Tenaga Nasional Berhad

(5347 | TNB MK) MAIN | Utilities

SHARIAH Compliant

ESG 2 Stars

Corporate Update

A Trip to the East Coast

Maintain **BUY**

Unchanged Target Price **RM16.40**

Maintain BUY. We maintain our **BUY** recommendation on Tenaga Nasional with an unchanged DCF-derived **TP** of **RM16.40**. The latest tariff framework under RP4 provides greater stability and transparency, especially through the dynamic Automatic Fuel Adjustment (AFA) that removes the lag in fuel-cost recovery thus, protecting Tenaga from fuel price swings. Electricity demand is also expected to be strong moving forward, where we expect a growth of +5.4% in CY26. We continue to view TNB as a key beneficiary and enabler of Malaysia's energy transition, supported by rising regulated grid capex, growing BESS requirements and sizeable renewable energy opportunities through initiatives such as HHFS.

Technical visit to the East Coast. Tenaga Nasional Berhad (TNB) hosted a trip to the Terengganu, where we visited the recently launched grid-connected battery energy storage system (BESS) in Dungun and the Sultan Mahmud Power Station, which forms part of the larger Kenyir Power Station. The visits provided a better understanding of the utility giant's evolving assets in the energy transition journey, from the BESS for grid stability and the renewable energy growth through the hybrid floating solar.

First grid-connected BESS. The Santong BESS, which was fully commissioned on 16th April, is the country's first BESS to be connected to the grid. It is a 100MW/400MWh BESS, meaning it can discharge up to 100MW of power for around four hours. This is the equivalent electricity support for 40,000 households in the East Coast. The project was completed in 10 months or 309 days, ahead of the typical construction period of 18 months and it is also the first BESS in Malaysia constructed on an elevated reinforced concrete platform due to the swampy land.

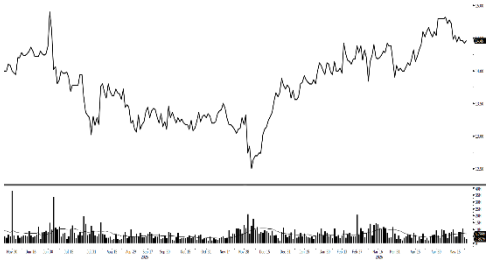
Grid-forming BESS. The Santong BESS uses grid-forming technology, meaning that it helps to support the grid's voltage and frequency instead of merely reacting to them. This gives the system the ability to provide synthetic inertia and respond quickly when there is sudden imbalance between electricity supply and demand. The useful life for the asset is expected to be 21 years.

More BESS in the pipeline. Management indicated that Peninsular Malaysia's current system can absorb solar capacity of around 6GW vs about 4.5GW currently, therefore further increases in renewable penetration would require more BESS capacity. As a rule of thumb from TNB's grid studies, every additional 1GW of solar capacity would require around 500MW of BESS capacity.

Strategic multi-purpose hydro asset. The Kenyir Power Station has a total installed capacity of 665MW, comprising the Sultan Mahmud Power Station (SJ Sultan Mahmud) at 400MW, Puah at 250MW and Tembat at 15MW. The Kenyir Power Stations operates as a cascading hydropower system where water begins at the upper part of the system at Tembat, before being discharged into Puah and then the Kenyir Lake, before flowing into the

RETURN STATISTICS	
Price @ 1st Jul 2026 (RM)	14.20
Expected share price return (%)	+15.5
Expected dividend yield (%)	3.9
Expected total return (%)	+19.4

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-0.6	1.0
3months	-0.6	4.0
12 months	-4.7	-11.3

INVESTMENT STATISTICS

FYE Dec	2026E	2027F	2028F
Revenue	65,038	68,508	71,604
Operating Profit	10,854	11,329	12,400
Profit Before Tax	6,571	7,334	8,202
Core PATAMI	5,220	5,734	6,393
Core EPS	89.8	90.2	91.2
DPS	55.5	55.5	55.5
Dividend Yield	3.9%	3.9%	3.9%

KEY STATISTICS	
FBM KLCI	1,656.83
Issue shares (m)	5824.39
Estimated free float (%)	68.37
Market Capitalisation (RM'm)	82,773.82
52-wk price range	RM12.50-RM14.90
3-mth average daily volume (m)	5.69
3-mth average daily value (RM'm)	82.00
Top Shareholders (%)	
Khazanah Nasional Bhd	20.85
Amanah Saham Nasional Bhd	20.76
Employees Provident Fund Board	19.82

Analyst

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Terengganu River and eventually the sea. The SJ Sultan Mahmud that we visited runs four Francis type water turbines of 100MW each. Construction began in 1978 and the four turbines were commissioned between May 1985 to Jan 1986. Beyond electricity generation, Kenyir also plays an important role in flood mitigation, raw water support, irrigation and emergency response planning, such as managing saltwater intrusion into the Terengganu River. It assists Syarikat Air Terengganu (SATU) during periods of high tide by discharging freshwater to push the saltwater back towards the sea, preventing the risk of saltwater intrusion into the river which may affect water treatment operations.

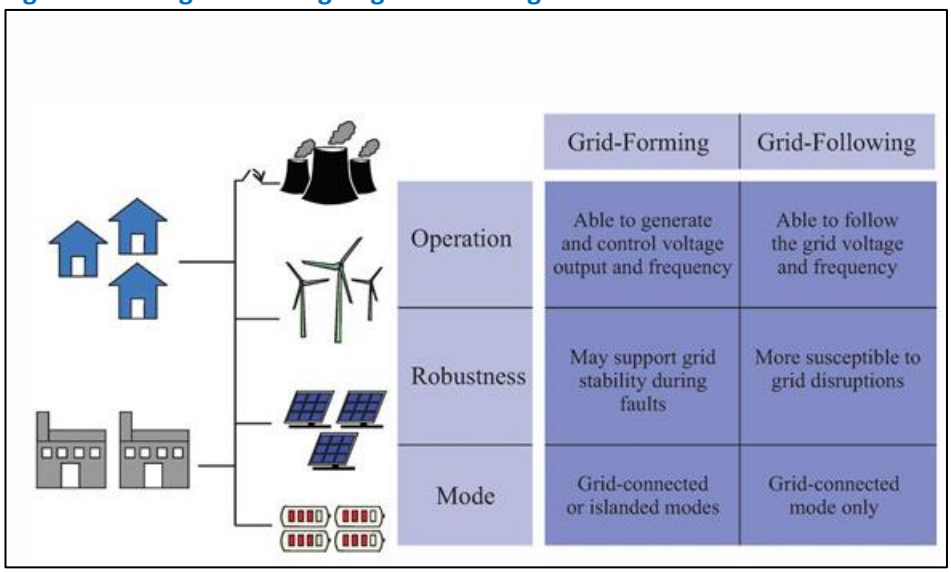
Hydro Life Extension Program (HLEP). The PPA for SJ Sultan Mahmud originally expired in Aug-25, but it was granted an interim extension of five years by the Energy Commission (ST) until Aug-30, ahead of the HLEP that is expected to commence in 3Q28, which is expected to extend its PPA by another 40 years.

HHFS at Kenyir Lake. TNB Genco is spearheading a 2.5GW hybrid hydro floating solar (HHFS) programme across its hydro reservoirs, which is among the flagship projects under the National Energy Transition Roadmap (NETR). The first phase in Kenyir (Kenyir #1) will serve as the anchor project, with a capacity of 595MWac/785MWp, with a BESS capacity of 297.5MW/1190MWh. The EPCC contract was awarded in Apr-26 to a consortium of Cypark Resources and Sunview Group, with a contract value of RM1.96b. The project is expected to enter site development soon, with a target completion date of 29 September 2028. The concept involves installing solar PV panels on floating platforms across selected parts of the Kenyir Lake, allowing TNB to harness solar energy using underutilised water surfaces, reducing the need for large tracts of land. It will be located at the western side of the Kenyir Lake.

Massive potential for HHFS. The Kenyir Lake is the largest man-made lake in the peninsula with an approximate size of 369sq km. Kenyir #1 will take up about 522 acres of lake area, which is about 0.6%. It will be built across 64 “islands” featuring 1.1 million pieces of solar panels. Based on studies, 10% of the lake area could support up to 2.5GW of floating solar capacity. Theoretically, this could be increased to about 50-60%, which may reach a capacity of 7.5GW though this will depend on factors such as water levels, environmental constraints, operational requirement and other technical factors.

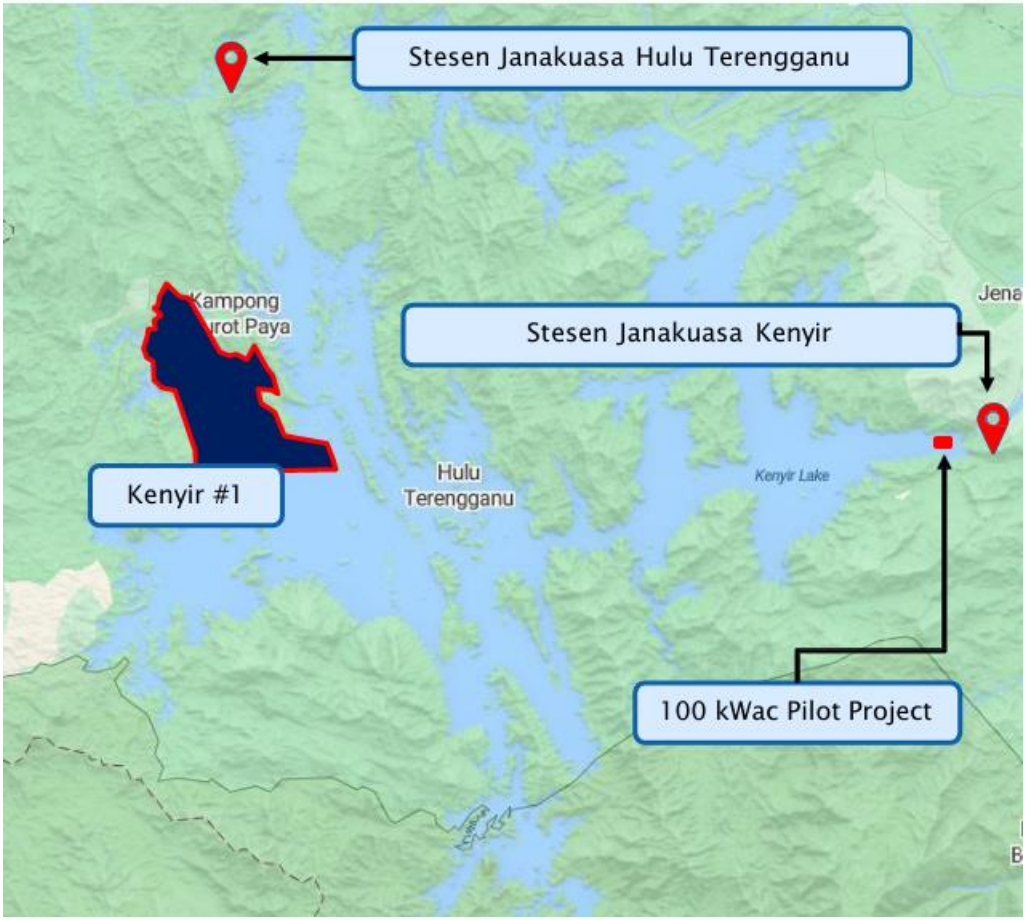
Developed under CRESS. Kenyir #1 will be developed under the Corporate Renewable Energy Supply Scheme (CRESS), with DayOne Data Centres as the offtaker under a 21-year take-or-pay arrangement. The project is structured through a strategic partnership between TNB Genco and Terengganu Inc (70:30).

Figure 1: BESS grid-forming vs grid-following



Source: TNB

Figure 2: Kenyir #1 location



Source: TNB

FINANCIAL SUMMARY

Profit or Loss (RM'm)	2024A	2025A	2026E	2027F	2028F
Revenue	56,737.1	67,723.1	65,037.8	68,507.6	71,603.5
EBIT	8,720.1	8,532.1	10,853.8	11,329.4	12,399.5
PBT	5,814.8	6,176.6	6,571.2	7,334.3	8,201.6
Taxation	(1,085.2)	(1,406.8)	(1,511.4)	(1,760.2)	(1,968.4)
PAT	4,698.6	4,769.8	5,219.9	5,734.1	6,393.2
Core earnings	4,206.4	4,121.8	5,219.9	5,734.1	6,393.2
EPS (sen)	72.4	82.0	89.8	90.2	91.2
PER (x)	18.5	18.8	15.8	14.8	14.6
DPS (sen)	51.0	51.0	55.5	55.5	55.5
Dividend yield (%)	3.5%	3.5%	3.9%	3.9%	3.9%

Cash Flow (RM'm)	2024A	2025A	2026E	2027F	2028F
PBT	5,814.8	6,176.6	6,099.8	7,334.3	8,201.6
Depreciation	14,857.4	12,031.0	12,269.3	12,939.1	13,257.4
Change in NWC	(1,969.8)	(104.5)	(227.4)	(415.7)	(357.6)
Operating cash flow	10,646.0	12,791.4	13,273.6	14,632.4	15,667.9
Capital expenditure	(11,171)	(12,000)	(13,000)	(14,000.0)	(15,000.0)
Investing cash flow	(11,032)	(11,861)	(12,861)	(13,860.5)	(14,860.5)
Debt raised/(repaid)	2,737.0	2,873.8	3,017.5	2,819.1	2,960.0
Dividends paid	(838.4)	(2,694)	(2,914.1)	(3,727.1)	(4,155.6)
Financing cash flow	1,898.6	179.9	103.4	(908.0)	(1,195.6)
Net cash flow	1,512.7	1,110.7	516.6	388.2	564.7
Beginning cash flow	17,507.9	19,020.6	20,131.3	20,648.8	21,037.0
Ending cash flow	19,020.6	20,131.3	20,648.8	21,037.0	21,301.7

Balance Sheet (RM'm)	2024A	2025A	2026E	2027F	2028F
PPE	121,824	125,278	129,495	137,603.9	142,832.2
ROU assets	42,087	42,087	42,087	39,021	39,021
Non-current assets	163,912	167,366	171,582	176,625	181,853
Trade receivables	15,029	15,503	16,097	17,080	17,852
Cash & bank balances	22,517	23,628	24,145	14,931	14,543
Current assets	43,751	45,415	46,626	38,561	39,074
Long-term debt	57,477	60,350	63,368	59,201	62,161
Non-current liabilities	113,887	116,761	119,778	112,862	115,822
Short-term debt	7,031	7,031	7,031	12,000	12,000
Trade payables	12,439	12,889	13,356	14,096	14,641
Current liabilities	32,147	32,597	33,064	38,474	39,018
Share capital	12,038	12,038	12,038	12,038	12,038
Reserves	47,141	48,937	50,880	53,138	55,376
Equity	61,628	63,424	65,367	67,625	69,862

Profitability Ratios (%)	2024A	2025A	2026E	2027F	2028F
EBIT margin	15.4	12.6	16.7	16.5%	17.3%
PBT margin	10.2	9.1	10.1	10.7%	11.5%
PATAMI margin	8.3	7.0	8.0	8.4%	8.9%
Core PATAMI margin	6.2	6.1	8.0	8.4%	8.9%
ROE	6.8	6.5	8.0	8.5%	9.2%

Source: Bloomberg, MBSBR

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STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	The stock price is expected to rise by >10% within 3 months after a Trading Buy rating has been assigned due to positive news flow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	The stock price is expected to fall by >10% within 3 months after a Trading Sell rating has been assigned due to negative news flow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology