

Headline	A better year ahead for power utilities sector — Analysts
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KUCHING: Malaysia's power utilities sector are expected to see a better year in 2018 as earnings will continue to grow given the gross domestic product (GDP)-push demand to drive sales.

Meanwhile, earnings for independent power producers (IPPs) should see better clarity following the extension of power purchasing agreement (PPA) contracts in the second half of 2017 (2H17).

The research arm of Kenanga Investment Bank Bhd (Kenanga Research) expected that big cap power companies such as Tenaga Nasional Bhd (TNB) would see its earnings to grow further on the back of 2.1 per cent electricity demand growth in 2018, to be led by domestic and commercial segments.

Meanwhile, IPPs such as YTL Power International Bhd (YTLP) should see a rebound in earnings as the Paka Power Plant recommenced in September last year after it resolved the dispute with TNB pertaining to land issue.

As for Malakoff Corporation Bhd (Malakoff), it expected earnings to be flattish given that its upside is capped by cut in Senari Energy Ventures' (SEV) capacity payment following the PPA Extension Contract.

"Going forth, operational efficiency is the key to determine TNBs bottomline as fuel cost risk is eliminated by the Imbalance Cost Pass Through (ICPT) mechanism," it said.

TNB has indicated its keen interest for offshore expansion to drive earnings growth although it does not expect to provide material impact anytime in the near future.

"On the other hand, YTLP's dividend payout could be lower as it needs to conserve cash for two greenfield projects, namely PT Tanjung Jati coal-fired power plant in Indonesia and Attarat Power's oil shale-fired power plant in Jordan over the next three to four years.

"Meanwhile, Malakoff is still actively looking for offshore mergers and acquisitions (M&A) and greenfield opportunity to sustain earnings growth given the cut in SEV's capacity payments," it said.

As for for Pestech International Bhd (Pestech), Kenanga Research said it continued to favour alternative play Pestech for its earnings growth story as well expected maiden recurring income from the consensus asset Diamond Power starting this month.

It noted that Pestech should see earnings growth on the back of its RM1.5 billion order-book coupled with new contract flows to keep earnings momentum.

Overall, Kenanga Research pegged an 'overweight' rating on the power utilities sector.

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It explained, “Despite relatively defensive earnings, the Power Utility sector is trading at undemanding valuations.

“This is fairly unwarranted especially for TNB given its index-linked heavyweight status and earnings quality profile where the ICPT mechanism frees it from fuel cost movement risk.

“Meanwhile, selling pressure on Malakoff has somewhat abated and it is now trading at 41 per cent discount to its sum of parts valuations which appears to be attractive, in our view.

“Besides, any M&A opportunity should boost sentiment.

“On the other hand, we are neutral on YTLP as it is expected to distribute lower dividend payout at least in the next three to four years as it needs to conserve cash for two greenfield projects namely PT Tanjung Jati coal-fired power plant in Indonesia and Attarat Power’s oil shale-fired power plant in Jordan.”

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