isentia
AUTHOR: No author available SECTION: STARBIZ PAGE: 3 PRINTED SIZE: 421.00cmï¿½ REGION: KL
MARKET: Malaysia PHOTO: Full Color ASR: MYR 21,269.00 ITEM ID: MY0064267365

24 JUN, 2025

New electricity tariff earnings-neutral for TNB

The Star, Malaysia

New electricity tariff earnings-neutral for TNB

Utility giant's cash flow expected to improve

CORPORATE

PETALING JAYA: The new electricity tariff schedule to be implemented from next month, which is a tariff regime change after 11 years, will be earnings-neutral for Tenaga Nasional Bhd (TNB), say analysts.

The new monthly fuel cost pass-through will improve the utility giant's cash flows by reducing timing mismatches and receivables risk, they said.

Last Friday, the Energy Commission (EC) announced a new electricity tariff structure, replacing the tariff regime schedule introduced in January 2014.

The new framework introduces changes across three key areas, one being a lower base tariff of 45.40 sen per kilowatt-hour (kWh) under the regulatory period four (RP4), down from 45.62 sen/kWh approved in December 2024.

The second change involves revised user categories which is split into domestic and non-domestic, based on voltage usage (low, medium and high).

Previously, non-domestic users were classified by business segments such as commercial, industrial and timing.

A new tariff category for ultra-high voltage users has also been introduced with rates of up to RM1 per kWh.

The third change is the revamped fuel cost pass-through mechanism with the new Automatic Fuel Adjustment (AFA) replacing the current Imbalance Cost Pass-Through (ICPT).

Notably, the AFA mechanism allows for monthly reviews instead of the previous half-yearly adjustments.

CGS International (CGSI) Research said the reforms are driven by the need to ensure a more cost-reflective supply, promote greater transparency and energy efficiency and keep pace with evolving industry dynamics.

> "TNB's regulated earnings base would provide investors a buffer against market volatility."
>
> CGS International Research

The revised tariff takes effect from July 1 to Dec 31, 2027, during RP4 under the incentive-based regulation (IBR) framework.

"Overall, the revised tariff schedule is earnings-neutral for TNB, as the IBR framework largely insulates the company from demand and price risks. However, the shift to monthly fuel cost pass-through is a clear positive for group cash flows as it reduces timing mismatches and receivables risk.

"This should consequently help ease working capital requirements and improve cash flow visibility, giving management greater flexibility in managing capital expenditure (capex) and dividend payouts in our view," CGSI Research said in a report.

The research house reiterated its "add" rating on TNB with a RM19.10 target price, as the announcement had provided clarity and restored confidence in regulatory visibility due to the six-month delay in implementation.

This had raised fears of a potential downward revision in allowed returns for the company.

Amid the current uncertain global macro backdrop, CGSI Research said TNB's regulated earnings base would provide investors a buffer against market volatility.

Shares of TNB gained eight sen to RM14.30 at the time of writing amid a cautious market due to heightened geopolitical tension. TA Research and Kenanga Research had target prices of RM17.30 and RM17.20, respectively.

TA Research said although network charges under the RP4 base tariff is lower, it believes this is spread over a higher volume projection. In addition, the base tariff only reflects RP4 base capex, while recovery of contingent capex will be structured under a different mechanism.

Overall, it estimates TNB's regulated revenue to increase by an average 23% over the RP4 period.

TA Research said the group's management is confident of achieving at least 60% to 70% of RP4 contingent capex to cater for the energy transition and demand growth from the mushrooming of data centres.

The research house said the stock is currently cheaper than usual, trading at 5.8 times its expected 2025 earnings, compared to its historical average of 7.2 times.

Meanwhile, Kenanga Research noted that electricity demand from data centre investment of over 5,000MW by 2035 is equivalent to 20% of total generating capacity in Malaysia.

"In the near term, a total of 700MW data centre is slated to come onstream by this year. This should continue to drive demand growth higher, thus improving operation efficiency and boosting TNB's non-regulated earnings," it said.