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PETALING JAYA: More clarity has been shed on Tenaga Nasional Bhd's (TNB) hybrid hydro floating solar (HHFS) project, a key flagship initiative under the National Energy Transition Roadmap (NETR), as well as its Sungai Perak Hydro Scheme Life Extension Programme (LEP), which aims to prolong the life and enhance the earnings potential of the group's hydro assets.

TA Research analysts, in a recent report, shared insights from their visit to TNB's Chenderoh hydropower station in Perak.

"We walked away from the visit with more clarity," the analysts said.

The report noted that Chenderoh has been designated as one of the hydropower

dams for TNB's 2.5 gigawatt HHFS project, which was outlined as one of the NETR flagship catalyst projects back in 2023.

"Phase 1 of the Chenderoh HHFS development entails a capacity of 30 megawatt (MW), which will be followed by a second phase involving another 40MW, targeted for completion by 2026," the report said.

TNB has yet to finalise the route to market for its HHFS project but does not rule out the Corporate Renewable Energy Scheme as an option.

TA Research analysts noted that large scale solar (LSS) projects typically generate an internal rate of return in the mid-to-high single digit range.

The most recent LSS4 ground-mounted solar plants entailed mean tariffs of circa 20 sen per kilowatt hours (kwh).

"Given higher cost for floating solar, we reckon tariffs for TNB's HHFS could be at a premium at circa 25 to 30 sen/kwh," the report stated.

TA Research also shared highlights on TNB's LEP involving six hydropower stations from the Sungai Perak hydro scheme.

The rehabilitation, modernisation and upgrading of equipment will extend the life of these stations by another 30 to 40 years, the research house said.

Additionally, the LEP is expected to improve the reliability and efficiency of

existing plants using the latest technologies and best practices, allowing for a capacity increase of up to 10%.

TA Research opined that TNB is well-positioned to benefit from an increase in grid capital expenditure to support the energy transition.

Thus, it maintained its "buy" call with an unchanged target price of RM17.30.

Key potential catalysts for re-rating include the upcoming Regulatory Period 4 (2025 to 2027) decision and the addition of new generation capacity.

The primary risk to its call is any unfavourable changes to the policy and regulatory framework.