At last look, TNB was trading at RM13.62.