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| Headline | `Over weight' stance on utility sector | | |
| MediaTitle | New Straits Times | | |
| Date | 19 Oct 2021 | Language | English |
| Circulation | 36,278 | Readership | 108,834 |
| Section | Business Times | Page No | 22 |
| ArticleSize | 106 cm ² | Journalist | N/A |
| PR Value | RM 5,751 | | |
| | | | |



HLIB RESEARCH REPORT

'Overweight' stance on utility sector

KUALA LUMPUR: Demand for utilities (electricity and gas) are likely to rebound in the fourth quarter as Malaysia gradually transitions into Phases 2, 3 and 4 of the National Recovery Plan.

Hong Leong Investment Bank Bhd (HLIB Research) said the rebound would be driven by a continued drop in new Covid-19 cases and a higher vaccination rate nationwide, coupled with the gradual relaxation of restrictions, and opening of more economic sectors.

However, analyst Daniel Wong said the recent surge in global fuel price had raised concerns about its impact on the economy and utility sector.

"We expect the surge in fuel price to be relatively short term and the imbalance cost pass-through mechanism under the incentive-based regulation framework to remain intact, protecting Tenaga Nasional Bhd from the surge of fuel costs covered by Kumpulan Wang Industri Elektrik," he said in a research note yesterday.

Nonetheless, Wong said YTL Power International Bhd and Petronas Gas Bhd (PetGas) would not be directly affected by the fuel energy prices.

HLIB Research has maintained an "overweight" call on the utility sector, given the earnings and dividend sustainability of the sector in a time of market uncertainty.