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Page 1 of 2

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RM15.27 TARGET PRICE

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Attractive earnings prospect from NETR a strong rerating catalyst, says research firm

KUALA LUMPUR

THE timely implementation of the National Energy Transition Roadmap (NETR) initiatives should make Tenaga Nasional Bhd's (TNB) earnings prospect attractive, said CIMB Securities.

This would act as a strong rerating catalyst for TNB, said the research firm, which upgraded the stock to "buy" with a higher RM15.27 target price.

It said TNB's attractive earnings prospect would be driven by higher regulated capital expenditure associated with the NETR.

This will lead to a favourable

Regulatory Period 4 (RP4) outcome and supercharge the company's earnings growth going forward.

"We favour TNB as it is the primary beneficiary of Malaysia's decarbonisation agenda," said CIMB Securities.

It said TNB's financial year 2023 electricity demand in Peninsular Malaysia grew 3.6 per cent year-on-year, largely driven by higher demand from data centres.

It expects the strong pipeline of data centre projects in Malaysia to drive domestic demand growth, estimated at 2.0 to 2.5 per cent for financial years 2024 to 2026.

This growth is expected to contribute to higher demand forecast for the RP4 covering 2025-2027, surpassing RP3 demand growth of 1.7 per cent.

"During RP4/RP5, TNB's regulated asset base is expected to see a significant rise due to higher capital expenditure (capex), primarily to support the construc-

tion of additional infrastructure needed to boost electricity supply for upcoming data centres and make strategic investments in grid infrastructure as part of the government's energy transition plans.

"These plans aim for a 70 per cent renewable energy (RE) target by 2050, necessitating substantial investments to improve grid flexibility, to manage the increased RE demand, and to support new RE plant developments," it said.

CIMB Securities pointed out that TNB had estimated an energy transition (ET) capex allocation of RM35 billion for financial years 2025-2030, in addition to a non-ET regulated capex of RM54 billion.

This brings the total regulated capex to RM90 billion for financial years 2025-2030, amounting to RM15 billion per year, about double the average capex of RM7.5 billion for financial years 2022-2024, primarily for grid infrastructure upgrades.