CIMB Research: TNB asked for tariff hike to cover fuel costs

TENAGA NASIONAL BHD
By CIMB Research
Rating: Add
Target Price: RM14.14

CIMB Research said based on its discussions with TNB, it understood that the utility had already submitted a request for a tariff hike to the Cabinet for approval.

While TNB did not provide the research house with an actual amount, it said it did know that TNB had requested for a tariff hike that would cover its higher fuel costs during the first six months of the year.

It noted that the requirement for a tariff hike was due to the burning of more liquefied natural gas (LNG), and not enough coal as two coal power plants had unplanned outages.

Based on CIMB Research’s estimates, the higher fuel costs would translate to a tariff hike of about one to two sen, or less than 10% of the existing average tariff of 38.5 sen.

While the hike was by no means steep, CIMB Research said it believed that any tariff hike announcement would be subject to a public outcry.

It added the situation was made worse by the recent Track 4A Gasco involving YTL Power. Track 4A was awarded to a consortium involving YTL Power, the Johor royalty and Tenaga, through direct negotiations, as opposed to an open tender, which resulted in more public outcry.

Given the current backdrop of events, CIMB Research said it thought there was a strong chance there would be no tariff hike announcement before July 1, the expected implementation date.

However, it remained confident that the fuel cost pass-through mechanism (FCPT) would continue to stay on course, as MyPower Corp, the agency given the mandate to restructure and reform the country’s power sector, stated recently that it would recommend the Cabinet stays on course on the implementation of the FCPT.

CIMB Research said while a delay in the next tariff hike was negative for TNB, it believed there was a silver lining, to a certain extent.

Recent media reports suggest that the Energy Commission could utilise around RM500mil in savings derived from the renegotiations of the power purchase agreements (PPAs) with independent power producers (IPPs) to mitigate the impact of the higher fuel costs.

It said the delay in tariff hike would likely cause TNB’s share price to be weaker in the short term.

In its view, it said any weakness would be an opportunity to accumulate. It maintained its “add” call on the stock, with an unchanged target price of RM14.14, based on 14.5 times financial year 2015 (FY15) price/earnings ratio (PER), adding that its target PER was based on a 10% discount to its market PER.

AFFIN HOLDINGS BHD
By RHB Research
Rating: Neutral
Target Price: RM3.56

RHB Research, which met the management of Affin Bank recently, said Affin indicated that lending activities have generally been subdued with the mortgage segment slowing down due to the impact from the various measures introduced to cool the property market.

Also, it said property developers have slowed down and staggered new launches, which resulted in a drop in primary market transactions.

As for the business segment, RHB Research said management thought project works from the various economic programmes have yet to meaningfully filter down the value chain.

Affin posted first-quarter 2014 loan growth of 10% year-on-year (y-o-y).

RHB Research said the management continued to guide for loan growth of 8%-10% for 2014.

It said Affin’s net interest margin (NIM) expectations were unchanged, such as the 10-15 basis points compression due to pressure in both asset yields and funding costs, adding that Affin had seen competition for retail deposits heighten this year but has, thus far, stayed disciplined in terms of its deposit pricing.

The research house said that asset quality had held up well and no red flags have been noted thus far, adding that gross credit cost was expected at around 20 basis points.

Meanwhile, it said Indonesia was still the preferred market for overseas expansion but nothing was on the table at the moment.

Earlier plans to acquire a stake in Bank Panin Syariah were aborted after news emerged that Dubai Islamic Bank was acquiring 25% of the former.

RHB Research said it was trimming its Gordon Growth Model-derived fair value to RM3.56 from RM3.76 and maintaining the “neutral” call as the stock has gone ex-rights.

It said its previous fair value was on a cum-rights basis and reflected the acquisition and rights issue on a pro forma basis.