

Headline	Power utilities sector remains a defensive play
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## Power utilities sector remains a defensive play

**PETALING JAYA:** The power utilities sector remains a top bet for investors looking for defensive play, in view of the uncertainties related to the upcoming general election.

Analysts say this is due to the sector's resilient earnings, and with Tenaga Nasional Bhd's (TNB) performance backed by the imbalanced cost pass through (ICPT) framework.

The ICPT framework has a fuel cost pass-through mechanism which makes TNB's earnings free from fuel cost movement risk.

Kenanga Research noted that although fuel costs were set to increase in view of higher coal prices and the scheduled hike in gas prices, these factors have neutral earnings impact on TNB as the ICPT framework would address the issues in the coming June Review.

The share price of TNB has risen 3.28% year-to-date.

However, the two independent power producers (IPP) Malakoff Corp Bhd and YTL Power International Bhd have seen their shares falling 10.20% and 13.95% respectively, over the same period.

The weakness in IPPs offered a buying opportunity, as the profitability of IPPs is backed by long-term power purchase agreements, which guarantee capacity payment as long as requirements are met.

"TNB remains our top pick for the sector given its undemanding valuation, which is supported by its quality earnings profile and index weighting status.

"Meanwhile, we continue to like small cap Pestech International Bhd as our alternative sector play for its explosive earnings growth story, with near-term strong contract flows expected," it said.

Moving forward, the research house expected a better 2018 for the sector follow-



**Resilient performance:** The share price of TNB has risen 3.28% year-to-date. — Reuters

ing a mixed bag of results during the final quarter of 2017.

It pointed out that TNB's earnings would grow on the back of a 2.1% electricity demand growth in 2018, led by domestic and commercial segments, while YTL Power was expected to see improved earnings on the commencement of the Paka Power Plant since

September last year.

However, it said Malakoff Corp's upside was likely to be capped by capacity payment cut at the Segari Energy Ventures' gas plant.

"Elsewhere, Pestech should see earnings growth on the back of its RM1.5bil order book coupled with new contract flows to sustain earnings momentum," it said.