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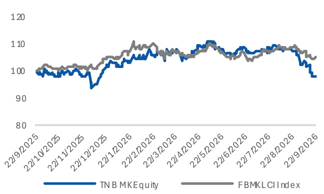
Tenaga Nasional Berhad
Absorbing the Heat

Recommendation:		BUY
Current Price:		RM 13.10
Previous Target Price:		RM 16.37
Target Price:	↔	RM 16.37
Capital Upside/Downside:		25.0%
Dividend Yield (%):		3.9%
Total Upside/Downside:		**28.9%**

Stock information	
Board	MAIN
Sector	Utilities
Bursa / Bloomberg Code	5347 / TNB MK
Syariah Compliant	Yes
ESG Rating	★★★
Shares issued (m)	5,829.1
Market Cap (RM' m)	83,823.1
52-Week Price Range (RM)	14.98-12.5
Beta (x)	0.9
Free float (%)	68.4
3M Average Volume (m)	7.3
3M Average Value (RM' m)	98.5

Top 3 Shareholders	(%)
Employees Provident Fund Board	23.3
Khazanah Nasional Bhd	15.8
Amanah Saham Nasional Bhd	11.3

Share Price Performance



	1M	3M	12M
Absolute (%)	3.2	9.1	5.7
Relative (%)	4.6	3.6	-3.0

Earnings Summary

FYE Dec (RM mn)	FY26F	FY27F	FY28F
Revenue	69,502.5	72,659.5	77,804.7
PATAMI	4,580.6	4,684.4	5,738.7
CNP	4,580.6	4,684.4	5,738.7
Core EPS (sen)	78.6	80.4	98.4
PE(x)	16.7	16.3	13.3

Source: Company, Apex Securities

- **TENAGA will absorb the AFA surcharge, service tax and retail charges for domestic users up to 800kWh/mth (from 600kWh) through December 2026. This covers c.90% of households.**
- **The move offsets higher bills from hot weather. Coverage under the old 600kWh threshold had slipped from c.85% to c.80%.**
- **The one-off cost is estimated at RM120–150m. It sits at corporate level, outside the regulatory framework, so regulated returns, WACC and the revenue cap are unaffected.**
- **AFA remains a pure pass-through with recovery assured. Cost-sharing stays with the government via the KWIE fund, and dividend policy is unchanged.**
- **The threshold reverts to 600kWh in 2027. The government is working on a permanent fix from January 2027, with the framework kept intact.**
- **No changes to our earnings forecasts, as the impact is seen as minimal and offset by several factors.**
- **Maintain BUY with an unchanged DCF-derived TP of RM16.37.**

Following last Friday’s announcement that TENAGA will absorb AFA costs for households up to 800kWh, a briefing was called yesterday, and we came away with the following:

Recap. Last Friday, TNB announced that they are stepping in to absorb the AFA surcharge, service tax and retail charges for domestic users up to 800kWh/mth (lifted from 600kWh) through December 2026, protecting c.90% of households. It's a one-off relief costing an estimated RM120–150m. The AFA framework and dividend policy remain protected.

The decision was made as a relief on hot-weather impact on electricity bills, with the old 600kWh scheme slipping from c.85% to c.80% coverage as consumption rose, with the increase to 800kWh restoring the coverage.

Potential Financial Impact. The absorption sits outside the regulatory framework at corporate level, hence the regulated return and WACC are untouched and there's no revenue-cap trigger. It trims group revenue but is partly offset by lower tax, and AFA stays a pure pass-through with recovery assured. No read-through to RP5 or the ratings given how small it is versus earnings. For scale, RM120–150m is roughly 6% of projected AFA, which can run north of c.RM800m/mth under the new threshold, and the cost-sharing stays with govt via the KWIE fund (c.RM435m historically) rather than reflecting any fund running dry. All cost forecasts were built with the buffer assumptions (coal c.RM237/MT, gas up to c.RM74/MMBtu, FX RM4.09) set deliberately above spot.

Beyond December. With the threshold reverting to 600kWh in 2027, the government is working on a more permanent fix starting January 2027, keeping the framework intact but possibly changing how costs pass through.

Earnings Revision. We make no changes to our forecast at this current juncture, as the impact is seen as minimal and offset by several factors.

Valuation and Recommendation. We maintain **BUY** with an unchanged DCF-derived TP of **RM16.37** (WACC: 7.3%, g: 1.5%).

Risk. Further spikes in brent prices, policy risks, slower demand growth.

KDN PP13226/06/2024 (035469)

Figure 1: Electricity Demand Growth

Sector (GWh)	2QFY26	2QFY25	yoy (%)	1QFY26	qoq (%)	6MFY26	6MFY25	yoy (%)
Industrial	10,284.0	10,973.0	*(6.3)*	9,508.0	*8.2*	19,792.0	21,565.0	*(8.2)*
Commercial	14,346.0	12,555.0	*14.3*	13,170.0	*8.9*	27,516.0	24,227.0	*13.6*
Domestic	10,319.0	9,546.0	*8.1*	9,405.0	*9.7*	19,724.0	18,121.0	*8.8*
Others	1,669.0	694.0	*140.5*	1,627.0	*2.6*	3,296.0	1,364.0	*141.6*
Total	**36,618.0**	**33,768.0**	***8.4***	**33,710.0**	***8.6***	**70,328.0**	**65,277.0**	***7.7***

Source: Company, Apex Securities

Figure 2: Operating Expenses Breakdown

FYE Dec (RM m)	2QFY26	2QFY25	yoy (%)	1QFY26	qoq (%)	6MFY26	6MFY25	yoy (%)
Non-TNB IPPs costs	4,769.3	4,304.0	*10.8*	3,526.7	*35.2*	8,296.0	8,763.9	*(5.3)*
TNB Fuel Costs	5,382.3	3,988.1	*35.0*	4,227.4	*27.3*	9,609.7	7,541.8	*27.4*
Total Generations Costs	**10,151.6**	**8,292.1**	***22.4***	**7,754.1**	***30.9***	**17,905.7**	**16,305.7**	***9.8***
Staff Costs	-	1,071.3	*nm*	-	*nm*	-	2,088.1	*nm*
Repair and Maintenance	-	815.7	*nm*	-	*nm*	-	1,549.1	*nm*
TNB General Expenses	-	538.4	*nm*	-	*nm*	-	979.9	*nm*
Subsidiaries' Cost of Sales & General Expenses	-	647.7	*nm*	-	*nm*	-	1,281.6	*nm*
Total Non-Generation Costs	**3,537.2**	**3,073.1**	***15.1***	**3,096.8**	***14.2***	**6,634.0**	**5,898.7**	***12.5***
Total Operating Expenses (Excluding D&A)	**13,688.8**	**11,365.2**	***20.4***	**10,850.9**	***26.2***	**24,539.7**	**22,204.4**	***10.5***
Depreciation & Amortisation	3,169.7	2,965.9	*6.9*	3,069.7	*3.3*	6,239.4	5,831.2	*7.0*
Total Operating Expenses	**16,858.5**	**14,331.1**	***17.6***	**13,920.6**	***21.1***	**30,779.1**	**28,035.6**	***9.8***

Source: Company, Apex Securities

Financial Highlights

Income Statement

FYE Dec (RM m)	FY24	FY25	FY26F	FY27F	FY28F
Revenue	**56,737.1**	**67,723.1**	**69,502.5**	**72,659.5**	**77,804.7**
EBITDA	**19,952.5**	**20,512.4**	**22,414.4**	**23,613.4**	**25,350.5**
Depreciation & Amortisation	-11,232.4	-11,980.3	-12,292.3	-13,173.3	-13,465.3
EBIT	**8,720.1**	**8,532.1**	**10,122.1**	**10,440.1**	**11,885.2**
Net Finance Income/ (Cost)	-3,469.1	-3,363.1	-4,148.9	-4,337.5	-4,383.5
Associates & JV	107.5	87.8	85.9	93.7	89.1
Forex gain/(loss)	467.4	702.6	0.0	0.0	0.0
FV changes of financial instruments	-11.1	217.2	0.0	0.0	0.0
Pre-tax Profit	**5,814.8**	**6,176.6**	**6,059.1**	**6,196.3**	**7,590.8**
Tax	-1,805.6	-1,406.8	-1,454.2	-1,487.1	-1,821.8
Profit After Tax	**4,009.2**	**4,769.8**	**4,604.9**	**4,709.2**	**5,769.0**
(-) Minority Interest	31.0	1.7	24.3	24.8	30.3
Net Profit	**3,978.2**	**4,768.1**	**4,580.6**	**4,684.4**	**5,738.7**
(-) Exceptionals	936.0	735.7	0.0	0.0	0.0
Core Net Profit *	**3,042.2**	**4,032.4**	**4,580.6**	**4,684.4**	**5,738.7**

** Core profit is not adjusted for MFRS16*

Key Financial Metrics

FYE Dec	FY24	FY25	FY26F	FY27F	FY28F
Revenue Growth (%)	6.9%	19.4%	2.6%	4.5%	7.1%
EPS (sen)	68.6	81.8	78.6	80.4	98.4
Core EPS (sen)	52.4	69.2	78.6	80.4	98.4
Core EPS Growth (%)	-1.4%	31.9%	13.6%	2.3%	22.5%
DPS (sen)	51.0	53.0	51.0	52.0	54.0
Dividend Yield (%)	3.9%	4.0%	3.9%	4.0%	4.1%
P/E (x)	19.1	16.0	16.7	16.3	13.3
P/B (x)	1.5	1.5	1.5	1.4	1.4
EV/EBITDA (x)	7.3	7.6	7.6	7.4	7.0
EBITDA margin (%) ^	30.3%	31.6%	32.2%	32.5%	32.6%
EBIT margin (%) ^	13.2%	13.1%	14.6%	14.4%	15.3%
PBT margin (%) ^	8.8%	9.5%	8.7%	8.5%	9.8%
PAT margin (%) ^	6.1%	7.3%	6.6%	6.5%	7.4%
NP margin (%) ^	6.0%	7.3%	6.6%	6.4%	7.4%
CNP margin (%) ^	4.6%	6.2%	6.6%	6.4%	7.4%
ROE (%)	8.0%	9.4%	8.7%	8.6%	10.2%
ROA (%)	2.0%	2.4%	2.2%	2.2%	2.5%
Gearing (%) #	165.6%	169.1%	179.9%	181.5%	182.5%
Net gearing (%) #	127.9%	144.8%	163.5%	166.8%	168.2%

^ ICPT included in the calculatation of profitability margins

 # Gearing includes lease liabilities

DCF Valuation	Value (RM m)	Valuation method
Enterprise Value	174,203.7	WACC: 7.3%, g: 1.5%
(-) Net Debt/(Cash)	76,596.3	
(-) Minority Interests	2,184.5	
Total Equity Value	**95,422.9**	
Enlarged share base (m share)	5,829.1	
Equity Value/share (RM)	**16.37**	
ESG premium/discount	0.0%	
Fair Value (RM)	**16.37**	

Source: Company, Apex Securities

Balance Sheet

FYE Dec (RM m)	FY24	FY25	FY26F	FY27F	FY28F
Deposits, banks & cash balances	19,601.1	12,836.7	9,016.0	8,319.3	8,399.4
Receivables	10,857.4	6,719.7	11,996.3	12,740.3	13,642.5
Inventories	2,543.6	2,561.8	2,375.1	2,473.7	2,642.8
Other current assets	6,152.8	6,398.3	6,450.8	6,544.0	6,695.9
Total Current Assets	**39,154.9**	**28,516.5**	**29,838.2**	**30,077.3**	**31,380.5**
Fixed Assets	125,611.1	132,884.8	141,981.5	150,468.8	156,387.3
Intangibles	-2.0	-1.0	0.0	0.0	0.0
Other non-current assets	35,616.4	36,954.2	39,705.6	37,237.2	37,602.9
Total Non-Current Assets	**161,225.5**	**169,838.0**	**181,687.1**	**187,705.9**	**193,990.2**
Short-term debt #	6,275.6	11,951.7	14,451.7	16,951.7	18,451.7
Payables	14,215.4	11,155.2	13,458.8	14,017.7	14,975.7
Other current liabilities	19,314.6	13,481.0	13,521.7	13,593.9	13,711.7
Total Current Liabilities	**39,805.6**	**36,587.9**	**41,432.3**	**44,563.3**	**47,139.1**
Long-term debt #	51,131.0	47,134.0	49,634.0	52,134.0	53,634.0
Other non-current liabilities	57,432.5	61,658.6	65,910.3	65,167.1	66,929.0
Total Non-Current Liabilities	**108,563.5**	**108,792.6**	**115,544.3**	**117,301.1**	**120,563.0**
Shareholders' equity	49,812.7	50,789.5	52,572.1	54,283.6	56,408.3
Minority interest	2,198.6	2,184.5	2,208.8	2,233.6	2,264.0
Total Equity	**52,011.3**	**52,974.0**	**54,780.9**	**56,517.3**	**58,672.3**

 # Debts do not include lease liabilties

Cash Flow

FYE Dec (RM m)	FY24	FY25	FY26F	FY27F	FY28F
Pre-tax profit	**5,814.8**	**6,176.6**	**6,059.1**	**6,196.3**	**7,590.8**
Depreciation & amortisation	11,232.4	11,980.3	12,292.3	13,173.3	13,465.3
Changes in working capital	4,900.2	-3,855.2	-2,601.8	-146.4	-45.8
Others	430.9	1,530.4	3,127.7	3,104.4	2,810.8
Operating cash flow	**22,378.3**	**15,832.1**	**18,877.3**	**22,327.7**	**23,821.0**
Capex	-11,184.2	-16,271.8	-18,000.0	-18,000.0	-16,000.0
Others	4,814.5	-153.2	3,118.7	0.0	0.0
Investing cash flow	**-11,337.4**	**-13,153.1**	**-18,000.0**	**-18,000.0**	**-16,000.0**
Dividends paid to shareholders	-3,073.7	-2,968.7	-2,798.0	-2,972.9	-3,614.1
Others	-10,022.7	-4,206.9	-1,900.0	-2,051.5	-4,126.9
Financing cash flow	**-13,096.4**	**-7,175.6**	**-4,698.0**	**-5,024.4**	**-7,741.0**
Net cash flow	**-2,055.5**	**-4,496.6**	**-3,820.7**	**-696.7**	**80.1**
Forex	22.2	43.1	-63.9	0.0	0.0
Others	-2.0	-1.0	0.0	0.0	0.0
Beginning cash and cash equivalents	17,225.2	15,212.8	10,652.3	6,831.6	6,134.9
Ending cash and cash equivalents	**15,212.8**	**10,652.3**	**6,831.6**	**6,134.9**	**6,215.0**
Deposits with maturity >90 days & others	4,388.3	2,184.4	2,184.4	2,184.4	2,184.4
Deposits, bank and cash balances	**19,601.1**	**12,836.7**	**9,016.0**	**8,319.3**	**8,399.4**

ESG Matrix Framework:

Environment

Parameters	Rating	Comments
Climate	★★★	Scope 1 and 2 emissions of 39.62m tCO_2e in FY2025, on track for a 35% intensity cut by 2035 and Net Zero by 2050.
Waste & Effluent	★★★	54.14% hazardous-waste recycling in FY2025 (30% target), with coal ash (about 97% of waste) phasing out alongside coal plants.
Energy	★★★	Capacity mix of 39% coal, 30% gas, 14% hydro, 10% renewables and 7% others, with coal exit by 2045 and RE at 4,681 MW (22%) toward 10 GW by 2030.
Water	★★★	Water use down 11.6% from 2023 to 8,920 ML in FY2025, with 99.76% of thermal-plant withdrawal treated and returned.
Compliance	★★★	Full environmental compliance in FY2025, with zero non-compliance incidents.

Social

Diversity	★★★	Women at 46% of executives (from 41%) and 33.3% of the Board, above the 30% target.
Human Rights	★★★	TNB Labour Rights Policy implemented across operations and vendors, with zero forced or child-labour grievances in FY2025.
Occupational Safety and Health	★★★	Three fatalities in FY2025 (from four in 2023), with employee LTIFR of 0.83, below the 1.0 target.
Labour Practices	★★★	Compliant with the minimum wage and committed to a RM3,100/month living wage by December 2027, averaging 57.56 training hours per employee.

Governance

CSR Strategy	★★★	RM232.3m in community investment in FY2025, including RM37.6m in scholarships and 51 adopted schools.
Management	★★★	Women at 27.47% of senior management (30% target by 2026), with a Board that is 50% independent and 33.3% female.
Stakeholders	★★★	Customer satisfaction at 90%, RRSI at 96%, zero privacy complaints and 57% local procurement in FY2025.

Overall ESG Scoring: ★★★

Recommendation Framework:
BUY: Total returns* are expected to exceed 10% within the next 12 months.
HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.
SELL: Total returns* are expected to be below -10% within the next 12 months.
TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.
TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.
*Capital gain + dividend yield

Sector Recommendations:
OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.
NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

ESG Rating Framework:
★★★★★ : Appraised with 3% premium to fundamental fair value
★★★★ : Appraised with 1% premium to fundamental fair value
★★★ : Appraised with 0% premium/discount to fundamental fair value
★★ : Appraised with -1% discount to fundamental fair value
★ : Appraised with -5% discount to fundamental fair value

As of **Wednesday, 23 Sep, 2026**, the analyst(s), whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:
(a) nil.