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Govt's renewable energy plan seen negative for IPPs

PETALING JAYA: The government's aspiration of more renewable energy (RE) is negative to the independent power producer (IPP) players given the potentially lower capacity replacement for their expiring power purchase agreements (PPAs), Hong Leong Investment Bank Research said.

"Given the limited potential of new large scale hydropower plants in Peninsular, we expect the Ministry of Energy, Science, Technology, Environment and Climate Change to push for more solar power projects in coming years, to partially replace the outgoing power plants and to fulfil the growing power demand," its analyst Daniel Wong said in a note yesterday.

"Large IPP players would be negatively affected by the government's aspiration towards RE, as they face the risk of lower capacity replacement (each LSS capacity is only up to 30MW) for their expiring PPAs," he added.

The government has recently announced the award of 550MW LSS (large scale solar) for Peninsular and Sabah (part of its existing target 2,200MW LSS for 2017-2020 for Peninsular and Sabah) and Net Energy Metering (for private Solar PV projects), while TNB also initiated SARE (Supply Agreement for RE) for solar energy products.

However, Wong said the government's plan of more RE is neutral to Transmission and Distribution under IBR/ICPT (Imbalance Cost Pass Through) mechanisms.

The IBR/ICPT mechanisms remain intact, protecting the sector from the fluctuation of fuel prices over the longer term, he added.

This year, Wong said Malaysia power demand growth is expected to remain stable at 2% to 2.5%, based on 0.5 times of expected 4.6% gross domestic product (GDP) growth in 2019.

For the nine-month period of 2018, Wong said Malaysia's power demand in Peninsular registered a growth of 2.7%, which was 0.57 times of GDP growth, in line with its 2.5% expectation for 2018.

He said the growth was mainly driven by industrial and domestic segments, partially offset by the slower growth of commercial and other segments.

HLIB Research has maintained its "overweight" stance on the power sector, given the earnings and dividend sustainability of the sector in time of increasing market uncertainty in 2019.

The research house kept its "buy" recommendation on Tenaga Nasional Bhd (TNB) with unchanged discounted cash flow estimates-derived target price of RM16.40.

It said TNB's earnings remain shielded under IBR/ICPT mechanisms, adding the recent disappointing Q3 2018 result was affected by the RM420 million fuel cost under-recovered during the quarter, which would be recovered in the following Q4 2018.

It also kept its "buy" call on YTL Power International Bhd with unchanged target price of RM1.25, based on 15% discount to sum of parts of RM1.47.