PRESS CUTTINGS

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Govt to decide on imbalance cost pass-through mechanism

By DANIEL KHOO
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PETALING JAYA: The profitability of Tenaga Nasional Bhd (TNB)

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Energy, Science, Technology,

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Bauxite mining to resume

Industry welcomes govt's decision to restart activities in April

By ONG HAN SEAN
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KUANTAN: Bauxite mining in Pahang will resume in April and the

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Part 1:

METALLIC COMMODITIES

Source : StarBiz
Date : 12 February 2019 (Tuesday)

Following the money in commodities leads to gold mines

LAUNCESTON, AUSTRALIA: If the adage "follow the money" is to be applied to commodities, then currently the place looking most attractive to investors is gold mining.

The common theme at two mining investment conferences held last week in Cape Town was that putting cash into gold mining companies offers the best prospects in the commodity space.

At the 121 Mining Investment event about half of the more than 100 mining companies attending were either pure gold plays, or were targeting the precious metal in their portfolios.

The conference aims to put together mainly junior miners with investors seeking growth opportunities, and it was clear that gold companies were the flavour of the month.

A panel made of up investors from across the spectrum, ranging from major banks to smaller specialised funds, was unanimous in their support of gold.

"For us, gold is the only place to be this year," said one of the fund managers, who can't be identified as the event was held under Chatham House rules.

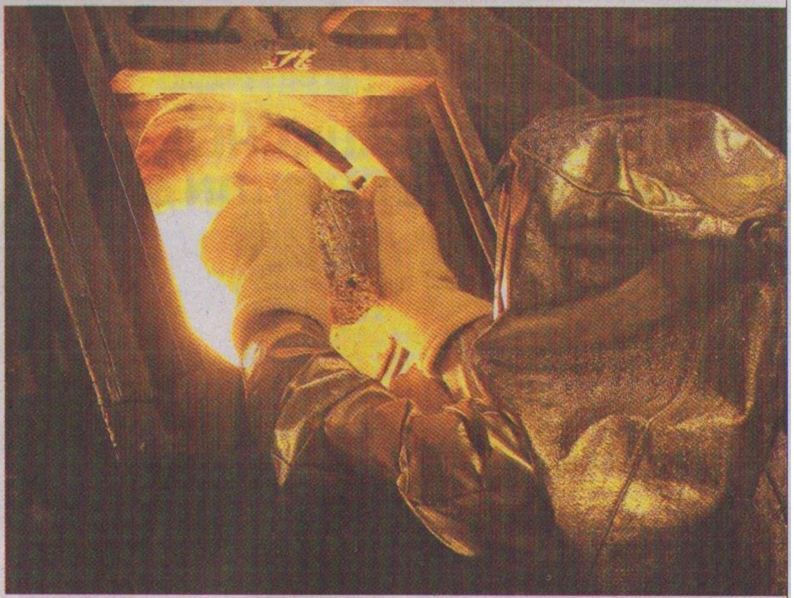
Another investor who, in addition to placing funds in junior miners, offers expertise and industry contacts by sitting on the board of directors, said the hype surrounding lithium, cobalt and other battery metals has largely subsided, and been replaced with gold.

At the Investing in African Mining Indaba, also held in Cape Town last week, gold companies featured heavily on the agenda, with almost an entire day of the three-day programme for junior miners devoted to the yellow metal, substantially more time than for the battery metals, copper, uranium or other minerals.

The reason for the surge in interest in gold mining was two-fold; firstly a positive outlook for gold prices and secondly, the relative advantages of exploring for, and developing a gold project over other types of mines.

The likelihood that the US Federal Reserve will hold off increasing interest rates, and the clouds gathering over the world economy, have boosted gold's prospects for 2019, with some of the conference participants even being bold enough to call the start of a sustained bull run.

While it's generally good advice to treat gold bulls with caution because of their permanent "buy" recommendation, it's possible to make an argument that the sluggish market for the precious metal of the past few years may be over.



Gold shines: A file picture showing a refinery technician putting a gold 'button' into a furnace to be further refined to form gold dore bars at a gold mine in the US. Putting cash into gold mining companies now offers the best prospects in the commodity space. – Reuters

Spot gold has been trending higher since a closing low of US$1,173 an ounce on Aug 16 last year, ending at US$1,314 on Feb 8, an increase of 12 percent.

Gold has a fairly strong inverse correlation to US 10-year Treasury notes, tending to rally as the yield drops.

The 10-year yield has been falling in recent weeks as the market responds to the cooler economic outlook, the lower risk of Fed rate hikes and ongoing uncertainty over the trade dispute between the administration of US President Donald Trump and China.

On the mining front, exploring for gold and establishing a new mine compares favourably from a capital cost perspective against similar efforts for copper, cobalt and other minerals.

While Africa as a whole suffers from a poor image among investors, the countries that are on the more attractive end of the scale also tend to be where gold can be discovered and developed.

These include nations such as Ghana, Mali and even the former global gold powerhouse South Africa.

However, the two events in Cape Town also highlighted the challenges of undertaking projects in Africa, with numerous complaints about the continent's governments changing the rules too often, and generally seeking to extract a greater share of the mineral wealth, perhaps to the point where mines become unviable.

The kidnapping and killing of Canadian geologist Kirk Woodman in the West African country of Burkina Faso last month, while working for gold explorer Progress Minerals, also highlights the dangers of working in certain countries.

Nonetheless, the happiest miners in Cape Town were the ones with gold mines either in production, or near production, as it was their conference booths that investors were beating a path toward. — Reuters

Source : The Star **Date : 19 February 2019 (Tuesday)**

Bauxite mining to resume

Industry welcomes govt's decision to restart activities in April

By ONG HAN SEAN
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KUANTAN: Bauxite mining in Pahang will resume in April and the government's decision is a relief to industry players.

Water, Land and Natural Resources Minister Dr Xavier Jayakumar said that during engagements with stakeholders, no one said the industry should be stopped.

"Everyone is in agreement that bauxite mining has potential.

"It is quite profitable, with the state getting about RM47mil in royalty in 2015," he said after inspecting mining sites here yesterday.

Bauxite mining activities in the state had been suspended since 2016 after environmental pollution became rampant.

To prevent this from reoccurring, Dr Xavier said the Cabinet had agreed to a new standard operating procedure (SOP) that covers all aspects, from mining to export.

"Anyone who disregards the rules will be heavily penalised. Fines of more than RM500,000 and imprisonment of up to three years will be meted out on those who encroach or do illegal activities.

"I am going to enforce this SOP, so the industry will follow what we have set," Dr Xavier said.

However, the SOP will only apply to Pahang for now while the ministry studies how to extend it to other states with bauxite such as Johor and Terengganu.

On site: Dr Xavier (third from left) visiting a bauxite mine in Kuantan. — Bernama

Dr Xavier said the SOP also covers transportation.

"Those who want to engage in transportation must register with the Land and Mines Office. We also have standards on what are required of the lorries," he added.

He said mined bauxite ore must now be washed before being exported.

"Raw bauxite will not be allowed to be exported because we want to control the environmental degradation in the country," he said.

Dr Xavier said some of the industry players already had infrastructure for washing ore, while those interested in downstream activities were most welcome to take part.

He also said the lifting of the moratorium meant that the existing stockpile of 435,000 tonnes of bauxite at the Kuantan and Kemaman ports must be cleared by March 31.

"We are asking all those involved to cooperate with the ministry and state to get it done in the coming month," he added.

Pahang Mineral Operators Association vice-president Datuk Yap Soon Huat said they welcomed the decision and would gladly work with the government to regulate the industry.

"Everyone is waiting to resume operations. We've seen how Kuantan's economy has slowed down.

"I am confident that we can contribute to the state's economy with our activities," he said.

Yap said the association would ensure that its members complied with the new SOP.

"All legal operators will sign a memorandum promising to regulate our own activities.

"We will collect evidence of any operator that is out of line and forward it to the authorities. We will not tolerate any illegal activities," he added.

Part 2:

NON-METALLIC COMMODITIES

Source : The Star **Date : 08 February 2019 (Friday)**

China set to shape diamond industry

With advanced technology, nation's man-made gems poised to change the global market

ZHENGZHOU: A diamond is forever but its chemical composition is just carbon, the fourth most abundant element in the universe.

Before being cut and polished to what may cost over US$2,000 (RM8,167) per carat – one-fifth of a gramme, or the weight of two grains of rice, diamonds have traditionally been mined from earth, where they were forged in extreme pressure and heat over millennia.

But companies in China and elsewhere have mastered the technologies to manufacture them en masse in a matter of weeks or days, with the products practically indistinguishable from those mined from earth.

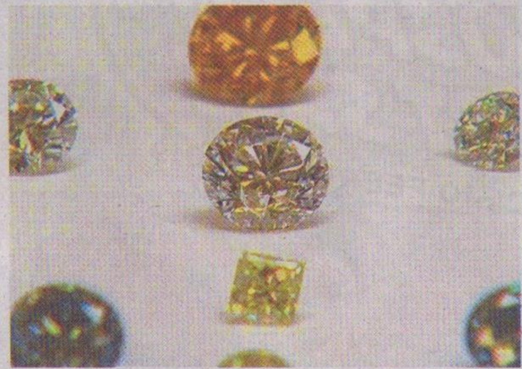
China, long a major consumer of mined diamonds, now has a realistic chance to become a supplier of man-made ones and shape the industry, analysts said, but the scenario for substitution – when consumers become indifferent to provenance – is far from certain and depends on public perception.

By Chinese industry estimates, the country has been producing

well over 10 billion carats of diamond annually for almost a decade, but most of the products have gone to industrial use such as in abrasives.

Before foraying into consumer use, Chinese manufacturers provided them for aeronautics, oil rigs and electronic chips and honed their craft, said Hu Junheng, head of gemstone business at Henan Huanghe Whirlwind, which calls itself the world's largest synthetic diamond manufacturer, with an annual production of 1.2 billion carats, mostly for industrial use.

As competition intensified and



Growing trend: Coloured synthetic diamonds are seen at De Beers' International Institute of Diamond Grading and Research. — Reuters

technology matured, these companies, mainly based in central China's Henan province, have ventured from abrasives to jewellery.

The English-language "product list" of Henan Huanghe Whirlwind now starts with "superhard materials" and ends with "Lab-Grown Diamond (Gem Quality)".

Liu Yongqi, general manager of Sino-Crystal, another Henan-based company, said it now produces between two million and three million carats a year, over half of which are for jewellery.

"We began our transformation in 2014 to expand to gem-grade diamonds," said Liu, citing over-competition for industry use and a "blue sea" consumer market.

"It is important to understand that even if synthetic diamond production is initially lower quality, the diamonds can be 'enhanced' with processes that turn lower quality goods into higher-quality," said Paul Zimnisky, an independent diamond analyst in New York.

If even a fraction of Chinese production is upgraded to jewellery-quality diamonds, it would have a very significant impact on the global supply which is only in the low-millions of carats, said Zimnisky.

"China, and by extension Asia, is the main producer of synthetic diamonds," said Margaux Donckier, spokesman for Antwerp World Diamond Centre. "Synthetic goods only represent about 3-5% of the (consumer) market, but the share is growing rapidly."

A major boost to man-made diamonds, Chinese manufacturers said, came from De Beers, the dominant giant that popularised the saying "a diamond is forever".

Reversing its previous position of shunning the man-made sector, De Beers took a U-turn in 2018 by selling man-made diamonds through its Lightbox Jewelry brand.

"Since De Beers embraced man-made diamonds, the market has been developing rapidly," said Liu. — Xinhua

Part 3:

ENERGY MINERAL (COAL)

Source : The Star
Date : 14 February 2019 (Thursday)

TNB in focus due to high coal prices

Govt to decide on imbalance cost pass-through mechanism

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PETALING JAYA: The profitability of Tenaga Nasional Bhd (TNB) hinges on what the government decides on the imbalance cost pass-through (ICPT) mechanism in the next tariff review.

So far, the government has approved the implementation of the ICPT for the period of Jan 1-June 30, 2019, and the next electricity tariff setting is slated soon.

The ICPT, which was introduced in 2014 under the Barisan Nasional administration, allows for adjustments to be made in consumers' electricity bills every six months, depending on the price of coal.

However, concerns are now arising that the money remaining in the Kumpulan Wang Industri Elektrik (KWIE) fund may not be enough to subsidise electricity bills in the event that coal prices continue to stay above the US$75-per-tonne reference price.

The KWIE fund was established when the ICPT was introduced in 2014.

Coal prices, which had touched a high of almost US$120 per tonne in the middle of last year, have now moved down from that level and are now at US$95.65 per tonne. The price is still well above the US$75-per-tonne reference price that was set by the government then.

Energy, Science, Technology, Environment and Climate Change Minister Yeo Bee Yin said in a recent interview with a business publication that there was still enough money in the fund for the first-half of the year.

Yeo also noted in the interview, which was done in early December, that the country was suffering from unpredictable coal prices. She, however, did not answer conclusively if the Pakatan Harapan government would still allow the electricity tariff to be dictated by the ICPT mechanism.

TNB's share price has been under pressure of late on concerns of how energy reforms would affect it, moving forward.

Its shares closed at RM13.06 yesterday, near its 19-month low.

According to earlier reports, Yeo is slated to announce power-sector market reforms to increase competition across the value chain, especially in the distribution and retail segments, in the second quarter of this year.

The market structure reform will take 24 months, starting from mid-2019, Yeo was quoted as saying in a radio interview last month.

Whether or not it will involve the revamp or abolishment of the ICPT mechanism is still not known at this point in time, but analysts have said it would appear that the government's heightened focus on renewable energy would help pave the way for possibly lower rates in the longer term.

CGSCIMB said in a Jan 17 note that it saw the upcoming market structure reform and cancellation of four independent power producer (IPP) contracts last year as measures to bring down the electricity tariff.

"To recap, the RM1.26bil savings from the IPP cancellations would likely translate into 0.37 sen/kWh savings in the electricity tariff. Under the incentive-based regulation period two (RP2, 2018-2020), 68.5% of the 39.45 sen/kWh average base tariff goes to the single buyer generation, where 31% is used to pay capacity cost," the research house said.

"The focus on renewable energy will not only provide sustainable energy, but also stable (no fluctuation versus fossil fuel) or even lower generation cost in the long run, in our view. These are in line with the current government's initiatives to increase industry efficiency and reduce electricity costs, which in turn benefits the end-user," it added.

A UOB Kay Hian Research report, quoting Yeo, said the Malaysia Energy Supply Industry (MESI) 2.0's main goal is to achieve affordable tariffs for its citizens, and decentralise and liberalise the electricity supply industry.

"In essence, we expect the government to remain committed in carrying out energy reforms, and this bodes well for TNB. We expect a MESI 2.0 blueprint to be announced/launched some time towards the end of March," UOB Kay Hian said in its report.

UOB Kay Hian said market reform initiatives may free up to about 50% or RM2bil-RM2.5bil of TNB's working capital requirements, and more importantly, lift its ICPT risk should the government decide to underwrite the fuel cost directly.

"This paves the way for potentially higher dividend payouts, we opine. In addition, TNB does not mark up coal prices and as such, there is minimal earnings downside from this novation exercise," UOB Kay Hian said, maintaining its "buy" rating on the stock with a target price of RM15.80.

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