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TNB nears turning point as worst appears over



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PETALING JAYA: CGS International (CGSI) Research believes that Tenaga Nasional Bhd (TNB) may be nearing a turning point, as the worst-case outcome appears priced in following months of tax-related uncertainty that has weighed on sentiment and valuation.

The research house maintained a “constructive” stance, noting that even under a full RM10bil tax liability scenario, “the impact on cash flow and gearing remains manageable, with capacity to sustain DPS (dividend per share) and planned capex (capital expenditure).”

CGSI Research noted that TNB's share price has fallen 12% over the past four months, underperforming the FBM KLCI and KL Utilities indices by 16% to 18%, largely due to investor anxiety over ongoing tax disputes.

It said since the July 2 court ruling, the utility giant has shed RM10.4bil in market value, implying “investors may have already priced in a full, non-recoverable RM10bil tax liability.”

Hence, the research house sees a potential 28% upside to its worst-case target price of RM16.77, underscoring what it views as deep underlying value in the stock.

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CGS International Research

Looking ahead, the firm expects TNB's earnings trajectory to strengthen on the back of its Regulatory Period 4 investment cycle.

It projects the utility's regulated asset base to expand at an 11% compound annual growth rate between financial year 2025 (FY25) and FY27F, almost triple its historical rate, driven by an allowed capex of RM43bil.

If fully deployed, these investments could add RM1.1bil in recurring earnings annually, equivalent to 25% of the group's 2024 normalised net profit base.

CGSI Research also highlighted growing strain on Malaysia's electricity grid, underscored by recent outages, as further justifi-

cation for TNB's accelerated investment.

“We believe this reinforces the case for TNB's full RP4 rollout – not only to enhance system reliability but also to prepare for accelerating renewable energy integration requirements,” it said.

Given that more than 70% of TNB's earnings stem from its stable transmission and distribution operations, CGSI Research argued that this “deep discount to peers is unwarranted.”

While tax disputes remain an overhang, the research house believes TNB's fundamentals and long-term earnings visibility remain intact, setting the stage for a potential re-rating once the legal uncertainties are cleared.