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Minimal impact for TNB with retail charge exemption

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PETALING JAYA: Analysts view Tenaga Nasional Bhd's (TNB) commitment to absorb RM120mil to RM150mil fuel surcharge costs with caution, following the government's recent expanded electricity bill protection that raises the automatic fuel adjustment (AFA) and retail charge exemption threshold for domestic users from 600kWh to 800kWh.

In a note to clients, CIMB Research said it cut TNB's financial year 2026 (FY26) core net profit (CNP) estimate by 2% to account for RM150mil in additional costs from absorbing AFA and retail charges for an expanded residential user group in September to December this year.

"Our FY27 to FY28 CNP forecasts are largely unchanged.

"While the immediate impact on CNP is small and the stock's target price is unchanged, investors may be concerned that TNB may have to bear more costs if fuel prices stay elevated beyond 2026 and the government continues its expanded AFA exemption initiative," the research house pointed out.

If TNB must absorb more subsidies beyond 2026, CIMB Research said it fears such developments risk eroding investor confidence in the predictability of TNB's regulated returns under the Incentive-Based Regulation (IBR) framework.

The research house maintained a "buy" call on the stock with an unchanged target price of RM15.90 per share.

While TNB's commitment is not an ideal outcome from a shareholder perspective, CGS International (CGSI) Research lauded the utility giant for stepping up through its corporate social responsibility efforts to support the rakyat amid elevated electricity bills.

"We estimate this is a manageable one-off impact from AFA absorption that will reduce TNB's FY26 earnings per share by about 3%, with the bulk recognised in the fourth quarter of this financial year," the research house noted.

Historical precedents also suggest the IBR's core fuel cost pass-through is intact, with the current measure reflecting a temporary consumer relief.

Meanwhile, CGSI Research believes that the RM3.5bil decline in TNB's market cap last week ahead of the government's Sept 17 announcement suggests the market is pricing in regulatory concerns beyond the modest earnings impact.

It continues to view TNB as one of the best ways to gain exposure to Malaysia's accelerating energy transition and the power sector investment upcycle.

CGSI Research said the key re-rating catalysts include sustained elevated transition and distribution capital expenditure, improving TNB GenCo's performance and new combined cycle gas turbine and renewable energy opportunities.

Hence, it sees the recent pullback as an attractive entry and retains an "add" rating with a target price of RM16.60.

For RHB Research, it believes that TNB's shares were oversold, as the share price has declined by 12% from the recent high.

"We advise investors to accumulate the stock on share price weakness, as we expect earnings to pick up in the second half of this financial year," the research house said in a recent report.

On TNB's commitment allocation, RHB Research said: "As this makes up 2% to 3% of our FY26 earnings forecasts, we expect a minimal impact to our forecasts."

Meanwhile, TA Research has trimmed Tenaga's FY26 net profit forecasts by 2.5% to reflect the higher end of the estimated RM120mil to RM150mil cost to absorb AFA surcharges, retail charges and service tax.

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