Headline	Research houses see better outlook for power sector
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PETALING JAYA: Stocks in the power sector, which came under selling pressure due to regulatory risks and market headwinds following the general election, could see a better overall outlook in 2018.

Research houses, in their strategy reports for the second half of the year (2H18), saw the recent sell-down as offering a good opportunity to accumulate stocks with quality assets now that regulatory concern over the integrity of the imbalance cost pass-through (ICPT) mechanism is dissipating.

Kenanga Research noted that on the back of the ICPT mechanism coupled with its earnings quality and trading at 11 times 2019 price earning ratio (PER), is highly unwarranted for a heavy-weight index stock like Tenaga Nasional Bhd.

"Elsewhere, the independent power producers (IPP), namely Malakoff Corp Bhd and YTL Power International Bhd as well as Pestech International Bhd are also trading at fairly attractive valuations despite possessing quality assets as well as sizeable order book," the research house said in its sector report.

Recall that the Pakatan Harapan government, through the Energy Commission, agreed to maintain the ICPT base tariff of 39.45 sen/kWh for 2H18 with a surcharge of 1.35 sen/kWh for non-domestic customers.

This bodes well for TNB as the utility giant is able to pass through higher fuel costs to consumer albeit the domestic segment remains subsidised.

Notably this is the first surcharge being charged to consumer since the implementation of ICPT in Jan 2014.

Kenanga Research said it expected TNB's earnings to grow further on the back of 2.1% electricity demand growth in 2018, to be led by domestic and commercial segments, while YTL Power 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 a land issue.

Meanwhile, Malakoff's earnings are likely to be flattish given that upside is capped by cut in Segari Energy Ventures's capacity payment following the power purchase agreement extension contract. Pestech, according to Kenanga should see earnings growth on the back of its RM1.5bil order book coupled with new contract flows to sustain earnings momentum.

However, YTP Power'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.

In the recent first quarter calender year 2018, utilities firms reported a mixed bag of results. YTL Power's Q3'18 fell short of expectations due to weak earnings of Paka and Singapore's PowerSeraya as well as wider losses at its 4G Mobile Internet service with voice, Yes, while Malakoff's Q1'18 missed forecast on unplanned outages at Tanjung Bin Energy and lower associate earnings.

TNB's Q1'18 and Pestech's Q3'18 results were within analysts' expectations.