KEMENTERIAN TENAGA DAN SUMBER ASLI

KERATAN SURAT KHABAR

SURAT KHABAR	:	STARBIZ			
TARIKH	:	01.02.22 (SELASA)	MUKA SURAT	:	5
JABATAN	:	TENAGA NASIAONAL BERHAD			

Earnings risk for TNB despite tariff hike

Utility giant's profits could take a hit

ENERGY

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PETALING JAYA: The lack of clarity on the Regulatory Period 3 (RP3) parameters is a near-term risk for Tenaga Nasional Bhd (TNB).

In the event the parameters of the recently-approved RP3 turn out to be less favourable, analysts said the utility giant's earnings could take a hit.

While the government has given the green light to hike electricity tariff, CGS-CIMB Research is keeping its earnings forecasts for TNB unchanged.

This is considering that the impact of the Imbalance-Cost-Pass-Through (ICPT) mechanism is neutral on TNB and will not affect its business operations and financial position.

In addition, there is no further information on the asset base size or returns of the regulated assets under RP3.

"We forecast a 30-basis-point cut in regulated return to 7% and 3% regulated asset base (RAB) growth per annum for RP3," it said in a note yesterday. However, CGS-CIMB Research noted that the government's decision to implement RP3 between Feb 2022 to Dec 2024 and continue the ICPT mechanism is a relief to investors.

On Jan 28, TNB said the government has approved the implementation of incentive-based regulation (IBR) tariff under RP3 with an unchanged current average electricity tariff at 39.45 sen/kWh for Peninsular Malaysia.

"There is a possibility that TNB's earnings could be negatively affected if the fuel parameters are adjusted upwards without changing the base tariff."

RHB Research

In addition, the ICPT mechanism will be continued for the period of Feb 1 to June 30, 2022.

An ICPT surcharge of 3.7 sen per kWh has been approved for non-domestic users. Domestic users, on the other hand, will receive a rebate of two sen per kWh for the same period, which will be funded by Kumpulan Wang Industri Elektrik (KWIE).

Echoing a similar stance with CGS-CIMB Research, RHB Research said the earnings impact on TNB is unclear at the moment.

"There is a possibility that TNB's earnings could be negatively affected if the fuel parameters are adjusted upwards without changing the base tariff.

"If the fuel benchmarks are similar to RP2+ parameters, KWIE may continue to subsidise the domestic users, and we also expect a higher surcharge on non-domestic users going forward.

"Assuming an annual capital expenditure of RM7bil and 7% weighted average cost of capital (WACC), regulatory earnings are estimated to grow 2.6% per annum in RP3 – any reduction of 0.1% in WACC will reduce the regulatory earnings by RM66mil, in our estimate," it said.

Meanwhile, Hong Leong Investment Bank (HLIB) Research said it was positive on the continuation of ICPT and implementation of RP3, thus allaying investor concern on regulatory risks.

"The government seems to remain committed to the IBR framework (implemented since 2014), ensuring fair return to TNB and removing the risk of fluctuating global energy fuel costs from affecting Tenaga profitability and cashflow. TNB's earnings are expected to remain stable in the fourth quarter of financial year 2021.

"We are positive with TNB's long term commitment to the environmental, social and governance growth path, while ensuring returns to shareholders," it added.

HLIB Research and RHB Research have a "buy" call on TNB shares, while CGS-CIMB Research has an "add" call.