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Low impact on TNB from expanded power subsidy

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One-off measure eases concerns about earnings hit

CORPORATE

PETALING JAYA: Tenaga Nasional Bhd's (TNB) shares closed 0.31% higher after the national utility company said the additional cost from the expanded electricity subsidy measures would be a one-off, easing concerns over the potential impact on its earnings and regulated returns.

The group is expected to see only a modest earnings impact from the measures, while investor focus is likely to shift to how the Automatic Fuel Adjustment (AFA) framework is redesigned from 2027.

TNB's shares ended yesterday at RM13.14, up four sen, off an intra-day high of RM13.36.

At a briefing on Tuesday, TNB told analysts that its estimated RM120mil to RM150mil cost to support the expanded electricity bill exemptions from September to December 2026 should be a one-off, with the government working on a longer-term solution from January next year.

CIMB Research said it came away from the briefing more reassured that the additional cost to subsidise AFA would be a one-off and that TNB would not need to bear more costs if fuel prices stayed elevated beyond 2026.

"TNB assured investors that the incentive-based regulation (IBR) and AFA framework, as well as the 7.3% regulated return, remained intact," it said.

The research house maintained its "buy" call on TNB, with an unchanged target price of RM15.90.

It said TNB was trading at 7.1 times financial year 2027 (FY27) forecast enterprise value to earnings before interest, tax, depreciation and amortisation and 13.7 times core price-to-earnings, which it viewed as reasonable given an expected 8% compound annual growth rate (CAGR) in cash net profit for FY25 to FY28.

TNB's commitment comes after the government raised the monthly electricity consumption threshold for domestic users eligible for protection from 600 kilowatt-hours (kWh) to 800kWh.

The new AFA threshold is expected to

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TA Research

revert to the original 600kWh level after December 2026.

RHB Research, which kept its "buy" call and RM16.50 target price on TNB, similarly noted that the additional fuel cost adjustment would be a one-off and it would not affect approved returns on TNB's regulated asset base.

"The allocation is also premised on a 'high case' assumption for fuel prices and foreign exchange in the fourth quarter (4Q)," RHB Research.

"Hence, we believe the downside risk on FY26 earnings is capped at 3%."

The research house expects stronger second-half earnings as TNB's effective tax rate falls to 18% in 4Q26, more than offsetting the electricity subsidy allocation.

It also expects the group to maintain positive free cash flow after the RM150mil fuel cost adjustment, supporting its 4% dividend yield estimate.

TA Research was more cautious, retaining its "hold" call and target price of RM13.80.

It said the absorption of AFA costs would reduce taxable income and lower TNB's tax expense, with its previously estimated 2.5% FY26 earnings impact already factoring in the tax savings.

"Beyond December 2026, the government is working on a more permanent solution to address the current AFA design gap," TA Research said.

It noted that the current AFA framework applies the same rate across customer groups, unlike the previous imbalance cost pass-through mechanism, which differentiated rates and allowed cross-subsidisation.

CGS International (CGSI) Research reiterated its "add" call and RM16.60 target price,

while maintaining TNB as a top pick.

The research house said the one-off contribution should ease concerns over recurring costs and reinforce its view that the core IBR fuel cost pass-through mechanism remains intact.

"The government is working on a more permanent solution from January 2027.

"TNB expects to remain neutral on fuel costs under any revised structure," CGSI Research said.

BIMB Research, likewise, maintained its "buy" call and RM16.77 target price on TNB.

It said the key uncertainty had shifted to the government's yet-to-be-defined AFA framework from January 2027.

"The greater earnings sensitivity lies in the eventual 2027 AFA framework, should the revised mechanism result in TNB bearing part of the fuel-cost increase on a recurring basis," BIMB Research said.

The research house added that TNB's widening regulated asset base should support steady earnings growth, while rising electricity demand from data centres provided exposure to higher grid load and long-term capacity requirements.

Meanwhile, one analyst told *StarBiz* that while the near-term earnings impact appears manageable, investors will be watching closely for greater clarity on how the AFA mechanism evolves beyond 2026 and what this means for TNB's cost recovery.

"The bigger opportunity for TNB remains its longer-term role in supporting Malaysia's rising electricity demand, particularly as data centres and other power-intensive industries drive investment in generation and the grid," he explained.