# POWER

***Maintain* NEUTRAL**

## Initial thoughts on preliminary tariff decision

### KEY INVESTMENT HIGHLIGHTS

- **Preliminary indications on tariff decision suggests some pass-through via 'giant companies'**
- **However, overhang on timing and magnitude of ICPT subsidy payment remains, at this point**
- **We are mildly positive on this latest development**
- **Maintain NEUTRAL on Power; top picks: YTL Power (BUY, TP: RM1.03 and Ranhill (BUY, TP: RM0.67)**

**Preliminary indications on tariff decision.** The YAB Prime Minister, in a press conference, gave preliminary indications on the electricity tariff decision which is scheduled to be announced towards end-December. There were two key parts to the announcement: (1) A tariff hike for the 'giant companies' such as multinational exporters, (2) Unchanged tariffs for SMEs and domestic consumers (possibly via similar electricity subsidy employed in the past).

**On initial thoughts**, the decision looks to allow some pass-through of Tenaga's elevated ICPT receivables through selective non-domestic consumers. However, definition of 'giant companies' is still sketchy to determine if these consumers account for a large proportion of demand. Nonetheless, the decision should bring cheer to domestic consumers and SMEs in the non-domestic sector as tariffs are expected to remain status quo. This should also alleviate concerns on domestic inflationary pressure had the Government gone ahead with a blanket tariff hike.

**Overhang largely remains for now**. The second part of the announcement suggests that Tenaga may still rely on subsidy payments from the Government (which is essentially paid on behalf of electricity consumers) to recoup its ICPT under-recovery. A key detail to look out for is timing and magnitude of these subsidy payments as this will critically determine the peak in Tenaga's ICPT receivables trend and the resultant cash flow constraint. Deferment of the Government's decision on Tenaga's remaining ICPT payment had been an overhanging issue – Tenaga's ICPT receivables stood at RM12.1b as at end-1H22, of which RM5.8b was subsidised by the Government, an estimated RM1.6b collected via a 3sen/kwh surcharge for the non-domestic sector, while decision on dealing with the remaining amount was deferred. By year-end, Tenaga is expected to see its ICPT receivables rise to RM16.4b, translating to an estimated ICPT surcharge of 27sen/kwh if passed through over the next 6 months, or a 68% increase vs. base tariff of 39.95sen/kwh.

**COMPANY IN FOCUS**

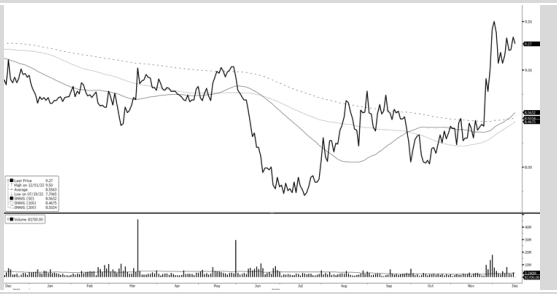
**Tenaga Nasional Bhd**

Maintain **NEUTRAL** | Unchanged Target price: RM8.45

Price @ 14th December 2022: RM9.34

- Overhanging concern on elevated ICPT receivables
- At the centre of a potential revival of power sector liberalisation policies
- Nevertheless, one of the most aggressive with decarbonisation initiatives

**Share price chart**



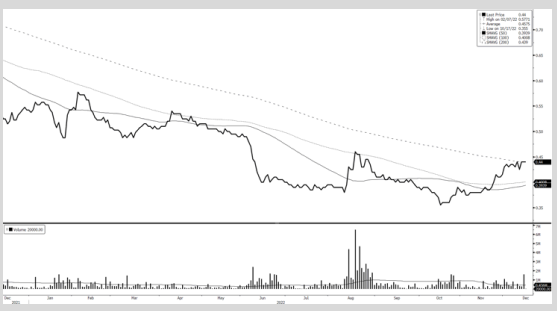
**Ranhill Utilities Bhd**

Maintain **BUY** | Unchanged Target price: RM0.67

Price @ 14th December 2022: RM0.44

- Maiden entry into RE space via 50MW LSS4 win, expands power capacity by 13%
- Potential entry into 860MLD Jakarta source-to-tap water supply
- Potential tariff hike for Johor water operations
- Undemanding 2.5x FY22F EV/EBITDA, 5.4% dividend yield

**Share price chart**



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**We keep our NEUTRAL call on the power sector.** At this point, we view the announcement as a mild positive for **Tenaga (NEUTRAL, TP: RM8.45)** as the decision will at least allow some direct cost pass-through via the 'giant' companies, which gives slightly better clarity on Tenaga's cash flow prospects. For now, however, we prefer exposure to: (1) IPPs which entail better cash flow certainty and (2) Liberalised electricity markets given better ability to pass through higher fuel cost. Our top sector picks are **YTL Power (BUY, TP: RM1.03)** and **Ranhill Utilities (BUY, TP: RM0.67).**

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| **MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS** | |
|---|---|
| **STOCK RECOMMENDATIONS** | |
| BUY | Total return is expected to be >10% over the next 12 months. |
| TRADING BUY | Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow. |
| NEUTRAL | Total return is expected to be between -10% and +10% over the next 12 months. |
| SELL | Total return is expected to be <-10% over the next 12 months. |
| TRADING SELL | Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow. |
| **SECTOR RECOMMENDATIONS** | |
| POSITIVE | The sector is expected to outperform the overall market over the next 12 months. |
| NEUTRAL | The sector is to perform in line with the overall market over the next 12 months. |
| NEGATIVE | The sector is expected to underperform the overall market over the next 12 months. |
| **ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell** | |
| ☆☆☆☆ | Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
| ☆☆☆ | Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
| ☆☆ | Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
| ☆ | Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology