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Demand for renewable energy expected to rise

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Launch of new sub-sector by local bourse a positive

UTILITIES

PETALING JAYA: Demand for renewable energy (RE) is on the rise following the announcement of the 2025-2027 Regulatory Period 4 (RP4) and the launch of a new RE sub-sector by the local bourse, says RHB Research.

The introduction of the base electricity tariff of 45.62 sen per kilowatt hour, which will be implemented starting in the second half of 2025 (2H25), is said to have factored in an average three-year demand growth of 4% to 5%.

A total capital expenditure (capex) of RM42.8bil has been allocated, including RM26.6bil base capex and RM16.3bil contingent capex which has been earmarked for additional demand and energy transition-related projects.

This has been pre-approved by the Energy Commission and will be implemented once the triggers occur.

"However, pending further disclosure by Tenaga Nasional Bhd (TNB), we are still uncertain on how the recovery mechanism on the contingent capex will be implemented. We maintain our earnings estimate for now but see an upside of 5% to 7% to our net regulatory returns if the full capex numbers are being pencilled in," it said in a report.

Reflecting the RE sector's growing importance, Bursa Malaysia has reclassified 13 companies under a new RE sub-sector, as a move to provide more focused classification for public-listed companies operating within the space.

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>
> RHB Research

A total of 13 companies, which include companies that are involved in providing equipment and services for RE production and those producing or distributing through RE sources, have been finalised for reclassification.

RHB Research said that after excluding outlier Cypark Resources Bhd – which has a high price-to-earnings or PE ratio of 86 times due to its anticipated turnaround – the sub-sector is valued at a weighted average of 18 times based on a forward PE for financial year 2025.

Meanwhile, engineering, procurement, construction and commissioning (EPCC) solar companies were valued at a premium due to Malaysia's ambitious RE goals, including achieving a 70% RE mix by 2050.

Additionally, the Johor-Singapore Special Economic Zone is also expected to spur the industry moving forward as it facilitates cross-border RE trading between the two countries.

RHB Research said the large-scale solar five (LSS5) provides a strong pipeline of opportunities for solar contractors, especially with the estimated RM7bil worth of EPCC contracts expected to be awarded in 2H25.

Activities under the Corporate RE Supply Scheme are also expected to gain traction following the LSS5 announcement, as developers are likely to redirect their planned projects to this scheme.

It maintained an "overweight" call on the utilities sector with top picks being TNB, YTL Power International Bhd and Solarvest Holdings Bhd. All three have a "buy" rating with a target price of RM16.60, RM4.70 and RM2 per share, respectively.