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TNB able to weather impact of EMCO

The power utility firm is largely sheltered from demand fluctuations with CS segment being subjected to demand risk

by LYDIA NATHAN

MAYBANK Investment Bank Research (Maybank IB) remains bullish on Tenaga Nasional Bhd (TNB) as it expects the multinational power utility will be able to weather the strong crosswinds from the Extended Movement Control Order (EMCO).

The investment bank noted the firm has fallen further since the imposition of EMCO in large parts of the Klang Valley.

Despite concerns over bad debts and the sufficiency of the Industry Fund weighing on sentiment, Maybank IB does not expect TNB's earnings to be materially impacted.

"TNB is largely sheltered from demand fluctuations, with only the Customer Services segment which brings in RM1.7 billion annual revenue, being subjected to demand



Despite concerns over bad debts and the sufficiency of the Industry Fund weighing on sentiment, Maybank IB does not expect TNB's earnings to be materially impacted

risk. The remaining RM13.8 billion of annual regulated revenue is fixed with any shortfall to be claimed from the Industry Fund,

whose outstanding balance is no longer disclosed," Maybank IB noted in a recent report. It estimated a 2% demand short-

fall will imply RM270 million of revenue claimable from the Industry Fund during the EMCO. "Coal prices have surged in

recent months which means TNB would soon begin to under-recover on its generation costs. The resulting tariff surcharge could potentially be hard to push through given the current challenging economic conditions," the bank stated.

Additionally, TNB may have to grapple with higher bad debts which could potentially dampen near-term sentiment on the stock.

"This could be due to concerns over the sufficiency of the Industry Fund have emerged given the year-to-date surge in coal prices, ongoing tariff rebate and the possible need for customer discounts."

"We note that the above issues might not materially impact TNB's normalised earnings. Management dealt with bad debts just last year and TNB has amassed some earnings from improved second regulatory period extension terms," it said.

In line with that, Maybank IB has a 'Buy' call on TNB with an unchanged target price of RM12.

The stock last closed at RM9.68 yesterday valuing the company at RM55.43 billion.