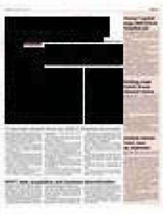
AUTHOR: No author available SECTION: STARBIZ PAGE: 3 PRINTED SIZE: 364.00cm² REGION: KL
MARKET: Malaysia PHOTO: Full Color ASR: MYR 18,389.00 ITEM ID: MY0069014179



28 APR, 2026

Low impact on TNB from energy price hike

The Star, Malaysia

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Power producers shielded by AFA mechanism

ENERGY

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>
> RHB Research

PETALING JAYA: The impact of the increase in energy prices following the Middle East conflict on Tenaga Nasional Bhd (TNB) and other power producers has been minimal, as these are passed on to end users via the monthly Automatic Fuel Adjustment (AFA) mechanism.

In a report, RHB Research said since the AFA implementation last July, the government has continued to approve AFA rebates due to the stronger ringgit (versus the US dollar) and weaker gas prices.

Based on prevailing coal and gas prices, the government forecast a 0.08 sen AFA surcharge in July versus the 0.47 sen rebate currently.

According to the research house, the adjustment mainly reflects a higher Tier-2 gas price, mitigated by a stronger ringgit and lower Tier-1 subsidised gas price.

Tier-1 gas refers to subsidised domestic natural gas supplied at regulated prices for the power sector, which helps keep base electricity costs stable.

Tier-2 gas, on the other hand, is priced closer to market levels.

However, RHB Research said the "effective tariff impact should be minimal, around 1% higher versus current prices". This is because unsubsidised gas, which is the most correlated to Brent crude oil, only makes up 9% of total generation fuel costs in Malaysia.

"The price of Tier-2 gas is indexed to 15% of the Brent crude price. We estimate that every US$10 per barrel movement in the Brent crude price would only impact the AFA by 0.01 sen.

"We think coal prices, which make up approximately 60% of fuel costs, have a higher impact on tariff adjustments and estimate that coal prices will need to reach US$180 per tonne to result in a three sen AFA surcharge," the research house added.

Coal, which is mainly imported from Australia and Indonesia, makes up the majority of the power generation mix, at around 60%.

For context, households that consume less than 600 kilowatt-hours of electricity a month do not fall under the AFA mechanism.

TNB and the Energy Commission (EC) would also need to get Cabinet approval to increase the AFA surcharge beyond three sen, said the research house.

It estimates that for the AFA surcharge to increase to 10 sen, the price of coal will need to reach US$380 per tonne.

The price of coal peaked in 2023, when the government imposed a 20 sen electricity surcharge for non-domestic customers, after coal prices surged to a record high of around US$450 per tonne during the outbreak of the Russia-Ukraine war.

"However, we believe the impact is not as severe this time around, due to the higher Regulatory Period 4 base prices versus the previous period," said RHB Research.

The research house said it continues to like the energy sector as a defensive play, should geopolitical tensions in the Middle East persist and trigger a broader risk-off environment in markets.

It noted that large-cap utility names such as TNB and PETRONAS Gas Bhd have minimal exposure to non-domestic risks, including fuel costs and foreign exchange fluctuations. Regulated framework for these companies provide stable earnings with 4% to 5% dividend yields.

Meanwhile, analysts said new gas-fired power plant opportunities could provide meaningful upside for YTL Power International Bhd (YTLP) and Malakoff Corp Bhd, following a recent tender exercise by the EC.

The tender will be closed in July, and winning bids are expected to be announced by year-end. The new power plants are slated to be commissioned for 2029 to 2031.

"We believe both YTLP and Malakoff are frontrunners to build 2.1 gigawatt (GW) and 1.4 GW gas plants respectively, which would lift our target prices by 8% and 43%. YTLP has secured three turbines, while Malakoff has reserved four turbines," RHB Research said.