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Good for TNB, bad for steel mills

The government on Monday announced that electricity users will from Jan 1, 2014, pay more for electricity, which averages 10.6% or 3.03 sen kilowatts per hour (kWh) for domestic users, 16.85% or 6.91 sen/kWh for commercial users and 16.85% or 5.21 sen/kWh for industrial users. The quantum was a shock to many industry players as it was higher than expected. Analysts believe there will be more adjustments to come given the government's move to scale back subsidies. For now, the main question is whether companies can fully pass on the cost and, if so, by how much. Meanwhile, *SunBiz* looks at potential winners and losers from the impending price hike in terms of share prices and earnings.

Winner

POWER SECTOR

CIMB Research views the electricity tariff hike positive for Tenaga Nasional Bhd (TNB) as it includes components for a fuel cost pass-through (FCPT) and increases in the base tariff.

"The tariff hike also addresses TNB's liquefied natural gas (LNG) costs, thus providing stability to its expenditures moving forward," it said in a note to clients yesterday.

While CIMB Research has raised its FY14-16 earnings per share forecast for TNB by 1%-6%, it said it was "slightly disappointed" that the government's announcement on Monday did not lay out the plans for a continued revision of fuel costs every six months.

"We believe investors should continue to accumulate TNB as the tariff hike is the main catalyst that would propel the share price higher. Although uncertainty remains for the longer-term given that the timeline of the FCPT is not clearly stated, we think it is nonetheless a move in the right direction," it added, maintaining TNB as its top pick for the power sector.

Kenanga Research also sees more upside for TNB's share price, after the announcement on tariff review.

It has upgraded its FY14-FY15 earnings estimates for TNB by 15%-16%, partly gain from a hike up in base tariff by 2.69%.

It is maintaining an "outperform" rating on TNB at RM9.89 and is its top pick for the power sector, with a revised price target of RM12.07 per share from RM10.45 per share previously.

RHB Research Institute Sdn Bhd said the tariff revision would be a boon for TNB as this may potentially mark the commencement of the much-anticipated FCPT mechanism that will allow the national utility to pass on the fluctuations in fuel costs to the end-consumer.

After factoring in the proposed tariff revision on Jan 1, 2014, the expected hike in TNB's fuel expenses at a blended natural gas cost of RM18.30 for FY14 and RM20.60 for FY15 and fine tuning its other operating costs, we are revising TNB's core earnings forecasts marginally upwards by 1.5% and 3.2% respectively.

"We note that in deriving our forecasts, we have explicitly assumed that the incremental costs arising from imported LNG would be borne by the federal government for now, until the new tariff structure comes into place on Jan 1, 2014," said RHB Research, maintaining a "buy" call on TNB with a RM11.90 fair value.

Shares in TNB rose 83 sen or 8.39% to end the day at RM10.72 yesterday, with 46.71 million shares done. It was the top gainer on Bursa Malaysia.