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Higher gas prices' impact on power sector minimal RHB IB

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Higher gas prices' impact on power sector minimal — RHB IB

KUALA LUMPUR: The impact of higher gas prices on the power sector is minimal, as unsubsidised gas – the most correlated to Brent crude – only makes up nine per cent of total generation fuel costs in Malaysia, according to RHB Investment Bank Bhd (RHB IB).

In a note yesterday, RHB IB said the price of Tier-2 gas is indexed to 15 per cent of the Brent crude price.

"We estimate that every US$10-per-barrel movement in the Brent crude price would only impact the automatic fuel adjustment (AFA) rate by 0.01 sen.

"We think coal prices, which make up about 60 per cent 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," it said.

The investment bank noted that the impact of the increase in energy prices on TNB and other power producers has been minimal, as these are passed on to end-users via the monthly AFA mechanism.

RHB IB said it likes energy as a defensive sector should the West Asia conflict persist and lead to a market risk-off mode.

"Big-cap utility names like Tenaga Nasional (TNB) and Petronas Gas have minimal exposure to non-domestic risks (fuel costs, non-domestic operations, regulated fuel costs, and foreign exchange), while regulated frameworks provide stable earnings with four to five per cent dividend yields.

"(Meanwhile,) YTL Power is a potential beneficiary of higher gas prices," it added, maintaining its "overweight" call on the sector.

On earnings outlook, RHB IB estimated eight to nine per cent year-on-year earnings growth for TNB in the coming quarter on a lower tax rate and higher regulated revenue contributions.

"We expect regulated capital expenditure recognition to grow by 10-11 per cent on accelerated contingency project approvals. We (also) expect YTL Power to recognise a RM33 million share of losses for its stake in Digital Nasional Bhd, but this should be mitigated by stronger contributions from its water and data centre businesses," it said.

Meanwhile, Solarvest's and Samaiden's earnings should grow on higher recognition of their solar projects, said RHB IB.

Elsewhere, the postponement of the implementation of the carbon tax allows more time for corporations to reduce their carbon emissions

"TNB remains our main top pick as it is the prime beneficiary of the National Energy Transition Roadmap, with the regulated framework providing a stable earnings base.

"We also like YTL Power and Petronas Gas in a risk-off environment.

"We encourage investors to accumulate Solarvest and Samaiden shares following recent price corrections, as we see a minimal impact from the removal of the export value-added tax rebate on solar players," it said. — Bernama

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