Utilities (Power)

Positive (Maintained)

ST Announces New Base Tariff

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HIGHLIGHTS

- New base tariff set at 45.40 sen/kWh
- Monthly Automatic Fuel Adjustment (AFA) to replace half-yearly Imbalance Cost Pass-Through (ICPT)
- Domestic users with consumption below 1,000 kWh and non-domestic low voltage users largely unaffected by new tariff schedule

SECTOR UPDATE

New base tariff. The Energy Commission (ST) has announced the new base tariff for the Fourth Regulatory Period (RP4). At 45.40 sen/kWh, this is +13.6% higher than the RP3 base tariff of 39.95 sen/kWh and slightly lower than the initially approved RP4 base tariff of 45.62 sen/kWh. The ST also introduced the Automatic Fuel Adjustment (AFA) mechanism to replace the Imbalance Cost Pass-Through (ICPT) mechanism, switching to a monthly tariff adjustment instead of the previous half-yearly. All these will take effect from 1 July 2025 to 31 December 2027.

Change in tariff structure. In a move to simplify tariff categories, these are now classified as domestic and non-domestic, based on voltage usage, whether low, medium or high voltage as compared to a five-tier tariff block previously. The ST is also introducing an Energy Efficiency Incentive, which is expected to benefit 23.6 million domestic users. Those with electricity consumption of 1,000 kWh and below and non-domestic low voltage users with consumption of 200kWh and below are not expected to be affected by the implementation of the new tariff schedule. While the exact rate of the incentive was not revealed yet, we estimate that it could be up to 5 to 6 sen per kWh. For social and welfare needs, there will be special tariffs for the agriculture, water and sewerage services, as well as rail operators or traction. A 10% rebate will also be provided to registered institutions of higher learning, schools, charitable homes and places of worship. For the hardcore poor, the government will also continue with the RM40 Electricity Bill Rebate Programme.

Automatic Fuel Adjustment. Fuel cost fluctuations were previously handled semi-annually using the ICPT. Starting July, this will be replaced by the AFA, which allows automatic monthly tariff adjustment based on current fuel prices and foreign exchange rates, allowing for more responsive and up-to-date tariff settings. The ST will publish detailed updates on the AFA every month. The Edge reported that the automatic tariff adjustments are capped at 3 sen per kWh and anything exceeding that threshold would require Cabinet approval.

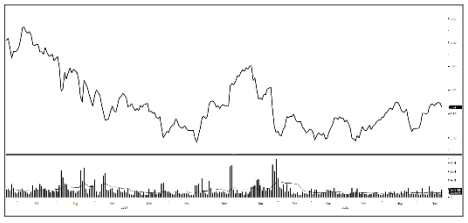
COMPANIES *IN FOCUS*

Tenaga Nasional Berhad

Maintain BUY | Target Price: RM16.40
Price @ 20 June 2025: RM14.22

- Strong electricity demand growth
- New AFA replacing ICPT protects TNB from swinging in fuel prices and provides better cash flow clarity

SHARE PRICE CHART

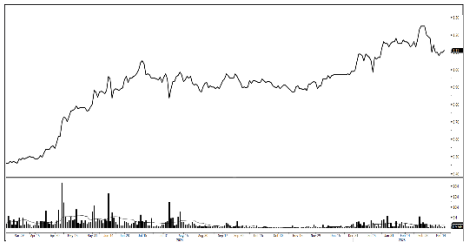


YTL Power International Berhad

Maintain BUY | Target Price: RM4.51
Price @ 20 June 2025: RM3.64

- Front-runner for latest gas RFP by ST
- Wessex Water to benefit from tariff increase in the UK
- Launching 20MW AI DC in Aug-24

SHARE PRICE CHART



What these all mean for TNB. Under the AFA, any monthly variance in fuel and power purchase cost will be automatically adjusted, providing a timelier cost pass through to consumers rather than every six months. This gives better clarity on Tenaga Nasional Berhad's cash flow prospects. This also ensures that Tenaga's regulated generation-and-retail margins remain largely insulated from volatile oil, coal, or gas prices. Incorporating the new base tariff into our model, we revise our **TP** for **Tenaga** higher to **RM16.40** (from RM15.13 previously). We like Tenaga as a beneficiary of the energy transition and its strong demand growth, which surpassed the country's GDP growth in 2024.

Maintain POSITIVE. We maintain our **POSITIVE** stance on the **Utilities** sector. The latest tariff framework under RP4 provides greater stability and transparency, especially through the dynamic AFA that removes the lag in fuel-cost recovery thus, protecting Tenaga from fuel price swings. Electricity demand is also expected to be strong this year, with a projected growth of 3.5% to 4.5%. In May-25, peak electricity demand hit three new highs, with the latest on 27th May at 20.75GW. Meanwhile, the recent request for proposal (RFP) for new gas-fired power generation capacity also presents a positive catalyst for the sector. This will be undertaken via two categories, which is the extension of the concession period for existing gas-fired power plants with expiring or expired existing power purchase agreements (PPAs) and through the development of new gas-fired power plants. This is expected to add about 8GW of new capacity. We expect independent power producers (IPPs) such as **Malakoff (Non-rated)** and **YTL Power International (BUY, TP: RM4.51)** to be among the front runners for this new scheme. The renewable energy subsector remains our top preference, as the key immediate-term beneficiaries of RE initiatives, the aggressive rollouts of large scale solar (LSS) schemes and the longer-term National Energy Transition Roadmap (NETR). Our top picks are **Samaiden (BUY, TP: RM1.59)** and **Pekat (BUY, TP: RM1.86)**.

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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	The stock price is expected to rise by >10% within 3 months after a Trading Buy rating has been assigned due to positive news flow.
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	The stock price is expected to fall by >10% within 3 months after a Trading Sell rating has been assigned due to negative news flow.

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