



AmInvestment Bank

23 Jun 2025

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POWER

Drop in tariffs due to lower coal costs

NEUTRAL

(Upgraded)

Rationale for report: Sector Update

Investment Highlights

Stock Universe

Tenaga Nasional

TP: RM12.60 → RM14.18

Rec: UNDERWEIGHT → HOLD

Upside/Downside: -0.3%

YTL Power

TP: RM4.37

Rec: BUY

Upside/Downside: +20.1%

Malakoff

TP: RM0.88

Rec: HOLD

Upside/Downside: +11.4%

Mega First

TP: RM5.18

Rec: BUY

Upside/Downside: +37.4%

Solarvest

TP: RM0.90

Rec: HOLD

Upside/Downside: +3.3%

The Energy Commission (EC) has announced the electricity tariff structure for Peninsular Malaysia from 2025F to 2027F. First, there is no impact on Tenaga Nasional (TNB) as although the base tariff has gone up, the ICPT or fuel adjustment has slid due to lower coal costs. In 1QFY25, TNB recorded a negative fuel adjustment of RM175.2mil (1QFY24: positive adjustment of RM2.4bil) but enjoyed a revenue positive adjustment of RM2bil (1QFY24: Negative adjustment of RM412.4mil) as actual electricity demand fell below the allowable volumes. Second whether or not, commercial and industrial (C&I) companies enjoy cheaper electricity under RP4 will depend on their usage and voltage. Third if C&I customers record lower electricity tariffs, there could be a decline in demand for rooftop solar projects or green electricity under the CRESS scheme. This would affect the order book of solar EPCC companies. Fourth if the monthly surge in coal prices result in a fuel adjustment of more than 3 sen/kWh, TNB has to seek approval from the Cabinet. We upgrade the power sector to NEUTRAL from UNDERWEIGHT. We raise TNB to HOLD From UNDERWEIGHT as its earnings are defensive and protected under the parameters of RP4.

- **Lower electricity tariffs due to a drop in coal costs.** Although the base tariff has gone up by 13.6% to 45.4 sen/kWh in RP4 from 39.95 sen/kWh, the final tariff declined by 13.5% due to lower coal prices. The final tariff consists of the base tariff and the fuel adjustment (formerly known as the Imbalance Cost Pass Through mechanism). According to *Bloomberg*, Newcastle coal prices have slid by 26.8% from a 52-week high of US\$153/tonne on 7 October 2024 to US\$112/tonne currently.
- **Monthly tariff adjustment or fuel cost recovery will ease the burden on TNB's cashflows.** TNB will be able to recover the fuel costs faster with the monthly adjustment. Previously, the cost pass-through took place every six months.
- **Tariff for C&I customers will depend on their usage and voltage.** Non-residential customers will no longer be categorised under commercial or industrial. Instead, they will be defined by their usage and voltage. The three categories are low voltage, medium voltage and high voltage. This means that industrial customers could be recording higher tariffs under RP4 if their usage is high. Under RP3, industrial tariff rates were slightly lower than the commercial sector. Conversely, commercial companies may be enjoying lower rates depending on their voltage and usage. For domestic or residential users with usage below 900kWh, electricity bills are cheaper.
- **Automatic fuel adjustment capped at 3 sen/kWh.** Currently, coal prices are stable. However if coal prices surged and result in a fuel adjustment of more than 3 sen/kWh, TNB has to seek approval from the Cabinet. Under RP4, the reference prices are US\$97/tonne (vs. spot price of US\$112/tonne currently) for coal and RM46/mmbtu for Tier 2 gas.
- **Demand for CRESS (Corporate Renewable Energy Supply Scheme) or rooftop solar could be affected if C&I tariffs are lower.** This would affect the order book of solar EPCC companies. We believe that CRESS is for companies that are willing to pay a premium for green electricity. Recall that under CRESS, the system access charges are 25 sen/kWh for companies with battery storage and 45 sen/kWh for those without. The final tariff borne by the corporate customer could be 65 sen/kWh based on a tariff of 20 sen/kWh and system access charge of 45 sen/kWh (no battery).

EXHIBIT 1: NEW TARIFFS UNDER RP4

	RP3 (sen/kWh)	RP4 (sen/kWh)
ICPT/AFA	16.00	3.00
Generation charge	26.20	32.42
Network and retail charge	13.75	12.98
Total	55.95	48.40

Source: Energy Commission

EXHIBIT 2: CLASSIFICATION OF VOLTAGE FOR C&I CUSTOMERS

Low Voltage	Medium Voltage	High Voltage
50V to 1kV	1kV to 50kV	50kV to 230kV
Extra low voltage 1V to 50V		Extra high voltage > 230kV

Source: Tenaga Nasional

EXHIBIT 3: BILL COMPARISON FOR DOMESTIC OR RESIDENTIAL SECTOR

Consumption (kWh)	Current Bill (RM)	New Bill (RM)	Chg
0	3.00	0.00	
50	9.90	9.70	-2.0%
100	19.80	19.45	-1.8%
150	29.70	29.15	-1.9%
200	39.60	38.85	-1.9%
250	55.30	49.85	-9.9%
300	71.00	65.80	-7.3%
350	97.45	83.30	-14.5%
400	122.65	111.45	-9.1%
450	147.85	136.85	-7.4%
500	173.10	164.75	-4.8%
550	198.30	189.60	-4.4%
600	223.50	216.00	-3.4%
650	265.45	256.15	-3.5%
700	295.35	291.80	-1.2%
750	325.25	319.85	-1.7%
800	355.20	345.90	-2.6%
850	385.10	381.30	-1.0%
900	415.05	404.25	-2.6%

Source: Tenaga Nasional

EXHIBIT 4: VALUATION MATRIX

	Share price (RM)	EPS (sen) FY25F	EPS (sen) FY26F	PE (x) FY25F	PE (x) FY26F	Target price (RM)	Rec	Upside/ (Downside)
Tenaga Nasional	14.22	75.4	78.8	18.9	18.0	14.18	Hold	-0.3%
Malakoff	0.79	5.2	6.3	15.3	12.6	0.88	Hold	11.4%
Solarvest	1.84	7.7	8.5	23.9	21.6	1.90	Hold	3.3%
Mega First	3.77	42.9	51.8	8.8	7.3	5.18	Buy	37.4%
YTL Power	3.64	26.8	30.6	13.6	11.9	4.37	Buy	20.1%

Source: AmlInvestment Bank

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