

How We Create Value

OPERATING LANDSCAPE

VOLATILITY IN ENERGY COMMODITY PRICES

IMPACT

In 2023, the global coal market saw a notable decline in prices, with Indonesian sub-bituminous and Newcastle benchmark coal prices dropping by 31% and 65%, respectively. This trend significantly impacted Malakoff, particularly given the organisation's reliance on coal for a substantial portion of its power generation capacity. The volatility in coal prices led to negative fuel margins for Malakoff, as the organisation grappled with higher weighted average fuel costs than the market prices.

One of the critical factors exacerbating the impact of coal price volatility on Malakoff is the quarterly update mechanism of the Applicable Coal Price (ACP) in Malaysia. This system creates a lag effect, whereby the ACP which Malakoff and other power producers reference for financial and operational planning can only be updated months after actual market price changes. This delay in adjusting to real-time market prices poses challenges in managing fuel costs effectively.

Moreover, Malakoff's contractual obligations to maintain extra coal stock further complicated its ability to swiftly adjust to price fluctuations. These stockpiling requirements, intended to ensure uninterrupted power supply, mean that Malakoff must purchase and store coal in advance, often at prices that do not reflect subsequent market declines, thereby impacting the organisation's fuel margin and overall financial performance.

In terms of natural gas, the expected average of the Henry Hub natural gas spot price in 2023 indicated a decrease by more than 50% from the previous year, presenting a mixed scenario for gas-fired power generation costs.

OUR RESPONSE

In response to these challenges, Malakoff has engaged in frequent discussions with stakeholders, including authorities and regulators to navigate the volatile energy commodity market. The organisation's strategic focus on optimising plant operational efficiencies and exploring RE opportunities reflects its adaptive measures to mitigate the adverse effects of fuel price fluctuations. To drive the industry forward, we conducted regular interactions with key stakeholders, particularly authorities and regulators

overseeing the fuel supply to the power sector, with the aim of elevating the effective management of sustainable energy consumption. Additionally, we proactively identified and evaluated new investment prospects, aligning them with targeted dispatch strategies to optimise revenue generation amid volatile fuel prices. Our key focus was to ensure that our business assets and operations were ready for deployment to meet the requirements of a single buyer as we adapted to evolving dispatch patterns.

OUTLOOK

Looking ahead, Malakoff's commitment to diversifying its energy production portfolio, including investments in RE sources, positions the organisation to better withstand the uncertainties of the global energy market. The continued volatility in energy commodity prices underscores the importance of strategic planning, operational flexibility and the pursuit of sustainable energy solutions in navigating the complexities of the energy sector.