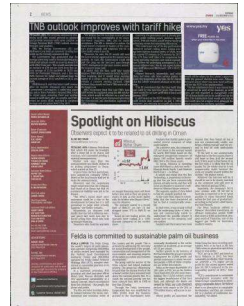


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TNB outlook improves with tariff hike

PETALING JAYA: The recently-announced electricity tariff hike would proceed as planned and provide investors with more comfort on Tenaga Nasional Bhd's (TNB) outlook moving forward, said analysts.

TNB, the Energy Commission (EC) and MyPower Corp held an investors' briefing last week on the recently announced hike.

The Government had announced that the average electricity tariff in Peninsular Malaysia, Sabah and Labuan would increase by about 15% with effect from Jan 1. This would translate into an increase of 4.99 sen per kWh from the current average of 33.54 sen/kWh to 38.53 sen/kWh for Peninsular Malaysia, and a five sen/kWh increase for Sabah and Labuan from the current average of 29.52 sen/kWh to 34.52 sen/kWh.

CIMB Research said that future tariff reviews after six months remained very much the Government's prerogative. It added that piped gas prices from Petroliaam Nasional Bhd could be raised again, assuming there was another round of tariff hikes after six months and TNB's return on assets (ROA) matched its weighted average cost of capital (WACC) by 2017.

"We believe that the next two review periods are crucial for the sustainability of the incentive-based regulation (IBR) and for public acceptance. The IBR is intended to reduce the Government's footprint in matters of the country's power supply, and empower the EC to raise tariffs when it sees fit.

"However, for now, the EC would still need the Government's approval for the initial review periods. As such, the Government could still pull the plug on the fuel cost pass-through (FCPT) mechanism in the next review period," the research house said.

It added that the base tariff hike would improve TNB's ROA to match its WACC by 2017, thus implying that it would drive earnings higher to a certain extent. Although fuel costs remain a concern moving forward, CIMB believes they would not leave TNB worse off in

the longer run.

Affin Investment Bank Bhd said TNB's base tariff would be regulated using the IBR mechanism, which would be effective on a trial basis from Jan 1. It said the new framework governed the transmission and distribution segments of TNB's business.

Currently, the generation part is already governed under existing power purchase agreements. TNB will receive a tariff review based on achieving certain key operating efficiencies.

"We understand one of the key performance indicators include cutting down system average interruption duration index, or SAIDI, from the current 62 minutes to 55 minutes by 2017. The 2.7% base tariff hike is to compensate for rising operating expenses and capital expenditure (where the underlying assumption is a 3% annual inflation rate). We do not expect further base tariff hikes over IBR Period 1 (2015-2017)," Affin said.

Alliance Research, meanwhile, said while there had been calls from various parties to lower the magnitude of the hike, the EC shared that the Cabinet remained adamant on its decision.

"The EC mentioned that the base tariff hike was valid for the next four years. This means there would be no base tariff hike at least until January 2018."

It said based on the FCPT timeline, the next tariff review date would be on July 1, 2014. However, any decision on a tariff adjustment

would still be subject to the Cabinet's approval. With the general election now over, Alliance Research senses there was now more political will for the FCPT to be implemented.

"On the stabilisation fund, it was shared that it would not be used at the moment, as tariff rates are still regarded as manageable with 70% of households said to be unaffected by the hike. The stabilisation fund would only kick in once tariff rates hit a higher level, although the exact quantum has not been specified."