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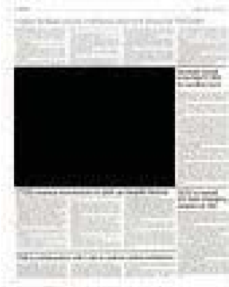

Demand for utilities to rebound in fourth quarter

Current high fuel prices unsustainable, will ease in 2022

ENERGY

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Hong Leong Investment Bank

PETALING JAYA: Worldwide demand for utilities such as electricity and gas is expected to rebound in the fourth quarter but not without causing global fuel prices to surge at the same time.

However, the rise should be short-term, analysts say.

"Similar to 2007-2008, we believe the current high prices are unsustainable and will ease in 2022 post winter season and production being ramped up," Hong Leong Investment Bank (HLIB) said in a report.

It noted global energy prices had recently surged drastically due to overwhelming demand as countries were stocking up on the back of economic recovery and anticipation of a severe coming winter season in the northern hemisphere.

At the same time, supplies were being hit by production problems.

In Malaysia, the surge has raised some concerns about the impact on the economy and the utilities sector in terms of electricity generation costs, the research house said.

With the number of new Covid-19 cases coming down and an increasing vaccination rates nationwide, Malaysia is progressing well into phase two, three and four of National Recovery Plan, HLIB noted.

Along with demand for utilities, that is, electricity and gas, however, is the increase in electricity generation costs.

Nevertheless, because of the Regulated Asset Base (RAB) Framework under which there is a fuel-cost pass through mechanism, companies like utility giant Tenaga Nasional Bhd (TNB) will not be impacted all that much.

"Under the RAB framework, there is a mechanism to pass through the fluctuation of fuel costs to end users.

"Historically, the government has been subsidising fully or partially and allowed the companies to pass-through the higher energy fuel costs to end users in the form of surcharges," HLIB said.

Hence, it said it expected TNB to remain neutral from the recent surge in energy prices, except for a short-term cash flow impact.

HLIB also said in its report that under the recent 12th Malaysian Plan, the government had again highlighted its commitment to reduce carbon emissions intensity by 45% by 2030 and achieve carbon neutrality by 2050.

This will be done by accelerating renewable energy (RE) programmes and replacing expiring coal-fired power plants with new gas-fired power plants and RE.

"A higher RE mix will also reduce the impact from energy fuel price volatility in the future," it added.

Notably, TNB has already committed towards carbon neutrality by 2050 in line with the government's policy.

HLIB has maintained its "overweight" sector call on utilities, given the earnings and dividend sustainability of the sector in a time of market uncertainty plagued by the pandemic.