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Opportunities aplenty in RE space pursuant to NETR

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KUCHING: The recently announced National Energy Transition Roadmap (NETR) offers plenty of opportunities for players in the utilities sector, analysts observed.

The recently-announced NETR lays down the pathway for Malaysia's net zero goal by 2050. A key initiative is the transition to RE with a target of RE making up 70 per cent of total generation mix by 2050.

"To meet the target, we estimate that at least 20GW of RE will need to be added to the system by 2050, of which more than 90 per cent is expected to come from solar.

"Meanwhile, the lifting of the export ban on RE and the establishment of a centralised electricity exchange operated by a single-market aggregator to ensure pricing transparency will provide further growth impetus to the local RE sector," said the research team at Kenanga Investment Bank Bhd (Kenanga Research).

The research team also project an annual electricity demand growth rate of 1.8 per cent in Peninsular Malaysia in 2023 and 2024, largely driven by the recovery in the industrial sector, which is slightly higher than the guided growth of 1.7 per cent under the Regulatory Period 3 (RP3) parameter.

However, the number could accelerate under the upcoming Regulatory Period 4 (RP4) over 2025 to 2027 driven by five new data centres that will come online over the next 12 months.

"These data centres will consume about 2,000MW of electricity (against TNB's current domestic installed capacity of 18,183MW) on which TNBis well-positioned to capitalise on given its reserved margin of 40 per cent.

"Also, a higher transmission and distribution capex for the transmission and distribution of RE will increase TNB's regulated asset base (RAB), resulting in higher absolute earnings based on a return pegged to WACC (7.3 per cent WACC for RP3)," it added.

All in, Kenanga Research maintained its 'overweight' rating on the utilities sector for its earnings defensiveness backed by regulated assets or long-term offtake agreements and decent dividend yields of four to six per cent.

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