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TNB unperturbed by the surge in energy prices

The Malaysian Reserve, Malaysia

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Ahead, TNB poised to benefit from a larger RAB, driven by contingent capex spending, RE expansion

TENAGA NASIONAL BHD				
FYE DEC	2024	2025F	2026F	2027F
REVENUE (RM mil)	56,737	67,723	65,978	68,991
EBITDA (RM mil)	19,085	20,697	21,327	22,044
CORE EPS (sen)	65.4	69.5	80.1	83.6
P/E (x)	21.6	20.3	17.6	16.9

▶ **Recommendation: Buy**
Target Price: RM17.25
by Hong Leong Investment Bank Bhd (March 11)

TENAGA Nasional Bhd (TNB) is not expected to be materially affected by recent surge in global fuel costs, given the lagged pass-through of actual coal and natural gas costs. In addition, TNB is expected to be cushioned by the automated fuel adjustment (AFA), particularly if the Iran war prolongs and global energy prices remain elevated.

TNB's TNB Power Generation Sdn Bhd (Genco) could also benefit from positive coal fuel margin adjustments should coal prices continue their upward trend.

Looking ahead to financial year 2026 (FY26)-FY27, TNB is poised to benefit from a larger regulated asset base (RAB), driven by accelerated contingent capital expenditure (capex) spending, the commencement of new generation companies, the expansion of renewable-energy (RE) assets, and a structurally lower effective tax rate.

The recent escalation of the Iran war has driven a sharp rise in global energy prices. Brent crude oil prices have surged to cUS$110 (RM434.50)/bbl year-to-date (YTD) (from US$60/bbl). Natural gas prices have also increased significantly, with European gas prices rising to about €55 (RM251.90) /megawatt per hour (MWh) from €30/MWh.

Meanwhile, Australia coal prices have climbed to around US$130/mt YTD, compared to US$110/mt. These increases reflect heightened concerns over supply disruptions in one of the world's most critical energy corridors.

Under Regulatory Period 4 (RP4) (2025-2027), TNB has begun implementing a monthly fuel cost adjustment mechanism, the AFA, replacing the previous ICPT (imbalance cost pass-through) which was reviewed every six months. The introduction of AFA allows for more timely tariff adjustments, enabling TNB to better manage cashflow during periods of volatile energy prices.

AFA helps mitigate the financial impact on TNB in the event of sudden surges in fuel costs. Recently, TNB announced an AFA rate of -2.15 sen/kilowatt per hour (kWh) for March 2026 and guided that April 2026 will be around -1.89 sen/kWh, despite current spot prices for coal and gas being higher than the reference prices of US$97/mt for coal and RM24-RM35/mmBtu for Tier-1 gas.We understand that there is typically a lag effect in the PT of actual energy costs.

TNB's Genco could benefit from positive coal fuel margins should coal prices remain on an upward trend, potentially contributing positively to the group's earnings. While there is limited historical disclosure on periods of positive fuel margin contributions, we note that Genco previously reported a negative fuel margin of RM618.7m when coal prices declined sharply from RM850/mt to RM550/mt in FY23. This suggests that fuel margin movements can have a meaningful impact on the segment's profitability.

We maintain our 'Buy' recommendation with an unchanged discounted cashflow to equity (DCFE)-derived target price (TP) of RM17.25.