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KUALA LUMPUR (Jan 19): SMRT Holdings Bhd's (KL:SMRT) market capitalisation more than halved on Monday, after Hong Leong Investment Bank (HLIB) sharply downgraded the stock over a projected significant revenue loss from a major contributor, Tenaga Nasional Bhd (KL:TENAGA).

The stock dropped 65% or 29 sen, to a three-year low of 15.5 sen, before ending the day 58.43% or 26 sen lower to 18.5 sen, valuing the company at RM84.66 million. A 30 sen drop would have hit the stock's limit down.

Some 239.86 million shares were traded, making it the most actively traded stock on the exchange. Intraday short selling was suspended shortly after market opened following a more than 15 sen drop in the stock price, and will resume at 8.30am on Tuesday (Jan 20).

HLIB in its note on Monday downgraded the stock from a "buy" to "sell" on earnings shock from the loss of one-off deployment revenue from Tenaga.

The news led it to cut its target price for the stock by more than 74% to 32 sen, from RM1.24 a share previously.

HLIB said the downgrade reflects an unexpected earnings reset after management guided that deployment activity for Tenaga is expected to slow materially in the coming years, following the opening up of Tenaga's Supervisory Control and Data Acquisition (Scada) vendor base.

This move marks a sharp departure from historical deployment levels and removes a key driver of SMRT's one-off revenue stream.

In the first quarter of the financial year ending June 30, 2026 (1QFY2026), about 38% of group earnings were derived from one-off deployment projects, with the remaining 62% contributed by recurring managed services.

"We estimate that more than 90% of the one-off component is attributable to TNB (Tenaga)," HLIB added in its note, underscoring the group's heavy reliance on a single customer.

It said its earlier "buy" call was based on strong growth from Tenaga's Smart Grid rollout and unconnected sites, but with site deployments now set to slow sharply, this investment case no longer applies. While new income from financial services and Indonesia may help, it is unlikely to offset the near-term earnings loss. The collaboration with Kuasa Aktif offers longer-term potential, but has yet to deliver a commercial product.

SMRT's management guided that site deployments are expected to fall to fewer than 100 sites from FY2027 onwards, compared with a historical run rate of about 3,000 sites.

As a result, HLIB cut its earnings forecasts for SMRT's FY2026, FY2027 and FY2028 by 18%, 41% and 44% respectively, and rebased its valuation multiple to eight times price-to-earnings from 20 times previously.

The research house noted that while managed services contracts linked to Tenaga are expected to run for the next three years, visibility on renewals beyond that period remains low.