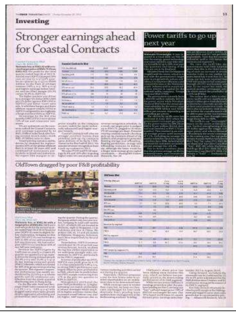
TENAGA NASIONAL

Headline	Power tariffs to go up next year		
MediaTitle	The Edge Financial Daily		
Date	29 Nov 2013	Language	English
Circulation	15,000	Readership	50,000
Section	Home Business	Page No	11
ArticleSize	171 cm²	Journalist	N/A
PR Value	RM 3,945		



Power tariffs to go up next year

Rubber gloves sector

Maintain Overweight: It was reported in a local daily on Nov 28 that the energy, green technology and water ministry may hike electricity tariffs by up to 20% next year. The quantum and timing of the hike are yet to be finalised.

Minister Datuk Seri Dr Maximus Ongkili said the move, which is in line with the government's larger plan to progressively reduce subsidies, is to improve efficiency and competitiveness in the Malaysian power industry and to ensure sufficient returns to capital for the national utility company, Tenaga Nasional Bhd (TNB).

The government currently foots a RM150 million subsidy bill for the power sector while Petroliam Nasional Bhd bears the remainder. Total subsidies for the sector range between RM8 billion and RM12 billion per annum, depending on prevailing gas prices.

The electricity tariffs were last reviewed in June 2011 when the government increased gas prices for the power sector by 28% (from RM10.70 per million British thermal unit [mmbtu] to RM13.70 per mmbtu). This resulted in an overall average power tariff increase of 7.1%, excluding an average 2% used to subsidise electricity supply costs from June 2006. Industrial and commercial customers recorded a greater average rise of 8.4%.

Our in-house numbers show that the present average tariffs for industrial users, and commercial and residential customers are 32.2 sen per kilowatt-hours (kWh), 42 sen per kWh and 29.7 sen per kWh respectively. Note that the current industrial tariff is 24% below the commercial segment's.

We view the tariff hike announcement with little surprise given that this is the third warning of such an increase in recent months (refer to our earlier reports dated July 9 and Nov 21). To recap, our July note reported that TNB will resume its fuel cost pass-through (FCPT) mechanism next year. In our report last week, we quoted another newspaper article which stated the possibility of a 25% tariff hike.

We reckon that a hike in electricity tariffs will not significantly impact rubber glove manufacturers as electricity costs make up only 3% of their total production costs. As this is also an industry-wide issue, we believe the manufacturers will be able to pass on the cost increase to customers. Pass-through rates range from 80% to 100%.

We reaffirm our "overweight" stance on the sector at this juncture. Further strengthening of the US dollar against the ringgit, soft input prices and robust demand will underpin the sector's earnings in the coming year. Our top picks remain Kossan Rubber Industries Bhd ("buy", fair value [FV]: RM3.80 per share) and Top Glove Corp Bhd ("buy", RM7.08) while Hartalega Holdings Bhd (FV: RM6.50) and Supermax Corp Bhd (FV: RM2.15) remain a "hold". — *AmResearch, Nov 28*