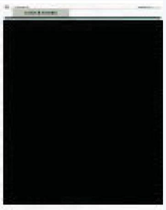

22 APR, 2024

A busy year for RE players

The Edge, Malaysia

A busy year for RE players

It will be a busy year for the energy sector. Over the past month, there has been a slew of announcements, with the latest being the establishment of the Energy Exchange Malaysia (Enegem).

The Enegem programme will start with a project with a pilot auction of 100MW of renewable energy (RE) to interested purchasers that have an electricity generation and/or retailer licence for the Singapore Electricity Market.

The government plans to scale it up to 300MW, depending on the response to the first 100MW of green electricity that will be auctioned off.

While the export capacity is deemed small in comparison with the country's RE capacity, which is more than 7,000MW, in the long term, analysts are bullish on the development especially with Singapore targeting to import up to 4GW of low-carbon electricity by 2035.

A market source reckons that although local RE players may not get the direct benefits of the energy exchange as the proceeds from the exports will go to a fund, the programme is expected to drive the development of the industry in the mid to long term.

"If the Enegem programme is successful, the fund from the energy export will be solely used to develop the local RE sector and upgrade the national grid, which in turn will create more RE projects," he tells *The Edge*.

Last year, the government estimated RM180 billion would be required up until 2050 to develop a robust and flexible grid to facilitate the country's energy transition.

For now, the upgrade and development of the national grid is solely dependent on Tenaga Nasional Bhd.

In addition, intermittency is a concern in RE production. It requires the upgrading and development of the national grid, as well as investment in battery storage.

CGS International points out that the establishment of Enegem reinforces a "good follow-through" on the implementation of the National Energy Transition Roadmap (NETR) just eight months after its launch.

"It also marks a key step towards realising the country's energy export potential. We see Tenaga (via grid upgrade requirement) and YTL Power International Bhd (via ownership of generation and retail licence in Singapore) as potential key beneficiaries," it says in an April 15 report.

The research house says it maintains an "overweight" call on the sector as the NETR has introduced a structural growth element to the sector, which has traditionally been viewed as more defensive.

"We continue to view 2024 as a pivotal year for the sector as we expect the establishment of crucial building blocks that will lay the groundwork for the execution of the country's ambitious energy transition road map, underpinning the sector's longer-term earnings growth outlook through to 2030 forecast, and potentially beyond.

"Sector downside risks include derailment of the NETR, unfavourable regulatory shifts."

Rally in share prices, lofty valuations

MIDF Research, however, remains "neutral" on the sector as it views the valuations of RE players as stretched following the recent share price rally.

"We view this as a positive development, but news of RE export has been around for a year now, following a mini announcement in March 2023 prior to the release of NETR," it says in an April 16 report.

It is worth noting that prior to the Enegem announcement, the government announced the much-anticipated fifth round of the large scale solar (LSS5) programme, dubbed LSS-Peralihan Tenaga SuRiA. This came more than three years after the last LSS projects were announced.

LSS5 will see a total electricity capacity of 2GW, or 2,000MW, making it the largest capacity under the LSS programme. Meanwhile, the Enegem programme will kick-start the cross-border electricity sale of renewable energy sources (CBES RE) to Singapore and Thailand.

There are also the ongoing Net Energy Metering (NEM) scheme and the Corporate Green Power Programme (CGPP), which is estimated to add 564.3MW of RE capacity to the country by 2025. The CGPP, which was introduced in late 2022, allows the private sector to secure a long-term supply of RE from solar power producers on a willing buyer, willing seller pricing regime.

Meanwhile, under the NEM, the government announced an additional quota of 400MW for the household, commercial and industrial segments from Feb 5 to Dec 31, 2024, to further encourage investment in solar energy assets.

According to Kenanga Research, it is estimated that the LSS5 project will generate RM5 billion of engineering, procurement, construction and commissioning (EPCC) jobs, while the CGPP will see RM2.4 billion of such jobs.

"The outlook for solar EPCC jobs is strong, underpinned by new contracts under the CGPP and the 2GW LSS5.

"There is also an additional quota of 400MW under the NEM scheme. Meanwhile, declining panel prices due to oversupply will boost margins of PV (photovoltaic) system EPCC contractors and stimulate investment in PV systems, resulting in more jobs for PV system EPCC players," it says in a March 27 report.

BLOOMBERG

Selected companies with RE exposure

O&G-related companies / RE asset owner/EPCC player / Construction-related companies / Utility companies

COMPANY	SHARE PRICE (RM)	AVERAGE TARGET PRICE (RM)	TRAILING PE (TIMES)	FORWARD PE (TIMES)	YTD CHANGE (%)	MARKET CAP (RM MIL)
Uzma Bhd	1.29	1.61	11.5	9.7	72.0	499.5
YTL Power International Bhd	3.99	4.62	9.8	10.6	57.1	32,365.5
Reservoir Link Energy Bhd	0.325	0.32	31.4	11.6	3.2	102.5
Tenaga Nasional Bhd	11.60	12.5	24.2	16.3	15.5	67,113.0
Pekat Group Bhd	0.505	0.68	23.8	18.7	17.4	325.7
Ranhill Utilities Bhd	1.01	1.02	22.6	24.1	12.2	1,302.4
Samaiden Group Bhd	1.32	1.57	49.1	26.4	14.8	549.0
Advancecon Holdings Bhd	0.285	0.21	Loss-making	28.5	0.0	164.0
Sunview Group Bhd	0.64	0.91	30.8	30.5	-13.5	326.7
Solarvest Holdings Bhd	1.54	1.77	34.7	32.8	18.5	1,032.7
JAKS Resources Bhd	0.14	–	21.4	–	-24.3	331.8
Ocean Vantage Holdings Bhd	0.19	–	22.8	–	-13.6	79.8
Kinergy Advancement Bhd	0.34	–	23.6	–	-12.8	675.4
Nestcon Bhd	0.345	–	70.0	–	-8.0	244.3
Pimpinan Ehsan Bhd	0.995	–	139.0	–	-22.3	68.8
Cypark Resources Bhd	1.02	0.87	Loss-making	–	7.9	839.3
G Capital Bhd	0.365	–	Loss-making	–	-9.9	118.7
Jentayu Sustainables Bhd	0.985	–	Loss-making	–	-23.6	432.4

Note: List not exhaustive; as at April 18, 2024

EC, SEDA

Outstanding solar quota announced by the government*

NEM QUOTA (2021-2024)	BALANCE (MW)	APPLIED (MW)
NEM Rakyat (residential)	159.6	190.4
NEM GoMEn (government buildings)	48.0	52.0
NOVA (commercial and industrial)	220.9	879.1

LSS5 QUOTA (COD# 2026)	TOTAL MW	MW PER PROJECT
Package 1 (100% bumiputera)	250	1 to 10
Package 2 (51% bumiputera)	250	10 to 30
Package 3 (51% local)	1,000	30 to 500
Package 4 (floating solar)	500	10 to 500

CGPP (COD# END-2025)	QUOTA (MW)	NO OF PROJECTS
Awarded	564.3	22
Balance	235.7	

**As at April 18, 2024 #Commercial operation date*

EC, SEDA

Outstanding solar quota

**CGPP based on awarded capacity*

More to come

The government has yet to announce details related to the NETR, including the much anticipated third-party access (TPA) framework to the national grid.

Some market players were expecting the TPA to be announced in tandem with Enegem; however, a market observer explains that there could be some hiccups because the TPA involves amending the Electricity Supply Act 1990.

It is understood that the TPA for the national grid, which is owned by Tenaga, is being looked at. The TPA, which allows corporate consumers to buy electricity directly from a power producer, is expected to be for the domestic market only. It will cover only RE.

"The paper will require the cabinet's approval and the EC (Energy Commission) is working on striking the right balance ... so that the tariff rate will benefit all parties and the grid infrastructure," he says.

"If the wheeling charges are too high, that would dampen independent producers' desire to sell their energy to offtakers."

The TPA to the national power grid has long been talked about where liberalisation of the power industry is concerned.

The NETR report states that the government recognises the importance of the TPA framework in reforming the power sector — a crucial step to accommodate higher RE penetration in the country, which cannot be solely dependent on government-linked companies.

"The lack of common alignment on timing, quantification and the funding mechanism of grid investment presents challenges in meeting RE targets.

"Overcoming grid limitations to accommodate higher RE penetration is as essential as the development of a TPA regulatory framework to address supply-demand mismatches for corporate green power," the NETR report states.

On the checklist, TPA regulatory framework and upgrading of national grids are the two main areas the government needs to focus on. ■