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Power demand seen growing 2%-3% annually

PETALING JAYA: Electricity demand in Malaysia is expected to grow between 2% and 3% per annum in the next few years, supported by the continued implementation of the Government's development-policy activities in the country, according to RAM Rating Services Bhd.

"Electricity demand (in Malaysia is) supported by industrial growth," the local credit rating agency said.

"We expect demand to keep increasing at about 2% to 3% per annum, supported by the continued implementation of the Economic Transformation Programme, various development corridors and the 11th Malaysia Plan," it said in a report on the Asean-5 power sector.

RAM said funding needs of power companies in Malaysia were well met by bond issues, thanks to the maturity of the country's capital market. Given that power projects are usually highly capital-intensive with long gestation periods, bond and sukuk financing would fit the profile of this industry – a funding method that had been effectively employed in Malaysia.

"Malaysia's expertise and favourable regulatory framework in Islamic finance are conducive to sukuk financing for the region's infrastructure needs," RAM chief executive officer Foo Su Yin said.

Since the first independent power producer (IPP) bond issue by YTL Power Generation Sdn Bhd in 1993, the power industry has been one of most active sectors that had been continuously tapping the Malaysian bond market for its funding needs, with tenures ranging from three to 29 years.

RAM noted that power bonds accounted for some 37% of Malaysia's RM220.4bil of infrastructure bonds issued in the last decade.

"The domestic power sector is characterised by a supportive regulatory landscape, robust power-purchase agreement terms, and strong sponsors as well as counterparties. These are the key catalysts that have been driving the growth of power bonds in the country," it added.

As at end-June 2016, Malaysia's outstanding bonds amounted to RM1.2 trillion, which was equivalent to 98% of the country's gross domestic product. Malaysia also led the global sukuk market, with 54% of total outstanding sukuk as at end-May 2016.

"Sukuk has become more prominent over the years, with more than 94% of IPP bond issues comprising sukuk after 2000, compared to only 25% before that," RAM said.

"We further highlight that all of Malaysia's outstanding IPP bonds – amounting to RM40.9bil – are sukuk issues," it said, adding that the depth of the domestic bond market and the relative maturity of local institutional investors would allow large-scale and long-term investments in Malaysia.

RAM observed a strong government presence in the Asean-5 (comprising Malaysia, Singapore, Thailand, Indonesia and the Philippines) power sectors while private participation had generally played a key role in electricity generation, contributing to more than half of these countries' aggregate installed capacity.

Although the power sectors of Singapore and the Philippines operate under liberalised and market-driven regimes, those of Malaysia, Indonesia and Thailand benefit from substantial government subsidies.

"Subsidy reform is a common theme among the Asean-5, through which these governments are moving towards deregulating electricity tariffs in the long run," observed Chong Van Nee, RAM's co-head of infrastructure and utilities ratings.

Meanwhile, RAM expects coal to feature prominently as a dominant source of fuel in Malaysia, Thailand, Indonesia and the Philippines, given the abundance of the commodity in the region (particularly Indonesia), its cost advantage and increasingly more efficient coal-fired power plants.

"Moving forward, as the Asean-5 members strive to overcome the challenge of having to economically and sustainably meet rising energy demand, greater integration among the energy markets could help enhance energy security and encourage more efficient utilisation of the region's resources," RAM said.

Meanwhile, Moody's Investors Service has assigned a provisional *(P)A3* rating, with a "stable" outlook, to the proposed sukuk notes to be issued under the US$2.5bil (RM10.51bil) multi-currency bond programme established by TNB Global Ventures Capital Bhd.

The international credit rating agency said the proposed sukuk would represent the first drawdown under the programme, which was rated *(P)A3* and in line with Tenaga Nasional Bhd's (TNB) long-term senior unsecured rating.

TNB Global, a special-purpose vehicle established by TNB, has an *A3* rating, with a "stable" outlook.

"Moody's rating of the proposed sukuk is equivalent to TNB's senior unsecured rating, as the sukuk are viewed as being commensurate with a senior unsecured payment obligation, with sukuk holders ultimately relying on TNB for return and principal repayment," Moody's vice-president and senior analyst, Abhishek Tyagi, said.

The provisional rating on the proposed sukuk notes would be removed upon completion of the issuance, satisfactory review of the final terms and conditions, and legal opinions.