

Utilities – Power

Asset Impact

Neutral

Fired up or parched down? A look on earnings indications as El Niño fizzled out

The confluence of the dry season and the El Niño phenomenon in recent months significantly increased the demand for electricity. This surge is expected to have a meaningful impact on several companies in the sector. For Meralco (MER), the heightened usage of cooling appliances, such as air conditioners and electric fans, should lead to stronger sales volume, particularly in April (+8%) and May (+10%), with the second quarter likely to see high single-digit growth. Semirara Mining and Power (SCC) and AC Energy (ACEN) are likely to have benefited from spikes in spot prices. However, these gains could be tempered due to price caps imposed during Red Alert situations by the government, among other factors. Specifically for SCC, plant outages could also limit the positive impact from elevated spot prices. Aboitiz Power (AP) and First Gen (FGEN), with their exposure in hydropower, should have faced challenges due to low hydrology. Lastly, the several instances of Yellow and Red Alerts in the period should also shift the spotlight to the National Grid Corporation of the Philippines. Delays in its transmission projects defer the integration of already-completed power plants into the grid. With mounting pressure from the government, NGCP might be forced to allocate more funds to capital expenditures, which has negative impact to the dividend payout of its parent company, Synergy Grid & Development Phils. (SGP).

Figure 1: Demand kicked higher starting April, peaked through May, then moderated in June

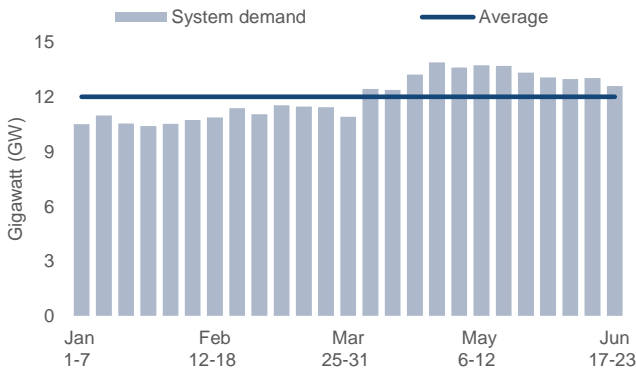


Figure 2: Elevated spot prices during April through May offer tailwind to spot market participants

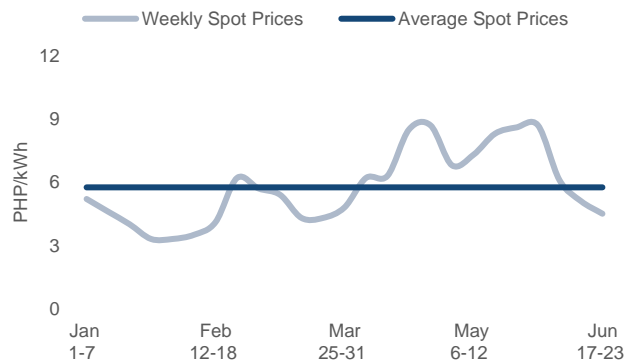
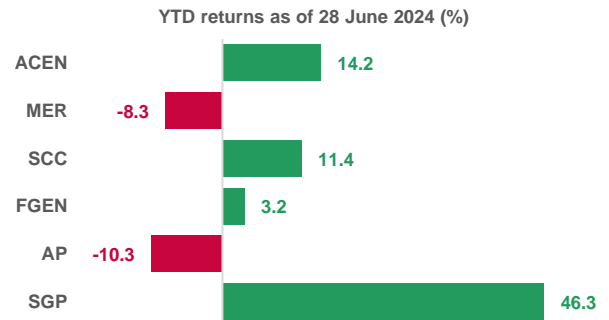


Figure 3: Grids experienced Red and Yellow alerts this year amid strong demand and plant outages

| Year | Luzon | | Visayas | |
|------|-------------------|----------------------|-------------------|----------------------|
| | Red Alert (hours) | Yellow Alert (hours) | Red Alert (hours) | Yellow Alert (hours) |
| 2021 | 0:00 | 0:00 | 0:00 | 0:00 |
| 2022 | 0:00 | 14:56 | 1:10 | 1:42 |
| 2023 | 0:00 | 0:00 | 3:59 | 0:00 |
| 2024 | 20:46 | 57:50 | 24:14 | 46:40 |

Note: A red alert is issued when the power supply is inadequate to meet demand, while a yellow alert is issued when margins are insufficient to meet contingency requirements.

Figure 4: Year-to-date returns of select power companies reflect other market dynamics beyond El Niño



Sources: Philippine Electricity Market Corporation, Energy Regulatory Commission, Bloomberg

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