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TNB takes the charge and the cost



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FOR much of the past two years, Tenaga Nasional Bhd (TNB) has almost been synonymous with Malaysia's data centre (DC) boom.

The logic is straightforward: artificial intelligence, cloud computing and hyperscale DCs require enormous amounts of electricity, putting the utility group at the centre of the infrastructure needed to support the country's rapid expansion as a regional DC hub.

For investors looking for exposure to that boom without having to pick individual DC operators, TNB offers an obvious proxy. The numbers underline the scale of the opportunity.

In a report dated Sept 1, CIMB Research noted that as at end-June 2026, TNB was supplying electricity to 42 DC projects, with total maximum demand (TMD) of 5.7GW – up from 3.5GW a year earlier.

The research house says TNB expects this growth momentum to continue, with another 33 hyperscale DCs in the pipeline set to add a further 5GW of TMD.

The government projects electricity consumption by DCs in Peninsular Malaysia to surge from 7% of total demand in 2026 to 31% by 2035.

Meeting that demand, however, will require TNB to step up investment in its generation and grid infrastructure under a sizeable capital expenditure programme.

The Incentive-Based Regulation (IBR) framework is intended to provide visibility on how these investments are recovered.

Under Regulatory Period 4 or RP4 (July 2025 to December 2027), a new ultra-high-voltage tariff of around 60 sen per kWh was introduced, which analysts expect will apply to DCs. This compares with an average base tariff of 45.40 sen per kWh.

So, what makes the investment story more nuanced?

While DCs are driving stronger electricity demand, the government's latest move to widen electricity bill subsidies has brought TNB's cost recovery into focus.

To recap, the government has raised the electricity-bill protection threshold to 800kWh a month from 600kWh, exempting eligible households from the Automatic Fuel Adjustment (AFA) surcharge and other charges.

The move is expected to extend protection to more than eight million households, or about 90% of domestic consumers, up from around 80% previously.

The AFA, introduced alongside the new tariff structure in July 2025, allows changes in fuel costs to be reflected in electricity charges, replacing the previous Imbalance Cost Pass-Through (ICPT) mechanism.

What caught the market off guard was the utility's decision to absorb the additional cost rather than pass it on to consumers.

TNB's commitment to bear the additional cost is limited to the September to December 2026 period.

Analysts estimate the financial impact at RM120mil to RM150mil, relatively small at around 2% to 3% of its 2026 forecast core net profit, and partly tax-shielded.

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■ One-off RM120mil to RM150mil cost to shield consumers

■ DC demand underpins growth outlook

■ AFA review may reshape tariffs from January 2027

Yet, the market reaction was much larger, with RM1.63bil wiped off the stock's market value on Sept 18 as shares fell to an intraday low of RM12.80.

The size of the Kumpulan Wang Industri Elektrik fund is not publicly disclosed. Analysts noted that the government had allocated RM435mil from the fund to partly cushion AFA surcharges from May to August 2026.

A fund manager tells *StarBiz* 7 that investors are more concerned about the potential implications for future costs than the immediate impact on earnings.

On Wednesday, the stock closed at RM13.14 after recovering some ground from last week's sell-off, although volatility could persist in the near term.

At an analyst briefing on Tuesday evening, TNB's management said the latest cost absorption was a one-off measure outside the regulatory framework and did not alter the underlying AFA and IBR mechanisms.

That view was echoed by a foreign brokerage, which said in a post-briefing note to clients that it was more comfortable that the move did not signal a structural breakdown in the IBR or AFA mechanisms, but cautioned that "precedent risk could not be completely dismissed".

This is not new. TNB has provided such assistance before,

having absorbed costs during the Covid-19 pandemic, major floods and other exceptional events.

As a government-linked company, its management said the group could be called upon to do so again under similar circumstances.

More significantly, the episode has exposed a gap in the current AFA mechanism, with the government now reviewing the framework ahead of possible changes from January 2027, analysts say.

One analyst explains that the current AFA applies a uniform fuel-cost adjustment across customer groups, leaving less room to differentiate between domestic users and larger commercial and industrial consumers.

This differs from the previous ICPT system, which allowed differentiated adjustments and effectively enabled some consumers to be shielded from higher costs while others bore more of the increase.

Under such a structure, domestic consumers could receive greater protection from rising fuel costs, while larger commercial and industrial users would bear more of the adjustment.

This would allow the government to shield households without necessarily requiring TNB to absorb the cost difference, the

fund manager says.

He adds that RPS, which follows the current period ending in December 2027, will also be key as TNB enters a period of heavier investment to meet rising electricity demand.

An industry observer says the cost of electricity generation remains a key consideration.

"Peninsular Malaysia's reliance on gas and coal means the system remains exposed to fuel-cost movements, while Sarawak's predominantly hydropower-based generation mix has a different cost structure," he adds.

He says this could become more significant as domestic gas production declines and the peninsula becomes more reliant on liquefied natural gas imports, while new gas-fired capacity is added to meet rising electricity demand beyond 2027.

Solar alone may also be insufficient to meet DCs' green power needs by 2035, he adds.

"Households account for a relatively small share of overall electricity demand, so their usage needs could be shielded from the cost of additional generation needed to meet rising demand, which is driven by large commercial and industrial users," he notes.

TNB shares, held by both local and foreign institutional funds, are now about 12% below their recent peak.

Most research houses remain positive, with 18 maintaining "buy" calls and four retaining "hold" calls following the TNB investors' briefing.

Several brokerages view the weakness as an opportunity to accumulate the stock.

As one fund manager puts it: "TNB has strong structural growth from rising electricity demand, particularly from DCs. But it has to spend first to meet that demand, while returns on much of that investment remain subject to the regulatory framework."

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