

Relative Insulation

Sensitivity Analysis of Electricity Price to Businesses

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The announcement by TENAGA on Regulatory Period 4 (RP4) last week saw the market's welcoming response to the news for the utility giant. Thereafter the energy transition and water transformation minister said that the new electricity tariff, which is scheduled to take effect in July 2025, will be finalized together with the Energy Commission. We are keeping watch on the developments and details. An area that saw more scrutiny was the jump in the base tariff for RP4, given the magnitude of change is high versus the earlier period adjustments. This has been clarified as a 're-basing' of tariffs, implying the impact to the final electricity bill should not be concerning.

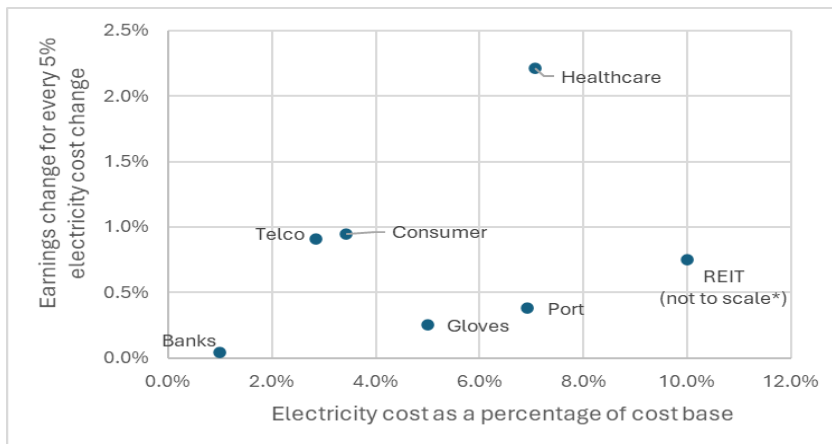
Nevertheless, given the developing nature of the discussion and how it may affect tariff bands, this short note outlines business sectors' sensitivity to electricity cost changes. Gloves and seaports are relatively insulated compared with healthcare for the same percentage of change in electricity cost. Given this anticipated rise in base tariffs, and the focus on energy efficiency this coming year, it could also enhance the appeal for renewable energy plays.

Base tariff hike due to previous RP3 assumption needed updating. TENAGA explained the base tariff rate moving into RP4 would rise by 14% to 45.62 sen per kilowatt hour (kWh). At first glance, this appears to be a sharp rise from the 39.95 sen/kWh in RP3, which had been little changed versus the 39.45 sen/kWh in RP2 before that. According to TENAGA, the cost of fuel to generate electricity has been much higher than the approved prices determined for Regulatory Period 3 (RP3) due to coal (57% generation source). Therefore, it forecasted a 24% rise in coal price and 34% rise in liquified natural gas (LNG) price over the three-year period. The coal price assumption was raised from USD79 to USD97.7. The fact that we observe such prices are just slightly higher than the market price for coal (Indonesia coal and Australian coal), means that the net effect is to achieve a "re-basing" effect, and shouldn't be a large irritation overall.

As the Imbalance Cost Pass-Through (ICPT) mechanism is designed for TENAGA to be neutral to fuel cost changes, existing users incur surcharge at various magnitude, which would be adjusted at a 6-month interval to reflect the fuel and coal cost changes (for the preceding six months). Exhibit 2 shows current surcharge and rebate, with up to 16 sen at the highest usage category. Assuming the forward-looking costs of coal and LNG are assessed correctly, the net increase magnitude should be manageable as the surcharge should, in theory, ease off.

Still being finalized. The RP4 new tariff structure are still pending government's finalization. In practice, the 14% base tariff has been emphasized as being the average increase. How this affects the individual bands within the categories of domestic, commercial and industrial is the key development, and we closely watch this space. Regardless, for the six months up to June 2025, any adjustment shall be absorbed through the Energy Commission's electricity industry fund, better known as the KWIE fund, which lend stability to business planning, and consumer confidence. For that period, the subsidy bill that would be financed by the government amounts to RM2.388b.

The consumer at large likely has less to worry. Domestic users that currently use more than 1,500kWh pay a 10 sen surcharge which affects 85,000 consumers (1% of total), and the more vulnerable segment has been protected via rebates. The government has said that the majority of consumers would not be burdened by the proposal ([link](#)). At present, those use up to 600kWh are entitled to a 2 sen rebate.

Exhibit 1: Broad sector comparison of electricity cost to overall operating cost, and sensitivity assuming a 5% change in electricity bill to earnings


Source: Company annual reports. *REIT's electricity cost-to-cost base is 30% where we have shown above commercial REIT. Cost base above is defined as operating cost (inclusive of COGS and overheads, before interest cost).

Sensitivity analysis. All else being equal, every 5% increase in energy cost leads to c.2% impact to earnings or lower. In our assessment, we compiled selected listed companies that have sizeable market share for a sense of electricity cost-to-overall cost base. When the categories of electricity are not itemized, we have used the broader definition of utilities in our analysis, which may inflate the figure. All in, most of the sectors that disclose energy usage have about 2% to 8% of their cost base in electricity cost. Meanwhile, REITs see a higher mix of electricity cost to total cost, but they are able to partially pass through such costs to their tenants who will be billed for their share of consumption. While the consumer segment has a relatively large exposure in its cost base, its earnings sensitivity to electricity prices is not high. Vis-à-vis impact to the bottom line on a 5% increase in electricity cost, most sectors are only mildly impacted, notwithstanding in recent years the cost of electricity has escalated somewhat more this.

Depending on the energy source, industries such as manufacturing, or downstream oil and gas, could see degrees of differentiation as well with regard to the electricity bill impact. Citing an example, for glovemakers, whose energy consumption is more gas reliant for heating, the impact is not pronounced. Ports is a close second.

Nevertheless, we are keeping watch on the broader impact of various cost elements. In the above analysis, we have only considered the direct impact to costs. The impact of electricity cost to a measure of CPI would also be small given that electricity cost forms less than 3% of the CPI basket. We nevertheless are watching the broader impact as businesses such as SMEs may have to navigate other costs pressures such as minimum wage cost increases, as there have been calls as well for the surcharge to be lowered for medium-voltage SMEs ([link](#)). The realities would also be more nuanced, such as banks for example, which may be affected by the general disposable income of borrowers etc, although its direct exposure to electricity is negligible.

All said, there is stricter compliance from Jan 2025 on energy efficiency. Effective Jan 2025, corporate Malaysia ushers in a stricter environment for energy, including energy audits, comprehensive energy management systems and energy policy. This should help raise the floor in the area of energy efficiency, although many companies in corporate Malaysia have already laid out energy consumption intensity goals. On the whole, we believe this will continue to drive interest and adoption of solar energy which may benefit renewable energy players. For more details on the latest developments in the Renewable Energy segment, please see analyst Nigel Ng's sector update note on Renewable Energy also dated 30 December 2024.

Exhibit 2: Surcharge/Rebate over 6-monthly periods in 2024–1H2025			
Surcharge/ (Rebate) sen per kWh	1H24	2H24	1H25
<u>Domestic</u>			
Consumption up to 600 kWh	(2)	(2)	(2)
601-1,500 kWh	n.a.	n.a.	n.a.
above 1,500 kWh	10	10	10
<u>Non-domestic consumer</u>			
Low-voltage commercial and industrial	3.7	2.7	2.7
Specific agriculture sector tariffs	3.7	2.7	2.7
Water and sewerage operators	3.7	2.7	2.7
Other commercial and industrial tariff	17	16	16

Source: Kenanga Research

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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