Tenaga Nasional Berhad

(5347 | TNB MK) MAIN | Utilities

SHARIAH Compliant

ESG 2 Stars

Corporate Update

Eight Sites Identified for HHFS

Maintain **BUY**

Unchanged Target Price **RM16.31**

Maintain BUY. We maintain our **BUY** recommendation on Tenaga Nasional with an unchanged DCF-derived **TP** of **RM16.31**. 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.

8 sites identified for HHFS. Tenaga Nasional (TNB) held a webinar with investors yesterday on the hybrid hydro floating solar (HHFS), which provided greater clarity on the 2.5GW HHFS pipeline it is spearheading under the National Energy Transition Roadmap (NETR). TNB has shortlisted eight sites across six reservoirs to achieve the 2.5GW – Temenggor, Kenering, Bersia, Nenggiri, Kenyir and Puah. Kenyir will remain as the frontrunner for the project, where a 595MWac floating solar is currently being developed.

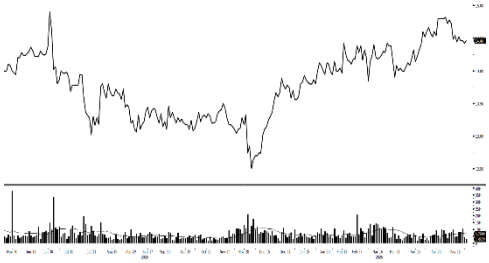
Kenyir 1 as the anchor project. To recap, the first phase in Kenyir (Kenyir 1) will serve as the anchor project, with a capacity of 595MWac/785MWp, with a BESS capacity of 297.5MW/1190MWh. The EPCC contract was awarded in Apr-26 to a consortium of Cypark Resources and Sunview Group, with a contract value of RM1.96b. The targeted completion date is by Sep-28. The project's scale is substantial, requiring about 1.1m of solar PV panels spread across 64 floating islands, supported by 1,700 string inverters and 9,000 anchors and mooring blocks. These will be built on 522ha of Kenyir Lake's water body, taking up only 1.41%. Kenyir 1 is being structured on an approximately 80:20 debt-to-equity basis, with fundraising to progress alongside project execution. IRR is generally in the high single digit range.

To benefit from CRESS acceleration package. 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. We expect Kenyir 1 to be able to qualify under the CRESS acceleration package, therefore benefitting from the preferential 14 sen/kWh system access charge (SAC). On whether the lower SAC would be passed on to the offtaker, management said it would depend on the negotiation between them and the offtaker. The SAC for the first 10 years is expected to be fixed at 14 sen/kWh.

Pumped hydro enters the longer-term storage equation. Beyond BESS, TNB confirmed that it is assessing pumped-storage hydropower integrated with floating solar, potentially involving greenfield reservoirs. This could potentially be in Nenggiri, though no specific timeline was disclosed.

RETURN STATISTICS	
Price @ 2nd Oct 2026 (RM)	12.90
Expected share price return (%)	+26.4
Expected dividend yield (%)	4.4
Expected total return (%)	+30.8

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-6.3	-1.7
3months	-0.5	-7.4
12 months	-1.5	-1.1

INVESTMENT STATISTICS

FYE Dec	2026E	2027F	2028F
Revenue	65,039	68,780	72,153
Operating Profit	10,069	10,787	11,742
Profit Before Tax	6,270	6,795	7,547
Core PATAMI	4,863	5,222	5,783
Core EPS	89.2	90.2	91.2
DPS	55.5	56.5	57.5
Dividend Yield	4.3%	4.4%	4.5%

KEY STATISTICS	
FBM KLCI	1,630.36
Issued shares (m)	5824.39
Estimated free float (%)	70.13
Market Capitalisation (RM'm)	75,195.93
52-wk price range	RM12.5 - RM14.9
3-mth average daily volume (m)	6.84
3-mth average daily value (RM'm)	95.39
Top Shareholders (%)	
Employees Provident Fund Board	24.87
Khazanah Nasional Bhd	16.33
Amanah Saham Nasional Bhd	11.24

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DC to strengthen CRESS demand. Management also highlighted that securing offtakers had been one of the primary challenges to scaling HHFS during 2023-25. This has changed materially as the rapid build-out of data centres creates a growing pool of large-load customers seeking RE, coupled with a recent requirement by the Data Centre Task Force (DCTF) for a 30% RE usage. We believe the emergence of DC demand materially strengthens the addressable market for CRESS developments and improves visibility for TNB's broader RE pipeline.

Maintain BUY. We believe the recent selldown in TNB is due to the temporary RM120-150m additional cost absorption as part of a one-off assistance to domestic consumers and the uncertainty around the design of the post-Dec-26 AFA framework, particularly how the Government allocates fuel costs across different customer segments, Nevertheless, we believe any redesign should remain earnings neutral on TNB as long as the regulatory framework continues to preserve full fuel-cost pass-through and recovery. Even on the upper end of the conservative estimate at RM150m of cost absorption, this is expected to see a -2.3% reduction in our FY26 earnings projection hence we keep our estimates largely unchanged for now.

FINANCIAL SUMMARY

Profit or Loss (RM'm)	2024A	2025A	2026E	2027F	2028F
Revenue	56,737.1	67,723.1	65,038.7	68,780.3	72,152.6
EBIT	8,720.1	8,532.1	10,069.2	10,787.1	11,741.9
PBT	5,814.8	6,176.6	6,270.1	6,795.0	7,547.0
Taxation	(1,085.2)	(1,406.8)	(1,567.5)	(1,732.7)	(1,924.5)
PAT	4,698.6	4,769.8	4,862.5	5,222.3	5,782.5
Core earnings	4,206.4	4,121.8	4,862.5	5,222.3	5,782.5
EPS (sen)	72.2	70.7	89.2	90.2	91.2
PER (x)	17.9	18.2	14.5	14.3	14.1
DPS (sen)	51.0	51.5	55.5	56.5	57.5
Dividend yield (%)	4.0	4.0	4.3	4.4	4.5

Cash Flow (RM'm)	2024A	2025A	2026E	2027F	2028F
PBT	5,814.8	6,176.6	6,270.1	6,795.0	7,547.0
Depreciation	11,232.3	12,324.3	13,000.0	13,646.9	13,856.7
Change in NWC	(1,995.7)	(1,947.8)	(7,274.7)	(839.4)	(745.8)
Operating cash flow	22,378.3	15,570.3	6,962.7	14,404.6	15,268.3
Capital expenditure	(11,184)	(12,000)	(18,000)	(12,820)	(15,000)
Investing cash flow	(11,337)	(13,192)	(18,000)	(12,820)	(15,000)
Debt raised/(repaid)	(4,363.6)	2,644.3	9,296.0	2,819.1	2,960.0
Dividends paid	(2,549.1)	(2,968.7)	(3,160.7)	(3,160.7)	(3,160.7)
Financing cash flow	(13,096)	(6,993.6)	(427.5)	(341.6)	(200.6)
Net cash flow	(2,055.5)	(4,615.7)	(11,465)	1,243.1	67.7
Beginning cash flow	17,225.2	15,169.7	10,554.0	(909.8)	335.3
Ending cash flow	15,169.7	10,554.0	(909.8)	335.3	406.0

Balance Sheet (RM'm)	2024A	2025A	2026E	2027F	2028F
PPE	121,837	124,998	133,624	136,422	141,190
ROU assets	39,021	39,021	39,021	39,021	39,021
Non-current assets	160,858	164,019	172,644	175,443	180,211
Trade receivables	15,051	17,340	17,819	18,844	19,768
Cash & bank balances	18,949	14,333	2,869	4,112	4,179
Current assets	40,208	38,004	27,928	30,402	31,578
Long-term debt	51,131	47,134	56,382	59,201	62,161
Non-current liabilities	104,792	100,795	110,042	112,862	115,822
Short-term debt	6,276	11,952	12,000	12,000	12,000
Trade payables	12,439	12,903	7,017	7,408	7,771
Current liabilities	31,092	37,232	31,395	31,785	32,148
Share capital	12,038	12,038	12,038	12,038	12,038
Reserves	48,253	49,406	51,108	52,936	54,960
Equity	62,740	63,893	65,595	67,423	69,447

Profitability Ratios (%)	2024A	2025A	2026E	2027F	2028F
EBIT margin	15.4	12.6	15.5	15.7	16.3
PBT margin	10.2	9.1	9.6	9.9	10.5
PATAMI margin	8.3	6.1	7.5	7.6	8.0
Core PATAMI margin	7.4	6.1	7.5	7.6	8.0
ROE	6.7	6.5	7.4	7.7	8.3

Source: Bloomberg, MBSBR

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MBSB INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

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