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Heat rises on LSS projects

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Heat rises on LSS5 projects

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WHEN bids for Malaysia's fifth large-scale solar (LSS5) were submitted in April last year, the economics looked compelling.

With solar panel prices at rock-bottom, developers reportedly submitted some of the most competitive bids since the bidding programme first started in 2016.

However, panel prices are climbing again, driven by China's recent anti-involution industrial policy aimed to reduce cut-throat competition and manage surplus manufacturing output.

With the expanded sales and services tax (SST) coming into play as well, developers now face the prospect of tighter internal rate of returns (IRRs) and a growing risk of delivery delays.

Prices of raw materials such as polysilicon and wafers have increased sharply, and UOB Kay Hian (UOBKH) Research estimates that solar module prices could rise by 12% to US$0.10 per watt by year-end.

This could raise the total cost of building an LSS plant by up to 20% and reduce project IRRs by one to 1.5 percentage points.

Malaysia imports most of its solar panels – which typically account for about one-quarter of a project's total cost – from China.

"These headwinds are expected to impact upcoming solar developments, particularly LSS5 and LSS PETRA 5+, which are scheduled to begin construction in 2026 to 2027.

"Given the low tariffs submitted under LSS5, we believe project IRRs could hover between 5% and 7%," UOBKH Research says in a report.

The winners of LSS5, split across four packages totaling two gigawatts (GW), were notified in December last year, although no official announcement was made.

Fresh from the finalisation of LSS5 bids, the Energy Commission (EC) introduced LSS 5+, with another targeted capacity of 2GW, allocated under two packages.

The winners of LSS5+ have not been announced.

Engineering, procurement, construction, and commissioning (EPCC) contractors may also face margin pressure – a déjà vu of the strain experienced during LSS3 and LSS4 when Covid-19 and supply chain shocks triggered cost overruns and delays.

"There are echoes of LSS3 and LSS4, but this isn't a simple replay," says Samaiden Group Bhd chief executive officer (CEO) Datuk Chow Pui Hee.

"Today's risk is more concentrated in module price volatility and policy-driven supply dynamics," she tells *StarBiz 7*.

Samaiden is involved in LSS5, both as a project owner and EPCC contractor.

As for the former, it secured the project to develop a 99.99-megawatt (MW) photovoltaic plant in Pasir Mas, Kelantan, under Package 3 of the LSS5 programme.

So are the projects viable?

Yes, but not without challenges, say industry players.

Chow says developers who secured procurement early this year and expect delivery before price hikes remain viable.

However, those relying on later orders may face slimmer profits and financing challenges.

"Intense tender competition has squeezed contingencies and the SST on construction services further erodes margins as bids didn't factor them in and contracts don't allow pass-throughs or variation order adjustments."

She adds that the industry has raised concerns with the authorities, specifically the Royal Malaysian Customs Department, seeking relief or clarity for projects awarded based on bids that excluded SST.

The recent policy changes in China have also triggered a surge in early shipment requests, leading suppliers to ration delivery slots.

"With Malaysia's demand for solar modules reaching around 4GW, competition for factory slots, shipping and local handling is tight.

"Developers facing funding constraints and delays in confirming orders risk paying higher prices," Chow adds.

In Samaiden's case, Chow says effective procurement planning and financial readiness have been key to navigating rising costs and tight supply conditions.

Similarly, Solarvest Holdings Bhd expresses confidence in delivering its LSS5 projects on time and within budget, citing its successful track record of completing 11 solar farms under LSS4 within the agreed timeline.

Its CEO Datuk' Davis Chong Chun Shiong says to date, Solarvest has secured eight LSS5 projects and it anticipates additional project wins "in the next three to six months".

Chong says at around US$0.10 per watt, panel prices remain competitive supported by global oversupply and excess inventory flowing into the Asia Pacific region.

"We do not expect the sharp spikes seen during LSS4, when prices jumped from US$0.11 to US$0.13, to US$ 0.18 per watt in 2022.

Moreover, we have a sizeable market share in the EPCC space at around 30%, which allows us to leverage on economies of scale." Chong tells *StarBiz 7*.

On the SST front, he urges the government to grant exemptions and introduce tax incentives for LSS5 and LSS5+ projects.

Meanwhile, smaller player Aizo Group Bhd, shortlisted to develop the 99.99MW LSS photovoltaic project in Kampar, Perak, is adopting hedging and diversified sourcing strategies to manage cost risks.

Executive director Ahmad Rahizal Ahmad Rasidi says the company remains open to exploring regulatory support that could enhance project viability.

"We believe that future LSS bidding processes could include more realistic tariff benchmarks that reflect current and forecast equipment and financing costs, as well as flexibility in timelines to accommodate market fluctuations such as supply chain disruptions or policy-driven price shifts," says Ahmad Rahizal.

An industry player says the panel price increases remain uncertain.

A 10% rise would only raise overall project costs by about 2.5% – a level typically absorbed by built-in contingency buffers.

"If developers had already accounted for higher panel prices in their financial models, particularly after the end of the tax rebate, then regulatory intervention may not be necessary," he adds.

The EC has also provided a reasonable window for developers to reach financial close, making extensions to the project timeline unlikely.

The EC has yet to reply to *StarBiz 7* queries.

In 2022, LSS4 winners had their power purchase agreements (PPAs) extended from 21 to 25 years after panel prices jumped 30% to 50% compared to bid levels in 2020.

When it comes to sourcing, developers are expected to continue buying from China, unless other countries can offer a significant price advantage.

Solarvest's Chong says it would be challenging for other regions to match China's cost competitiveness.

"However, we are assessing alternative suppliers to diversify supply channels where feasible," shares Chong.

Other listed companies that have announced the signing of their LSS5 PPAs include HSS Engineers Bhd, Unique Fire Holdings Bhd and Eden Inc Bhd.

The government is also expected to launch LSS6 this year, with a sizeable quota of at least 2GW and battery energy storage system requirements.

- Project returns squeezed by low tariff bids
- Current risks differ from those faced during LSS4
- China to remain main source for solar panels