

Headline	HLIB says fuel price surge shortterm in nature, stays `overweight` on utilities		
MediaTitle	The Edge CEO Morning Brief		
Date	19 Oct 2021	Language	English
Circulation	25,910	Readership	77,730
Section	Home	Page No	11
ArticleSize	452 cm ²	Journalist	ADAM AZIZ
PR Value	RM 25,489		



KUALA LUMPUR (Oct 18): HLIB Research expects the recent surge in fuel energy prices to be relatively short term in nature, adding that the surge will be neutral to utilities companies under its purview.

The research house maintained “overweight” on the utilities sector, citing a stable earnings outlook and sustainable dividend payouts in a time of market uncertainty plagued by the Covid-19 pandemic.

HLIB Research also expects demand for electricity and gas in Malaysia to rebound in the fourth quarter of 2021 (4Q21) in tandem with the economic reopening under the National Recovery Plan (NRP).

Prices of coal and gas have skyrocketed in recent months. *The Edge* reported that the spot coal price reached as high as US\$280 (about RM1,164)/MT, while the spot LNG price reached US\$36/MMBtu, due to a hiccup in supplies ahead of the winter season, coupled with a rise in demand on the back of post-pandemic recovery.

“Similar to 2007-2008, we believe the current high prices are unsustainable and will ease in 2022 post winter season and with production being ramped up,” HLIB Research said in a note.

“Nevertheless, the surge has certainly raised concerns about the impact on Ma-

HLIB says fuel price surge short-term in nature, stays ‘overweight’ on utilities

BY ADAM AZIZ
theedgemarkets.com

laysia’s economy and the utilities sector in terms of electricity generation cost and demand for utilities at least in the short term,” it added.

The research house maintained its “buy” call on Tenaga Nasional Bhd (TNB) with a target price (TP) of RM12.50, YTL Power International Bhd (TP: 85 sen) and Petronas Gas Bhd (PetGas) (TP: RM19).

TNB, it said, is expected to be neutral to the recent surge in energy prices due to the imbalance cost pass-through (ICPT) mechanism which allows fluctuation in fuel costs to be passed down to end users.

“Historically, the government has been subsidising fully through Kumpulan Wang Industri Elektrik or other funds or partially, and allowed [TNB] to pass-through

higher energy fuel costs to end users in the form of surcharges,” it said.

“The recent announced gas tariff hike [for Gas Malaysia Bhd] to RM36.42/MMBtu for October-December 2021 (from RM30.03/MMBtu for July-September 2021) provided an early indication of the government’s commitment to maintaining the ICPT mechanism and willingness to pass-through higher energy pricing to end users,” the research house added.

However, there may be a short-term cash flow impact due to a timing recognition mismatch for TNB, it said. Meanwhile, YTL Power and PetGas are not directly affected by fuel costs, it added.

On the state of demand, HLIB Research looked backwards to the recovery in domestic electricity demand for TNB in 3Q20-1Q21 — before slipping back in 2Q21 to around 95% of pre-Covid-19 levels due to the movement control order 3.0 (MCO 3.0) in June-September 2021.

“Similarly, PetGas also reported stronger gas deliveries and overall utilities sales since 2Q20.

“Henceforth, we expect a similar recovery in overall utilities demand from 4Q21 onwards driven by the economic recovery as Malaysia progresses through the NRP (as witnessed in the previous gradual relaxation post MCO 1.0 in 2Q20),” the research house said.