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# Tariff rebate may not sustain into next year

## TNB to begin under-recovering on generation costs

### ENERGY

**PETALING JAYA:** The prevailing electricity tariff rebate of two sen per kilowatt hour (kWh) for all categories of users has been maintained from July 1 until the end of the year, funded entirely by the Electricity Industry Fund (KWIE).

With this, net tariff for the second half of 2021 remains unchanged at 37.45 sen per kWh.

This tariff rebate could be extended because of Tenaga Nasional Bhd's (TNB) continued over-recovery of generation cost in the first half of 2021.

However, Maybank Investment Bank (IB) Research expects TNB to begin under-recovering on generation costs in the second half of the year with coal prices having climbed sharply in recent months.

"Thus do not expect the tariff rebate to sustain into the first half of 2022, although economic activities should have normalised by

then, based on the government's vaccination timeline," it said in a note to clients.

According to Maybank IB, TNB revealed that it has over-recovered on generation costs in the first half of 2021, as lower gas prices of RM17.16 per million British thermal units (MMBtu) against the reference of RM27.20 per MMBtu had more than offset higher coal prices of US\$70.06 (RM290.71) per tonne against reference of US\$67.45 (RM279.88) per tonne.

Analysts see earnings stability for the group, with the stock offering a decent dividend yield of about 5%.

At 4.7 times the forecast financial year 20210 (FY21) enterprise value-to-earnings before interest, taxes, depreciation and amortisation, MIDF Research said TNB is trading at a deep discount to the sector average of 9.4 times.

Meanwhile, its foreign shareholding has seen steep deterioration to 12% from a peak of 28%.

The research firm said any move to unlock the value of investments, particularly in the renewable energy assets – estimated to

account for 25% of capacity – could serve as a positive catalyst.

Maybank IB and MIDF have "buy" calls on the stock with a target price of RM12 and RM11.80, respectively.

Meanwhile, TNB is currently discussing with the Energy Commission on the parameters for the third regulatory period (RP3), which will take effect from 2022 to 2024.

According to the research firm, some of the parameters include the required rate of return and reference rates for coal and gas. Discussions are expected to be completed in the fourth quarter of this year.

It explains that TNB recognises the higher or lower fuel costs via an under or over-recovery of costs in the revenue line every financial quarter.

However, the actual cash received or returned is only recognised every six months when the government announces a tariff rebate or tariff surcharge.

It said that TNB recognised an over-recovery of costs of RM327.3mil in the first quarter of FY21.