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Analysts mixed on power tariff hike impact on TNB's bottom line

PETALING JAYA: Analysts are mixed on the impact of the recently announced power tariff hike on Tenaga Nasional Bhd's (TNB) financial performance, with a couple of analysts downgrading the stock and another maintaining its call on it.

The action follows a briefing given by TNB last Friday to clarify the recent tariff hike and the impact of it on the group as a whole.

The average tariff hike of 14.89% from 33.54 sen/kWh to 38.53 sen/kWh, comprises several components, including a 2.69% or 90 sen/kWh hike for TNB. The base tariff will be regulated through an incentive-based regulation (IBR) to be administered by the Energy Commission (EC).

Public Investment Bank (PIVB) downgraded TNB's shares to "neutral" with an unchanged target price of RM10.72, explaining that an unclear directive on the fuel cost pass through mechanism (FCPT) caps TNB's earnings upside and leaves it vulnerable to higher fuel costs.

"We are keeping our earnings estimates unchanged, albeit on the lower end of consensus. Without a clear directive on the FCPT, we deem that TNB's earnings upside is capped while downside due to higher fuel costs may still be possible, as it is easier for the government to approve lower tariff rates in the case of lower fuel costs than vice versa," it said in its report yesterday.

"The stock has given a total return of 63% since our initiation a year ago and with most of the reform initiatives rolled out and majority of new capacity plant-ups awarded, we believe there will be a lack of catalysts going forward as the group settles into its new normal," it added.

PIVB said there is no clear directive yet on the six-monthly review of electricity tariffs and automatic FCPT, despite the implementation of the IBR mechanism.

"The group has indicated that it would submit its report on fuel cost changes every six months and the EC would then propose the appropriate tariff to reflect the changes, but whether or not it will be implemented is still up to the Cabinet to decide.

"Going by precedence, we believe anymore revisions in the near term is unlikely, although we believe that once IBR is implemented in full, the EC will be vested full powers in determining tariff changes," it said.

PIVB added that the implementation of the IBR would not and should not result in extraordinary profits to the group, as it would defeat the purpose of stipulating a fair return to the utility provider.

MIDF Research also downgraded TNB to "neutral" from "buy", due to the recent spike in its share price which rose to an all-time high of RM12.60 on Dec 3, 2013 following the announcement, but maintained its target price of RM11.01.

"We still favour TNB for its positive earnings outlook which we expect to be less volatile once the FCPT mechanism kicks in and we anticipate the positive impacts of the new tariff structure to be translated into a stronger FY14 moving forward," it said.

MIDF said it may re-rate its forecast numbers, pending the release of TNB's Q1 FY14 results in mid- to end-January 2014.

Alliance Research, however, maintained its "buy" rating on TNB with an unchanged target price of RM13.00, as it feels that sector reforms are panning out well and will set the group on a structural re-rating path.

TNB remains its top pick within the utilities space.

"Based on the FCPT timeline, the next tariff review date will be on July 1, 2014. However, any decision on tariff adjustment will still be subject to the Cabinet's approval. With the general election now over, we sense there is now more political willpower for the FCPT to be implemented," it said in its report yesterday.

Alliance Research added that the FCPT is a crucial element for TNB's proposed IBR to take off and the implementation of the IBR would provide predefined operating measures to assess TNB's performance, making it easier to assess the quantum of the next base tariff hike when due.

It is understood that the current base tariff hike is valid for the next four years, which means there will be no base tariff increase at least until January 2018.