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COMMODITIES

POWER TARIFFS LIKELY TO BE SLASHED

Higher prices for coal and gas will force TNB and other players to remove the 1.52sen/kWh rebate, say analysts

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THE high price of fuel and coal could lead to lower rebates for electricity bills in the next review window in June, say analysts.

They said Tenaga Nasional Bhd (TNB) and other power industry players spent more than RM15 billion annually to ensure stable electricity demand in Peninsular Malaysia.

The amount could spike this year due to the high prices of fuel and coal, as well as a weak ringgit compared with major currencies. This raises doubt as to whether the current rebate of 1.52 sen per kiloWatt hour (kWh) will be maintained.

Coal and gas account for 50.8 per cent and 45.2 per cent, respectively, of the total power generation mix in Peninsular Malaysia, said analysts. The rest of Malaysia's power needs come from hydro.

Last year, the cost of gas and liquefied natural gas stood at RM8.8 billion for the generation of 54,235 gigaWatt hour (GWh) of energy, or 45 per cent of the total energy produced.

The coal cost was RM6.1 billion to generate 61,028 GWh, or 51 per cent of total energy in the peninsula, while oil and distillates cost RM220 million to generate 540 GWh.

Kenanga Investment Bank Bhd (Kenanga IB) does not think the 1.52 sen per kWh rebate is here to stay, as piped gas prices are scheduled to be increased to

RM21.20 per million metric British thermal units (mmbTU) in the first half of the year, before seeing another increase in the second half to RM22.70.

This indicates that overall fuel costs are set to rise higher, assuming other non-gas fuel costs remain unchanged, said Kenanga IB.

It said the government's decision to maintain the rebate at 1.52 sen per kWh in the first half of the year was probably due to the actual costs incurred in the second half of last year was lower than the spot price, which was already up substantially.

After four years of steady reduction, prices of coal started trending up in the second quarter of last year, with the Newcastle active contract hitting US\$109.70 (RM484.05) per tonne on November 11. This was an 132 per cent increase from its low of US\$47.27 in January last year.

The price of Indonesia's thermal coal increased for seven consecutive months, to settle at US\$101.69 per tonne last December.

Maybank Investment Bank Bhd said the coal proportion of TNB's generation in the first quarter of financial year 2017 had increased by 2.3 percentage points quarter-on-quarter, to 54 per cent.

The price of coal, in the form of the Newcastle active contract, had retreated to about US\$80 per tonne after surpassing US\$100 per tonne momentarily last November, it said in a recent report.

"We believe TNB would likely under-recover on fuel costs in the second quarter. Our expectation of a possible reduction in the second half of the year's tariff rebate remains unchanged."

MIDF Research said while its core net profit of RM1.97 billion in the first quarter was not as weak as expected, the group's earnings over the next two quarters could start reflecting the impact

of higher fuel costs.

"A key reason for the stronger than expected 1QFY17 was a two-month lag in the impact of higher spot coal price as TNB runs down cheaper inventories."

It added that coal cost in September, October and November last year was US\$52, US\$57 and US\$62, respectively, compared with the spot price, which was already at US\$60 per tonne last September.

"The higher coal price will eventually filter into TNB's earnings in the next quarter, on top of the impact of higher piped gas

prices from January," said MIDF Research.

UOB Kay Hian said TNB had underperformed on Bursa Malaysia's key index by seven per cent year-to-date, as the defensive utilities sector was being passed over.

Trading at 10 times forward earnings, the firm said it liked TNB for its attractive valuations and above-market yield of five per cent.

UOB Kay Hian has kept its "buy" target with RM16 target price on the stock.

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