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Rachel Lau

racellau@theborneopost.com

KUCHING: Tenaga Nasional Bhd's (TNB) decision to absorb up to RM150 million in additional electricity-related costs is expected to have a relatively modest impact on its 2026 earnings, although analysts differ sharply over the longer-term regulatory implications.

In a Sept 18 press release, TNB announced that the electricity-bill protection threshold would be raised to 800kWh a month from 600kWh previously, benefiting more than eight million domestic users.

TNB estimates it will absorb RM120 million to RM150 million in additional costs between September and December 2026 as a result of the expanded exemptions from the automatic fuel adjustment (AFA) surcharge, retail charge and service tax, with the final amount dependent on fuel costs.

TNB said the expanded exemption was intended to shield 90 per cent of residential customers from higher fuel prices, with consumers in the 600kWh to 800kWh bracket accounting for 20 per cent of total user volume in July, up from 13 per cent in January.

Overall, analysts believe the near-term impact of the RM150 million subsidy burden is manageable given that it is only two to three per cent of TNB's FY26 earnings forecast.

Additionally, analysts from RHB Investment Bank Bhd (RHB Research) believes that stronger

earnings in the second half of 2026 (2H26) and a lower effective tax rate in the fourth quarter (4Q) will more than offset the cost of expanded electricity support.

And while RHB Research does not discount the possibility of the subsidy allocation being extended into 2027, they note that the Energy Commission is forecasting applicable coal price to remain stable at US\$122 per tonne until the end of the year compared to US\$131 previously, while Tier-2 gas prices were expected to stay at RM59 per million British thermal units, down 17 per cent from their June peak.

"We also see the potential for the Government to allocate funds from the Electricity Industry Fund, or Kumpulan Wang Industri Elektrik (KWIE) to subsidise fuel costs. We estimate a RM1.7 billion balance in the KWIE," it added.

RHB Research also pointed to the possibility of government support from the Electricity Industry Fund, or Kumpulan Wang Industri Elektrik (KWIE), for which it estimated a balance of RM1.7 billion.

Overall, RHB Research maintained its 'buy' call on TNB with a target price (TP) of RM16.50, pegged to 19-times FY26 forecast price-to-earnings ratio (PER), or one standard deviation (SD) above the stock's three-year mean.

"We believe the valuation premium is justified, as TNB is the prime beneficiary of the National Energy Transition Roadmap (NETR), with the regulated framework providing a stable earnings base," it said.

In contrast, TA Securities

Holdings Bhd (TA Research), took a more cautious view, describing TNB's assumption of the additional costs as a "negative surprise".

"Unlike during the Ukraine War when the government stepped in with subsidies to shield domestic consumers from electricity cost volatility, it appears that TNB is shouldering the burden this time around," it said.

More significantly, TA Research said the development could result in investors attaching a higher regulatory risk premium to TNB, given what it viewed as a departure from the principle that fluctuations in fuel costs should ultimately be passed through under the Incentive-Based Regulation framework.

"We reckon investors would now price in higher regulatory risk for TNB," it said.

After incorporating both the earnings reduction and a higher risk premium into its valuation, TA Research raised its weighted average cost of capital (WACC) assumption for TNB to 7.8 per cent from 7 per cent.

It consequently slashed its TNB TP to RM13.80 from RM18 and downgraded its call on the stock to 'hold' from 'buy'.

TA Research said it continued to view TNB favourably as a large-cap proxy for Malaysia's energy transition and electricity demand growth, but cautioned that near-term shareprice performance could be constrained by regulatory risk and elevated fuel costs.