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PETALING JAYA: The current declining gas prices are expected to have a mixed impact on utility companies.

While the movement of gas prices has a neutral impact in the longer run given the regulated framework, the current declining gas price trend has a positive impact on Petronas Gas Bhd in the immediate term, according to Kenanga Research.

This is because low gas prices lead to lower internal gas consumption (input cost) for its regulated business as well as non-regulated utilities segment, it added.

"The utilities segment uses gas as fuel to generate and supply power, stream and industrial gases to industries. However, weaker gas prices work against Gas Malaysia Bhd's non-regulated retail margins, which are calculated based on a fixed percentage on the gas selling price.

"On the other hand, YTL Power International Bhd's solid earnings from PowerSeraya is expected to sustain at least in the next two years, underpinned by favourable retail prices against gas input cost locked in at low cost (during the early days during the Covid-19 pandemic) while it expects a maiden earnings contribution from data centre in the fourth quarter of financial year 2024 (FY24)," the research house said.

Meanwhile, the brokerage said it is raising its FY24 to FY25 net profit forecasts for Tenaga Nasional Bhd by 1% each to bring it more in line with its guidance for electricity demand growth.

"We now assume electricity demand growth of 2.5% in FY24 to FY25 (versus 1.8% previously) and lift our target price to RM11.50 from RM11.40," Kenanga Research noted.

The research house is remaining "neutral" on the utility sector, adding that the sector offers earnings defensiveness, backed by regulated assets, offering dividend yields of 3% to 6%.

"However, most key stocks are fully valued after the recent run-up in their share prices.