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Financing gaps in renewable energy

The Star, Malaysia



ONE challenge facing new winners of large-scale solar (LSS) projects in Malaysia is securing funding.

This is due to the local banking sector's already high exposure to the sector.

One of the biggest borrowers in the energy sector is Tenaga Nasional Bhd, naturally so considering it is the national energy company.

However, with the country's spike in renewable energy (RE) plants and the involvement of new players, financing from local banks is getting tricky.

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One notable aspect of the LSS projects is that the off-taker of the new RE produced is none other than TNB itself.

The new solar plants will generate RE that is sold to TNB's grid for a fixed tariff.

As such, banks – rightly or wrongly – may have to consider loans to these developers as exposure to TNB.

This could pose a problem, as banks are not allowed to over-

lend to any one party or sector, something referred to as a single customer risk, imposed by the banking regulator in line with international standards.

If this is the case, then a funding gap could ensue for the new LSS projects.

However, borrowers with strong track records and solid financial standing could buffer those risks.

Better still, some developers

are in a position to raise funds through the debt market instead of borrowing from banks.

Still, this may not be sufficient in some cases.

Furthermore, due to the low tariffs in the latest bidding rounds for LSS projects, internal rates of returns (IRRs) are getting lower.

Some estimates put them in the range of 5% to 8%.

This could be another reason why finding funding for these projects could be tough.

For example, private equity investors typically target projects with IRRs in the high teens.

Everything considered, it is left to be seen how the many winners of the recently announced LSS5 and LSS5+ rounds will secure their necessary funding.