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Competition heating up

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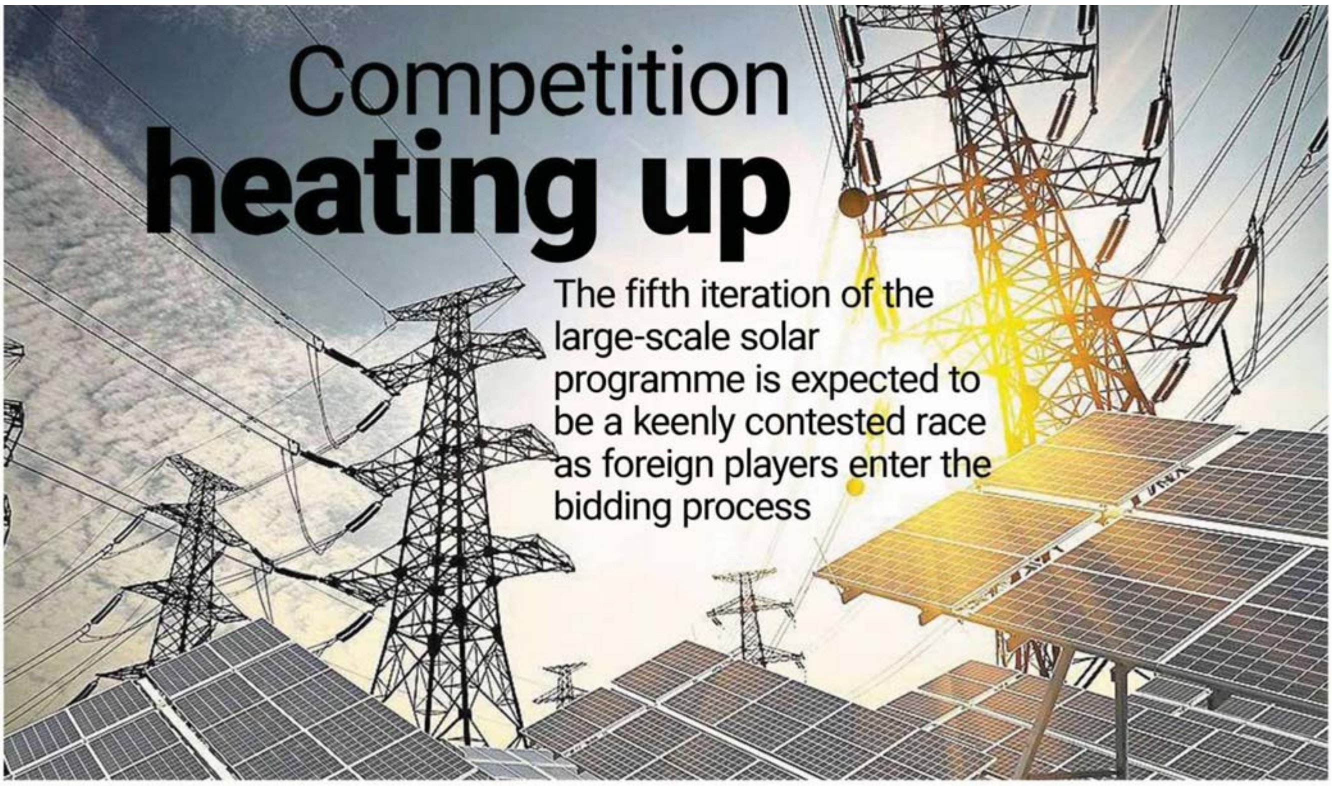

ENERGY

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KUALA LUMPUR: A very competitive landscape is anticipated for the fifth iteration of the large-scale solar programme (LSS5), as both renewable energy (RE) and non-RE players are anticipated to gear up and bid for the project.

While raw material costs of solar panel prices have seen a sustained steep drop on keen supply and competition, some industry players think price margins could continue to be wafer-thin this time around.

This is as foreign competition is expected to also feature in this space now, following the latest bidding guidelines released by the Energy Commission (EC) this week.

It may see some bidders taking advantage of any lower cost of capital due to their global scale and better economies of scale.

According to the statement by the EC, foreign companies will be able to take part in Package 3 and Package 4 of the LSS5 in consortium partnership with majority local equity ownership of 51%.

There was also the concern of reverse bidding, whereby some players may underprice their bidding quotes just to gain market share locally since foreign players will now be involved, said analysts.

As it is now, analysts project solar panel prices could decline further despite high demand, given broader industry dynamics of high supply for these panels.

Solar panel prices have fallen some 90% from US$1.33 per watt in 2010 and some estimates have projected this could drop even further to 10 US cents per watt this year.

"Prices for solar panels have gone down. It is likely the bids will be based on these lower forecasts. However, bear in mind they can also suddenly rise due to unexpected factors."
Danny Wong

The key in both Package 3 and Package 4 then would be for local players to get a strong reputable foreign consortium partner to anchor its bid.

Areca Capital Sdn Bhd chief executive officer Danny Wong believes the latest LSS5 iteration should learn from the previous LSS4 and be a better version of it.

"The question is whether the bids will be given to those who are really good, or will they accept anyone to do the job?

"Prices for solar panels have gone down. It is likely the bids will be based on these lower forecasts. However, bear in mind they can also suddenly rise due to unexpected factors," he told *StarBiz*.

Wong said the best and most ideal type of model would be allowing players to work with offtakers separately so that margins will be sustainable.

"Such players would also need to be mindful and manage their risks in taking on such projects, although it may sound lucrative on the surface," he said.

The LSS5 sees a total of two gigawatts (GW) quota, which is by far the largest for any of the LSS programmes compared to less than one GW auctions in cycles prior to this.

Despite any margin concerns by the industry, Solarvest Holdings Bhd's chief executive officer Davis Chong is upbeat and said the company is expecting the LSS5 to be more profitable than the LSS4 by moving towards a more market-driven approach.

"We think it will result in a higher internal rate of return and a more feasible business profit to facilitate a healthier competition for all bidders.

"A market-driven LSS5 will also lead to cheaper levelised cost of energy, allowing consumers to enjoy clean energy at an economical price," he said.

"The LSS5 has allocated a certain portion for local and bumiputra players. With our over 1,200 megawatts (MW) proven track record, we think Solarvest is in a strong position to compete for the 500MW larger-scale project and the floating solar category within our capability," he added.

Chong also noted that smaller engineering, procurement, construction and commissioning and RE developers can focus on smaller-scale projects.

"This approach will enable Malaysian companies to drive the development of utility-scale solar and achieve mutual success. In 2019, Solarvest completed Malaysia's first and largest floating solar farm in Dengkil, Selangor," he said.

MIDF Research in its report said it expects the outcome of the bidding process to be announced by year-end, which would give successful bidders sufficient time for financial close and a plant construction next year, before actual operations deadline in 2026 as had been set by the EC.

"One of the key changes in the latest LSS is the rise in capacity bid limit to 500MW for Packages 3 and 4, which is five times the previous 100MW limit for LSS3 and 10 times the 50MW limit for LSS4.

"We reckon a project of such size could entail huge capital expenditure of some RM1.5bil to RM2.3bil, which requires a fairly demanding balance sheet capacity," it said.

"Within the asset owner space, we believe the big boys within the utilities sector such as Tenaga Nasional Bhd and YTL Power International Bhd are likely to come in as anchors in their consortiums, especially for the larger capacity bids," it added.

It also noted that one of the key pain points in previous LSS programmes was the excessive competition to supply energy to a single buyer that has driven down returns to single-digit levels.