

Tenaga Nasional (TNB MK)

An unexpected tax twist

Overhang to persist

The Federal Court decision for Tenaga's 2018 tax dispute bodes negatively for Tenaga's remaining cases, thus extending an already longstanding overhang. Nevertheless, potential provisioning could be deemed as one-off, while the overall dispute amount is manageable relative to Tenaga's cash reserves (thus posing a low risk to dividends). Tenaga's operational earnings remain resilient with potential upside risk from contingent capex deployment. Maintain BUY with a MYR15.50 TP (DCF-based).

A hiccup in ruling

On the case in relation to Tenaga's 2018 additional assessment of MYR1.25b, the Federal Court had on 2 July 2025, allowed the IRB's (Inland Revenue Board) appeal against previous favourable decisions (to Tenaga) by the High Court and the Court of Appeal. The Federal Court held that as a utility company, Tenaga should have applied for investment allowance (for services sector, Schedule 7B) instead of reinvestment allowance (Schedule 7A).

Overall manageable value at risk

In lieu of the Federal Court's decision, Tenaga disclosed it will be pursuing a claim on investment allowance under Schedule 7B, while cautioning against a potential negative impact to FY25 earnings (possible provisions in our view). The Federal Court's decision would potentially have ramifications to Tenaga's remaining cases in relation to other years of assessments. Overall, we estimate Tenaga has MYR5.05b worth of tax disputes outstanding, representing c.6% of its market cap, or MYR0.87/Tenaga share.

New claims to be long-drawn

While seemingly a technicality, Tenaga's intended claim under a new schedule would likely be long-drawn in our view. Our earnings forecasts and MYR15.50 TP (DCF-based assuming 7.5% WACC and 2% LT growth) are unchanged for now, pending eventual case closure. We maintain a 50% dividend payout, implying c.3% yield.

FYE Dec (MYR m)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue	63,665	65,835	67,497	70,301	73,424
EBITDA	14,484	16,112	16,952	18,165	19,843
Core net profit	3,735	4,847	4,714	5,286	5,853
Core FDEPS (sen)	64.4	83.4	81.1	90.9	100.7
Core FDEPS growth(%)	(20.9)	29.4	(2.7)	12.1	10.7
Net DPS (sen)	46.0	51.0	40.5	45.5	50.3
Core FD P/E (x)	15.6	17.9	18.0	16.1	14.5
P/BV (x)	1.0	1.4	1.4	1.3	1.2
Net dividend yield (%)	4.6	3.4	2.8	3.1	3.4
ROAE (%)	5.9	9.0	7.7	8.3	8.8
ROAA (%)	1.8	2.4	2.3	2.5	2.7
EV/EBITDA (x)	7.0	7.8	7.4	7.2	6.9
Net gearing (%) (incl perps)	66.7	59.7	59.4	65.4	69.5
Consensus net profit	-	-	4,666	4,988	5,211
MIBG vs. Consensus (%)	-	-	1.0	6.0	12.3

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BUY

Share Price	MYR 14.60
12m Price Target	MYR 15.50 (+9%)
Previous Price Target	MYR 15.50

Company Description

Tenaga Nasional engages in the generation, transmission, distribution and sale of electricity and the provision of other related services.

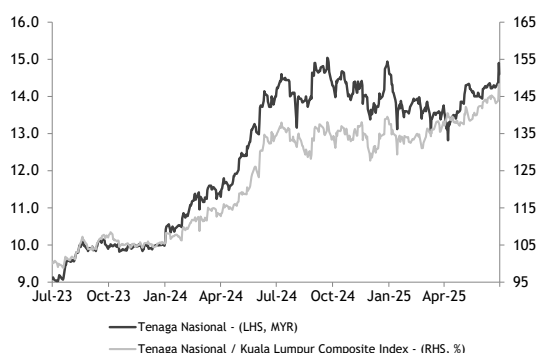
Statistics

52w high/low (MYR)	15.04/12.82
3m avg turnover (USDm)	24.5
Free float (%)	57.2
Issued shares (m)	5,829
Market capitalisation	MYR85.1B
	USD20.1B

Major shareholders:

Khazanah Nasional Bhd	20.4%
Employees Provident Fund	20.1%
Permodalan Nasional Bhd	7.1%

Price Performance



	-1M	-3M	-12M
Absolute (%)	4	6	4
Relative to index (%)	2	5	8

Source: FactSet

Tenaga: Additional tax assessments

(MYR b)	(Penalty waiver for 2013-2018)		
Year	Gross	Net	Comments
2013	0.99	0.68	No court case, appeal to Special Commissioners of Income Tax (announced 7 Dec 2016); SCIT trial is adjourned, pending the Federal Court's decision in relation to the notice of additional assessment for YA 2018
2014	1.08	0.75	
2015	1.43	0.99	
2016	1.25	0.86	Next case management for 17 July 2025 to update the Court of Appeal on the Federal Court's decision for the YA 2018 (announced 30 Jun 2025)
2017	1.30	0.90	
2018	1.81	1.25	
2020	0.69	0.69	Federal Court allowed the IRB's appeal - applicable for Tenaga should be 7B instead of 7A (announced 2 July 2025)
2021	0.71	0.71	
2022			
Total	7.86	6.81	
Paid		-1.76	Prepayment of 2016 & 2017 assessment being one of the terms of two consent orders signed between TNB and IRB (announced 31 Dec 2020)
Balance		5.05	

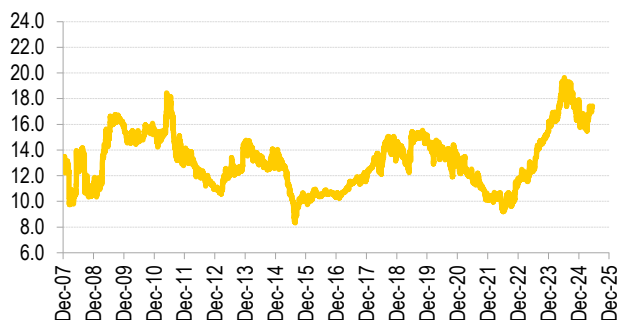
Source: Company

Tenaga: Valuation

(MYR m)	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
Enterprise FCF	2,682	-1,486	-193	5,571	6,427	7,423
Discounted FCF	2,682	-1,383	-167	4,489	4,819	5,180
Terminal value						162,007
Discounted terminal value						113,054
Enterprise value	128,674					
Net cash	-38,556					
Equity value	90,118					
Equity value / share (RM)	15.50					

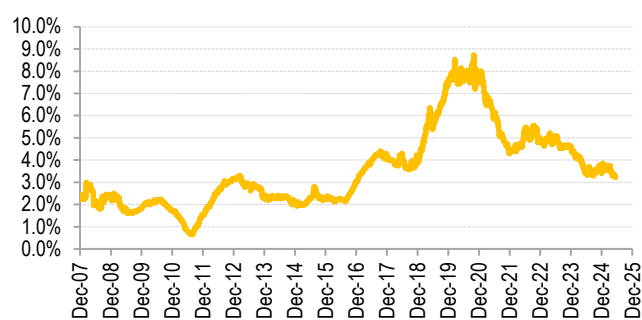
Source: Maybank IBG Research

Trailing PER



Source: Bloomberg, Maybank IBG Research

Trailing net yield



Source: Bloomberg, Maybank IBG Research

Risk statement

There are several risk factors for our earnings estimates, price target, and rating for Tenaga. Regulatory developments, such as the determination of regulated returns, have direct impact on earnings. Changes in electricity demand patterns or plant outages could also result in loss of earnings for Tenaga.

FYE 31 Dec	FY23A	FY24A	FY25E	FY26E	FY27E
Key Metrics					
P/E (reported) (x)	16.1	14.2	18.0	16.1	14.5
Core P/E (x)	15.5	17.9	18.0	16.1	14.5
Core FD P/E (x)	15.6	17.9	18.0	16.1	14.5
P/BV (x)	1.0	1.4	1.4	1.3	1.2
P/NTA (x)	2.5	3.1	2.8	2.5	2.3
Net dividend yield (%)	4.6	3.4	2.8	3.1	3.4
FCF yield (%)	37.4	12.9	3.6	nm	0.3
EV/EBITDA (x)	7.0	7.8	7.4	7.2	6.9
EV/EBIT (x)	15.1	15.7	15.4	14.7	13.8

INCOME STATEMENT (MYR m)

Revenue	63,665.1	65,834.8	67,497.3	70,301.0	73,423.9
EBITDA	14,484.0	16,111.6	16,952.0	18,164.7	19,843.4
Depreciation	(7,804.2)	(8,096.0)	(8,792.8)	(9,217.1)	(9,979.3)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	6,679.8	8,015.6	8,159.2	8,947.6	9,864.1
Net interest income / (exp)	(2,199.7)	(1,971.7)	(1,981.9)	(2,017.8)	(2,188.1)
Associates & JV	62.4	107.5	50.0	50.0	50.0
Exceptionals	(290.6)	492.2	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	4,251.9	6,643.6	6,227.3	6,979.8	7,726.0
Income tax	(974.7)	(1,273.6)	(1,482.6)	(1,663.2)	(1,842.2)
Minorities	166.7	(31.0)	(31.0)	(31.0)	(31.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	3,443.9	5,339.0	4,713.8	5,285.6	5,852.7
Core net profit	3,734.5	4,846.8	4,713.8	5,285.6	5,852.7

BALANCE SHEET (MYR m)

Cash & Short Term Investments	21,004.6	20,047.0	18,850.8	13,172.0	8,366.2
Accounts receivable	14,965.7	15,623.3	15,533.6	15,793.6	16,294.1
Inventory	2,758.0	2,543.6	2,654.2	2,742.8	2,839.8
Property, Plant & Equip (net)	122,024.7	125,611.1	129,818.3	138,601.2	146,621.9
Intangible assets	35,312.5	32,009.5	32,009.5	32,009.5	32,009.5
Investment in Associates & JVs	1,667.2	1,487.5	1,472.5	1,457.5	1,442.5
Other assets	7,038.7	7,734.1	7,734.1	7,734.1	7,734.1
Total assets	204,771.4	205,056.1	208,073.0	211,510.8	215,308.1
ST interest bearing debt	7,030.6	6,275.6	6,275.6	6,275.6	6,275.6
Accounts payable	12,830.7	14,215.4	14,597.9	15,085.3	15,618.8
LT interest bearing debt	54,739.6	51,131.0	51,131.0	51,131.0	51,131.0
Other liabilities	69,088.0	70,864.0	71,111.0	71,389.0	71,696.0
Total Liabilities	143,688.7	142,486.4	143,116.0	143,880.6	144,721.1
Shareholders Equity	58,825.8	60,371.1	62,728.0	65,370.8	68,297.2
Minority Interest	2,256.9	2,198.6	2,229.0	2,259.4	2,289.8
Total shareholder equity	61,082.7	62,569.7	64,957.0	67,630.2	70,587.0
Total liabilities and equity	204,771.4	205,056.1	208,073.0	211,510.8	215,308.1

CASH FLOW (MYR m)

Pretax profit	4,251.9	6,643.6	6,227.3	6,979.8	7,726.0
Depreciation & amortisation	7,804.2	8,096.0	8,792.8	9,217.1	9,979.3
Change in working capital	13,395.0	839.2	361.6	138.7	(63.9)
Other operating cash flow	5,500.6	5,771.6	(50.0)	(50.0)	(50.0)
Cash flow from operations	32,218.5	22,447.4	16,078.2	16,917.4	18,244.3
Capex	(10,571.2)	(11,264.2)	(13,000.0)	(18,000.0)	(18,000.0)
Free cash flow	21,647.3	11,183.2	3,078.2	(1,082.6)	244.3
Dividends paid	(2,537.5)	(3,073.7)	(2,356.9)	(2,642.8)	(2,926.4)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(3,576.6)	(3,386.0)	0.0	0.0	0.0
Other invest/financing cash flow	(7,660.3)	(5,773.2)	(1,917.5)	(1,953.4)	(2,123.7)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	7,872.9	(1,049.7)	(1,196.2)	(5,678.8)	(4,805.8)

FYE 31 Dec	FY23A	FY24A	FY25E	FY26E	FY27E
Key Ratios					
Growth ratios (%)					
Revenue growth	(13.0)	3.4	2.5	4.2	4.4
EBITDA growth	(12.0)	11.2	5.2	7.2	9.2
EBIT growth	(25.3)	20.0	1.8	9.7	10.2
Pretax growth	(35.0)	56.3	(6.3)	12.1	10.7
Reported net profit growth	(21.4)	55.0	(11.7)	12.1	10.7
Core net profit growth	(20.6)	29.8	(2.7)	12.1	10.7
Profitability ratios (%)					
EBITDA margin	22.8	24.5	25.1	25.8	27.0
EBIT margin	10.5	12.2	12.1	12.7	13.4
Pretax profit margin	6.7	10.1	9.2	9.9	10.5
Payout ratio	77.1	55.4	50.0	50.0	50.0
DuPont analysis					
Net profit margin (%)	5.4	8.1	7.0	7.5	8.0
Revenue/Assets (x)	0.3	0.3	0.3	0.3	0.3
Assets/Equity (x)	3.5	3.4	3.3	3.2	3.2
ROAE (%)	5.9	9.0	7.7	8.3	8.8
ROAA (%)	1.8	2.4	2.3	2.5	2.7
Liquidity & Efficiency					
Cash conversion cycle	54.4	9.0	4.1	1.6	0.1
Days receivable outstanding	118.1	83.6	83.1	80.2	78.7
Days inventory outstanding	21.1	18.2	17.4	17.5	17.5
Days payables outstanding	84.9	92.8	96.4	96.1	96.0
Dividend cover (x)	1.3	1.8	2.0	2.0	2.0
Current ratio (x)	1.2	1.2	1.1	1.0	0.8
Leverage & Expense Analysis					
Asset/Liability (x)	1.4	1.4	1.5	1.5	1.5
Net gearing (%) (incl perps)	66.7	59.7	59.4	65.4	69.5
Net gearing (%) (excl. perps)	66.7	59.7	59.4	65.4	69.5
Net interest cover (x)	3.0	4.1	4.1	4.4	4.5
Debt/EBITDA (x)	4.3	3.6	3.4	3.2	2.9
Capex/revenue (%)	16.6	17.1	19.3	25.6	24.5
Net debt/ (net cash)	40,765.6	37,359.6	38,555.8	44,234.6	49,040.4

Source: Company; Maybank IBG Research

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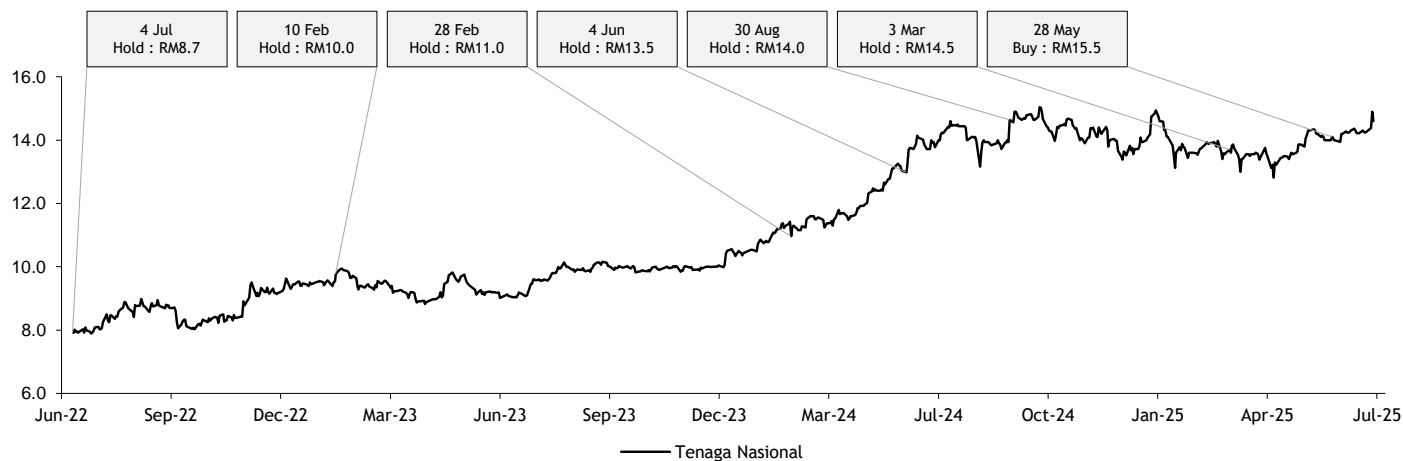
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