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# TNB in focus due to high coal prices

## Govt to decide on imbalance cost pass-through mechanism

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**PETALING JAYA:** The profitability of Tenaga Nasional Bhd (TNB) hinges on what the government decides on the imbalance cost pass-through (ICPT) mechanism in the next tariff review.

So far, the government has approved the implementation of the ICPT for the period of Jan 1-June 30, 2019, and the next electricity tariff setting is slated soon.

The ICPT, which was introduced in 2014 under the Barisan Nasional administration, allows for adjustments to be made in consumers' electricity bills every six months, depending on the price of coal.

However, concerns are now arising that the money remaining in the Kumpulan Wang Industri Elektrik (KWIE) fund may not be enough to subsidise electricity bills in the event that coal prices continue to stay above the US\$75-per-tonne reference price.

The KWIE fund was established when the ICPT was introduced in 2014.

Coal prices, which had touched a high of almost US\$120 per tonne in the middle of last year, have now moved down from that level and

are now at US\$95.65 per tonne. The price is still well above the US\$75-per-tonne reference price that was set by the government then.

Energy, Science, Technology, Environment and Climate Change Minister Yeo Bee Yin said in a recent interview with a business publication that there was still enough money in the fund for the first-half of the year.

Yeo also noted in the interview, which was done in early December, that the country was suffering from unpredictable coal prices. She, however, did not answer conclusively if the Pakatan Harapan government would still allow the electricity tariff to be dictated by the ICPT mechanism.

TNB's share price has been under pressure of late on concerns of how energy reforms would affect it, moving forward.

Its shares closed at RM13.06 yesterday, near its 19-month low.

According to earlier reports, Yeo is slated to announce power-sector market reforms to increase competition across the value chain, especially in the distribution and retail segments, in the second quarter of this year.

The market structure reform will take 24 months, starting from mid-

2019, Yeo was quoted as saying in a radio interview last month.

Whether or not it will involve the revamp or abolishment of the ICPT mechanism is still not known at this point in time, but analysts have said it would appear that the government's heightened focus on renewable energy would help pave the way for possibly lower rates in the longer term.

CGSCIMB said in a Jan 17 note that it saw the upcoming market structure reform and cancellation of four independent power producer (IPP) contracts last year as measures to bring down the electricity tariff.

"To recap, the RM1.26bil savings from the IPP cancellations would likely translate into 0.37 sen/kWh savings in the electricity tariff. Under the incentive-based regulation period two (RP2, 2018-2020), 68.5% of the 39.45 sen/kWh average base tariff goes to the single buyer generation, where 31% is used to pay capacity cost," the research house said.

"The focus on renewable energy will not only provide sustainable energy, but also stable (no fluctuation versus fossil fuel) or even lower generation cost in the long run, in our view. These are in line with the current government's initiatives to

increase industry efficiency and reduce electricity costs, which in turn benefits the end-user," it added.

A UOB Kay Hian Research report, quoting Yeo, said the Malaysia Energy Supply Industry (MESI) 2.0's main goal is to achieve affordable tariffs for its citizens, and decentralise and liberalise the electricity supply industry.

"In essence, we expect the government to remain committed in carrying out energy reforms, and this bodes well for TNB. We expect a MESI 2.0 blueprint to be announced/launched some time towards the end of March," UOB Kay Hian said in its report.

UOB Kay Hian said market reform initiatives may free up to about 50% or RM2bil-RM2.5bil of TNB's working capital requirements, and more importantly, lift its ICPT risk should the government decide to underwrite the fuel cost directly.

"This paves the way for potentially higher dividend payouts, we opine. In addition, TNB does not mark up coal prices and as such, there is minimal earnings downside from this novation exercise," UOB Kay Hian said, maintaining its "buy" rating on the stock with a target price of RM15.80.