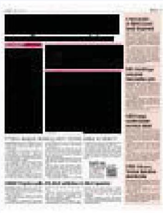

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Winners and losers of targeted subsidy plan

The Star, Malaysia

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Downstream oil and gas sector forecast to benefit

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>
> MIDF Research

PETALING JAYA: The upcoming targeted subsidy scheme is likely to have a positive impact on the downstream oil and gas sector in Malaysia, while the logistics and power utility sectors will likely see limited or a neutral impact on their operations.

Expected to be on the losing end is the consumer sector, which will likely be negatively affected to a varying degree due to the impact from the government's reform initiative on consumer sentiment and spending.

In its report, MIDF Research said it foresaw four probable scenarios for the targeted-fuel subsidy measures, of which only three it deemed to be possible.

The first three scenarios would be that RON95 petrol will remain status quo at RM2.05 per litre, with more time given to prepare consumers and solidify the targeted-subsidy mechanism; RON95 to be raised by five sen each month from June 2024 until it reaches RM2.40 per liter; and RON95 to be adjusted to RM2.40 in June 2024, with a one-off increase.

The brokerage said while the last scenario of RON95 being set at market price from June 2024 was a possibility, it deemed the move to be highly unlikely for now.

MIDF Research, which has a positive stance on the oil and gas sector, said targeted fuel subsidies could promote efficiency in the refinery and retailer subsectors of the downstream segment.

"Overall, we opine that adaptation will potentially strengthen the competitive positions of refineries and retailers alike," it explained.

It noted PETRONAS Dagangan Bhd (PetDag) had a system ready for the implementation of diesel subsidy rationalisation, with an expected minimal impact on sales volume.

"The group had also indicated that the floatation of petrol prices would have a similarly minimal impact, as indicated in 2019 prices, although the pump prices would be higher for non-subsidised targets," it said, maintaining its "buy" call on PetDag, with a target price of RM24.91.

On the logistics sector, MIDF Research noted the government had assured that the implementation of targeted diesel subsidies to curb leakages and smuggling would not affect certain sectors such as logistics.

"A pilot project known as the subsidised diesel control system 2.0 is currently underway among selected land transport companies," it said.

"In the event of non-exemption, logistics players are shielded from diesel price fluctuations due to the inclusion of a fuel clause in their contracts with customers. This clause adjusts transportation rates according to weekly diesel prices," it added.

Among the logistics companies under its coverage, MIDF Research had a "buy" call on Tasco Bhd, with a target price of RM1.30, and "neutral" for Swift Haulage Bhd at 50 sen.

Meanwhile, MIDF Research said that overall, the rationalisation of subsidies for poultry, electricity, RON95 and diesel prices in Malaysia would have a negative impact on the consumer sector, particularly on consumer discretionary due to reduced consumption.

"Demand for consumer staples is expected to remain resilient but may face increased price sensitivity, prompting consumers to seek cheaper alternatives to staple foods," it said.

"On a positive note, the inelastic demand for staple food, a stable job market outlook, and the return of international tourists will continue to support the topline of consumer staple companies," it added.

MIDF Research's top picks remained consumer staple names such as QL Resources Bhd and Fraser & Neave Holdings Bhd with target prices of RM6.50 and RM33.50, respectively.

It said these companies would benefit from stable demand for staple foods, a diversified revenue base and support from the influx of tourists.

On the rollback of the electricity subsidy, MIDF Research said under the incentive-based regulatory (IBR) framework, imbalance cost pass-through (ICPT) is a mechanism for Tenaga Nasional Bhd (TNB) to pass through cost under-recovery (or over-recovery) to consumers on a semi-annual basis.

It noted that TNB remained largely earnings-neutral to ICPT movements, as outlined under the IBR framework.

It reiterated its "neutral" call on TNB with a target price of RM11.