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Tariff setback projected for TNB

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Unchanged prices may compromise balance sheet

CORPORATE

PETALING JAYA: A dampened dividend outlook plus a weak balance sheet over the near term is what is being predicted for power utility Tenaga Nasional Bhd (TNB), following the government's decision to keep tariffs unchanged in the second half of the year.

UOB Kay Hian Research said this in a report to clients, adding that it had initially expected the government to raise the tariffs for the commercial and industrial segments while keeping household tariffs stable.

"The outcome is worse than expected as we expect TNB's balance sheet to be compromised in the near term," the research house said.

It added that the factors pressuring the company include the uncertainty surrounding the quantum and timing of the government's compensation to TNB for higher fuel costs.

"TNB may also be asked to aid in the ballooning compensation for electricity, as we expect coal prices to stay persistently high and compensation may continue to rise into the first half of next year."

Maybank Investment Bank in its report, meanwhile, said that while it was maintaining its earnings forecasts for TNB, it was lowering its target price for the stock to RM8.70 from RM9.30 to reflect a heightened risk profile from potentially long-drawn imbalance cost pass-through (ICPT) mechanism concerns.

"Coal prices have remained elevated, meaning ICPT concerns could resurface again in six months' time. In our view, it would take a couple more rounds of successful pass through to permanently convince the market of the integrity of the mechanism," said Maybank.

In its note, CGS-CIMB pointed out that the government's plans to raise subsidies to cover the rakyat's cost of living, which includes maintaining electricity tariffs, will be viewed positively and could boost market sentiment in the short term.

"This decision will help sustain consumer purchasing power and reduce operational cost pressures for Malaysian corporates in the second half of 2022.

"This, combined with the return of foreign workers, could boost the competitiveness of the Malaysian manufacturing sector in the export market."

The research house also said such measures could possibly signal an early general election for Malaysia in the second half of this year.

Nevertheless, the significantly higher subsidy spending could pose some risks to the fiscal deficit projection of 6% of gross domestic product this year, it said.

CGS-CIMB said total subsidy spending was projected to soar to RM77.3bil versus RM17.4bil estimated in Budget 2022.

"However, as subsidies are part of operating expenditure, they need to be financed by either higher revenue collection or reduction in other expenditure components.

"For revenue, the high commodity prices and robust domestic economic performance will likely result in a higher tax collection than estimated."

To balance the rest of the subsidy spending, other fiscal expenditure components are likely to see a reduction, namely, government supplies and services, grants or emoluments, it added.

At the close yesterday, TNB shares fell 19 sen to RM8.

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