

12 June 2024

# Utilities

## 1QCY24 Report Card: Gaining Power

**NEUTRAL**



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We maintain our **NEUTRAL** recommendation given the sector's earnings defensiveness, modest growth prospects and decent dividend yields. The sector's earnings delivery (against our forecasts) during the recently concluded 1QFY24 reporting season improved sequentially, with all the stocks under our coverage either meeting or beating our expectations. Stabilising coal prices reduced earnings volatility of **TENAGA** (OP; TP: RM14.50) and **MALAKOF** (MP; TP: RM0.68) while **GASMSIA** (MP; TP: RM3.55) benefited from a pick-up in sales volume. Lower gas prices were a boon to **PETGAS** (MP; TP: RM17.87). Our sector top pick is **TENAGA** given the rising electricity demand from data centres.

There was a significant improvement in the sector's earnings delivery (against our expectations) in 1QCY24 sequentially with 25%/75%/0% of companies under our coverage beating, meeting and missing our forecasts, as opposed to 0%/50%/50% in the preceding quarter.

**GASMSIA's** 1QFY24 core profit topped our forecast due to higher-than-expected sales volume and a better ASP. Meanwhile, the remaining utilities companies under our coverage met our expectations. **TENAGA's** 1QFY24 core profit eased 11% YoY as higher taxation more than offset a significantly lower negative fuel margin. However, despite being seasonally the weakest quarter in a year, its electricity sales (+1.3% QoQ; +9.6% YoY) in 1QFY24 was a record, driven by commercial (+11.2% YoY) and industrial segments (+3.0%). This was underpinned largely by the additional demand for electricity from two new data centres. **MALAKOF** returned to the black with a net profit of RM62.2m in 1QFY24 vs. a net loss of RM75.7m in 1QFY23 (during which its coal-fired power plants, Tanjung Bin Power and Tanjung Bin Energy, were hit by significant negative fuel margin). Meanwhile, **PETGAS's** 1QFY24 earnings grew 11% YoY thanks to lower gas cost.

Earnings of **TENAGA** and **MALAKOF** remain resilient backed by their regulated assets, with reduced volatility on stabilising coal prices. **TENAGA** will be buoyed by higher electricity demand growth (we assume 3% annually over the next ten years), driven largely by new power-intensive data centres. Meanwhile, in view of strong electricity demand growth in FY22A (+6.0%) and FY23A (+3.6%), and 2.5% to 3.0% in FY24F guided by **TENAGA**, we expect higher demand growth assumption during Regulatory Period 4 (2025-2027), as against 1.7% during Regulatory Period 3 (2022-2024).

On the other hand, **PETGAS** is buoyed by the upward revision in the Imbalance Cost Pass-Through (ICPT) surcharge recently, while **GASMSIA** is poised for a higher sales volume (partly driven by higher demand from glove producers) but will have to come to terms with lower margins as gas prices ease.

We maintain our **NEUTRAL** rating on the sector as we continue to like the sector for its earnings defensiveness and resilience backed by regulated assets that generate recurring cash flow to anchor decent dividend yields of 3%-6%. **TENAGA** is our sector top pick for its dominance in power generation, transmission and distribution in Malaysia, its earnings defensive and new growth catalyst arising from demand for electricity from data centres.

### Quarterly Results Performance

	1QCY24						4QCY23					
	KENANGA			CONSENSUS			KENANGA			CONSENSUS		
	Above	Within	Below	Above	Within	Below	Above	Within	Below	Above	Within	Below
GASMSIA	1			1			1			1		
MALAKOF		1			1				1			1
PETGAS		1			1				1			1
TENAGA		1			1				1			1
<b>Total</b>	<b>1</b>	<b>3</b>	<b>0</b>	<b>1</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>2</b>	<b>0</b>	<b>2</b>	<b>2</b>
<b>Total (%)</b>	<b>25</b>	<b>75</b>	<b>0</b>	<b>25</b>	<b>75</b>	<b>0</b>	<b>0</b>	<b>50</b>	<b>50</b>	<b>0</b>	<b>50</b>	<b>50</b>

Source: Kenanga Research, Bloomberg

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## Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.				
<b>Stocks Under Coverage</b>																	
GAS MALAYSIA BHD	MP	3.64	3.59	-1.4%	4,673.8	Y	12/2024	28.4	27.5	-4.9%	-3.0%	12.8	13.2	3.2	25.8%	22.7	6.2%
MALAKOFF CORP BHD	MP	0.850	0.680	-20.0%	4,153.9	Y	12/2024	4.7	5.8	-71.9%	24.1%	18.1	14.6	0.9	5.2%	3.8	4.4%
PETRONAS GAS BHD	MP	18.28	17.87	-2.2%	36,171.2	Y	12/2024	98.4	100.7	5.2%	2.4%	18.6	18.1	2.6	14.2%	72.0	3.9%
SAMAIDEN GROUP BHD	OP	1.31	1.51	15.3%	548.3	Y	06/2024	3.5	5.3	26.4%	51.9%	37.7	24.8	5.2	14.9%	0.0	0.0%
SOLARVEST HOLDINGS BHD	OP	1.66	1.91	15.1%	1,153.1	Y	03/2025	6.8	8.5	62.5%	24.2%	24.2	19.5	4.2	19.5%	0.0	0.0%
TENAGA NASIONAL BHD	OP	13.80	14.50	5.1%	79,865.2	Y	12/2024	75.2	81.9	40.1%	8.9%	18.4	16.9	1.3	7.1%	37.2	2.7%
<b>Sector Aggregate</b>					<b>126,565.4</b>					<b>53.3%</b>	<b>7.2%</b>	<b>18.3</b>	<b>17.1</b>	<b>2.9</b>	<b>14.4%</b>		<b>2.9%</b>

Source: Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

***\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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