

Headline	Power sector charges ahead on strong demand		
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# Power sector charges ahead on strong demand

Low energy prices to help ease pressure on profit

## UTILITIES

**PETALING JAYA:** Malaysia's power sector is expected to see stronger growth this year, driven by the anticipated increase in demand for electricity and gas.

The sector is also expected to benefit from the declining global energy prices, which could help ease pressure on earnings growth.

Given its optimism for the sector, Hong Leong Investment Bank Research (HLIB Research) maintained its "overweight" recommendation on utilities, citing the sector's earnings and dividend sustainability.

In its report yesterday, the brokerage said demand for utilities (electricity and gas) is expected to sustain into 2024 in tandem with the government's continued focus on economic recovery.

This demand growth is further supported by dissipating inflationary pressures and the end of the interest rate upcycle, it noted.

On global energy prices, HLIB Research said, post-new highs in 2022, global energy prices have retraced downward in 2023.

"The declining global energy prices have somewhat provided comfort to the sector, despite the still elevated level.

"We expect energy prices to remain stable and stay elevated in 2024," it added.

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Hong Leong Investment Bank Research

HLIB Research said the Malaysian utilities sector is largely protected under regulated asset base (RAB) and imbalance cost-pass-through (ICPT) mechanisms as well as long-term contracts to insulate power companies from the volatile fuel energy costs.

"The government continued to show its utmost commitment towards the RAB/ICPT mechanisms, allowing surcharge to the benchmark tariffs and providing subsidies to cover any shortfall to the under-recovered expenses.

"The sustainability of RAB/ICPT should instill confidence for both domestic and foreign investors in the overall government policy.

"The RAB/ICPT in general protects the committed capital investments from the fluctuation of global fuel energy costs, inflationary pressure and provides fair and stable return to the capital shareholders to

ensure the needed long-term capital investments in the infrastructure," it added.

Overall, HLIB Research said earnings and cash flow for the utilities sector were expected to sustain into 2024, driven by sustainable demand, protection under the incentive-based regulation (IBR) and ICPT mechanisms as well as long-term contracts or agreements.

"We do not expect negative surprise from governments on their commitments towards the RAB/ICPT mechanisms so as not to undermine investors' confidence towards the governments' existing and future policies," it said.

Meanwhile, HLIB Research said the sector's outlook was also increasingly positive due to the new opportunities arising from the National Energy Transition Roadmap (NETR).

It pointed out that utility companies are

## EXCHANGE RATE

OPENING RATES BY MAYBANK ON JAN 8, 2024

	SELLING TT/OD	BUYING TT	BUYING OD
1 US Dollar	4.7180	4.5820	4.5720
1 Australian Dollar	3.1890	3.0610	3.0450
1 Brunei Dollar	3.5490	3.4450	3.4370
1 Canadian Dollar	3.5300	3.4350	3.4230
1 Euro	5.1750	5.0060	4.9860
1 New Zealand Dollar	2.9630	2.8540	2.8380
Singapore Dollar	3.5490	3.4450	3.4370
1 Sterling Pound	6.0020	5.8150	5.7950
1 Swiss Franc	5.5230	5.3970	5.3820
100 UAE Dirham	130.0400	123.2700	123.0700
100 Bangladesh Taka	4.3820	4.0950	3.8950
100 Danish Krone	71.1200	65.4300	65.2300
100 Hongkong Dollar	61.0800	58.0200	57.8200
100 Indian Rupee	5.7700	5.4200	5.2200
100 Indonesian Rupiah	0.0315	0.0285	0.0235
100 Japanese Yen	3.2670	3.1630	3.1530
100 Norwegian Krone	47.0500	43.2600	43.0600
100 Pakistan Rupee	1.7000	1.6000	1.4000
100 Philippine Peso	8.6100	8.1100	7.9100
100 Qatar Riyal	130.9200	124.2800	124.0800
100 Saudi Riyal	127.2500	120.8000	120.6000
100 South Africa Rand	26.1500	23.6300	23.4300
100 Sri Lanka Rupee	1.5000	1.3800	1.1800
100 Swedish Krona	47.4600	43.2000	43.0000
100 Thai Baht	14.2200	12.6100	12.2100

now leveraging onto the growing demand for carbon neutrality, enabling a new earnings growth for the sector.

The NETR sets the pathway for Malaysia to achieve net-carbon neutrality by 2050.

Under the roadmap, there are long-term plans to lift renewable energy capacity share from the present 25% to 70% by 2050; explore new technologies such as battery storage, hydrogen power, biomass, ammonia; implementation of carbon capture, utilisation and storage; as well as accelerate electric vehicle adoption and infrastructure.

HLIB Research named YTL Power International Bhd as its top pick, with a target price of RM3.90, for the group's strong earnings growth and undemanding valuation.

The brokerage also had a "buy" call on Tenaga Nasional Bhd, with a target price of RM11, based on the national utility company's earnings recovery and sustainable dividend payout.