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Rising power demand to bolster TNB`s earnings

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Rising power demand to bolster TNB's earnings

Higher capital expenditure expected over next three years

CORPORATE

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>
> Hong Leong Investment Bank Research

PETALING JAYA: Tenaga Nasional Bhd (TNB) can expect stronger earnings in the second half of this year (2H25) as it finalises a recovery mechanism for contingent capital expenditure (capex), analysts say.

The higher Regulated Asset Base under Regulatory Period 4 (RP4), provides an earnings step up between this year and 2027, the period covered by RP4, said Hong Leong Investment Bank Research (HLIB Research).

The research house said infrastructure for data-centre projects continued to progress at a rapid pace, with 6.4 gigawatts (GW) being signed, and actual load utilisation also rising.

CIMB Research said it believes TNB could be the main beneficiary of the Energy Commission's request for proposals earlier this month for conventional power generation capacity through new and existing plants and the resulting need for further investment in the national grid.

The research house said it projects 70% of contingent capex to be spent by the end of RP4, which is slightly higher than its current assumption.

TNB expects its generation performance to further improve between the second and fourth quarter of this year .

Both houses maintained their "buy" calls for TNB.

CIMB Research's target price is slightly lower at RM15.75 from RM15.80 a share previously, while HLIB Research maintained its target price at RM16.20 a share.

The shares closed at RM14.08 in yesterday's trading.

CIMB Research said TNB trades at a reasonable enterprise value to earnings before interest tax depreciation and amortisation of 7.4 times for this year and offers decent dividend yields of 3.5% to 3.9%.

The key downside risks cited are higher-than-expected operating costs, unscheduled power station outages, and lower-than-expected spending on RP4 contingent capex.

HLIB Research said the TNB's targeted capex for this year is about RM20bil, consisting of regulated base capex of RM10bil, RM2bil contingent capex and non-regulated capex of RM8bil.

The overall base capex of RM26.55bil under RP4 is on track to be implemented, while for the contingent capex of RM16.27bil, TNB has identified 70% or RM11.39bil to be implemented to support data centres, the East Coast Rail Link, and government projects.

HLIB Research expects the implementation of the contingent capex to further boost Tenaga's bottom-line from 2H25 onwards, as the recovery mechanism is only expected to be finalised in 2H25.

The approved new average base tariff of 45.62 sen per kilowatt hour that is expected to come into effect on July 1 has not been accounted for yet.

The power company reported 1Q25 core profit after tax and minority interest of RM1.1bil.

HLIB Research said despite the initial 1.2% drop in electricity demand in 1Q25, TNB is still confident overall electricity demand would grow by between 3.5% and 4.5% for this year, on the back of gross domestic product growth of 4.5% to 5.5%.