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Easy to give but hard to wean off

The Edge, Malaysia

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Last Friday, Tenaga Nasional Bhd's (KL:TENAGA) share price came under selling pressure, falling as much as 52 sen to an intra-day low of RM12.80 in the final trading hour.

It closed at RM13.04, with RM1.63 billion wiped off its market value after the utility giant announced that it would absorb the additional fuel costs, which won't be passed on to household users, as well as the RM10 monthly retail charge plus sales and service tax until year end.

Tenaga estimates this will cost about RM150 million should the exemption last until end-2026. Logically, the amount will be larger under the scenario where the government extends the exemption period, or fuel costs climb further from current levels considering there is no sign of a ceasefire in the Middle East yet.

Furthermore, the northern hemisphere will enter the winter season in about two months' time, putting pressure on the supply of fuels such as coal and natural gas. Coal accounts for 39% of Tenaga's generation capacity mix.

In short, investors will see rising downside risks.

Some may view the selldown of Tenaga shares as an overreaction, as the utility giant with net profits to the tune of billions should be able to absorb an additional RM150 million in costs. However, the latest announcement reminded investors of Tenaga's track record in shouldering the government's subsidy burden. The same goes for national oil company Petroliam Nasional Bhd.

In April, the government bit the bullet by slashing Malaysian car users' subsidised petrol quota by 100 litres to 200 litres a month as its monthly petrol subsidy bill swelled to RM7.5 billion amid the acute global fuel shortage caused by the closure of the Strait of Hormuz.

Two weeks ago, the government raised the quota for subsidised RON95 petrol back to 300 litres, even as crude oil prices breached US$100 a barrel again.

The government is being considerate to the rakyat by helping ease their burden of a rising cost of living by giving more subsidised petrol and electricity. However, wouldn't that make us more dependent on subsidies?

Policymakers may argue that the government will adjust the subsidies later to meet its fiscal commitments. But realistically, that will be a tall order.