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Power & Utilities Sector Overweight

The Sun, Malaysia

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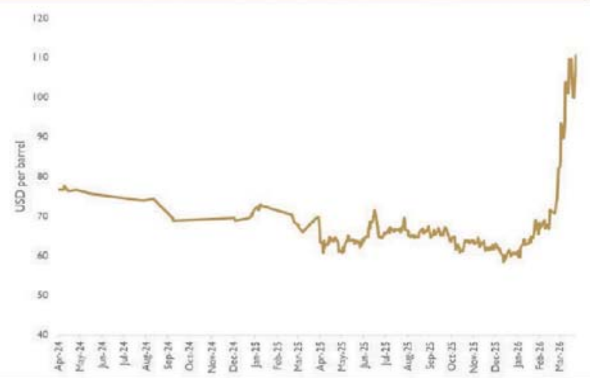
Overweight

Chart 2: Brent crude oil price



Source: Bloomberg, TA Research

THE US-Iran war and subsequent blockade of the Strait of Hormuz has abruptly sent global fuel prices soaring. For Malaysia, regulated gas input cost could partly cushion the impact on domestic electricity tariff. Rather, coal price volatility has a more direct impact on generation cost based on the 2022 Russia-Ukraine war experience.

For domestic utilities, the existence of cost pass-through elements to a large extent insulates the impact of higher fuel prices on industry players. In fact, operators of coal power plants like MALAKOF and TENAGA might benefit from positive fuel margins. YTLPOWR, which operates in Singapore's merchant electricity market, could benefit from rising spot rates and more favourable retail contracts, while RE players could benefit from improved RE economics against rising grid power cost. Nevertheless, the war highlights the structural risk of fuel concentration in a country's electricity supply system. Gasbased generation capacity buildout is accelerating with the latest NewGen26 tender, in line with the National Energy Transition Roadmap. However, nuclear is being actively explored to complement gas and RE, especially given sizeable expiry of coal PPAs from 2029 onwards.

From a regional standpoint, the ASEAN Power Grid could become increasingly important in maintaining electricity access stability. We maintain our Overweight stance on the Utilities sector premised on new generation capacity buildout, grid capex to accommodate demand and RE integration, record RE rollout and expansion of gas supply infrastructure. TENAGA (TP: RM18.00), MALAKOF (TP: RM1.29) and SAMAIDEN (TP: RM1.96) remain our top sector picks. – ***TA Research, March 30***