



28 APR, 2026

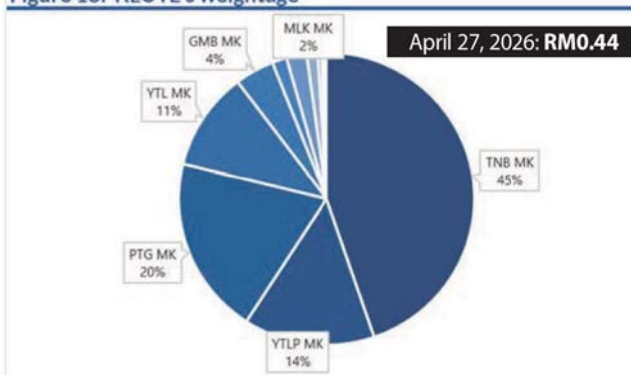
Energy sector Overweight

The Sun, Malaysia



Energy sector Overweight

Figure 18: KLUTL's weightage



Source: Bloomberg, RHB Research

WE like energy as a defensive sector, should the Middle East conflict persist and lead to a market risk-off mode. Big-cap utility names like TNB and Petronas Gas (PTG) have minimal exposure to non-domestic risks (fuel costs, non-domestic operations, regulated fuel costs, and FX), while regulated frameworks provide stable earnings with 4-5% dividend yields.

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 Automatic Fuel Adjustment (AFA) mechanism. Since the AFA implementation last July, the Government has continued to approve AFA rebates due to the stronger MYR (vs USD) and weaker gas prices. Based on prevailing coal and gas prices, the Government is forecasting a 0.08sen AFA surcharge in July (vs the 0.47sen rebate currently). The adjustment mainly reflects a higher Tier-2 gas price, mitigated by a stronger MYR and lower Tier-1 subsidised gas price. Nevertheless, the effective tariff impact should be minimal, ie 1% higher vs current prices.

The impact of higher gas prices is minimal on the power sector, as unsubsidised gas (the most correlated to Brent crude) 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/bbl movement in the Brent crude price would only impact the AFA by 0.01sen. We think coal prices (which make up ~60% of fuel costs) have a higher impact on tariff adjustments - and estimate that coal prices will need to reach US\$180/tonne to result in a 3 sen AFA surcharge.

Still **OVERWEIGHT** on sector. TNB remains our main Top Pick.
 - RHB Research, April 27