

## Utilities

### Renewable Energy The Way Forward

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**NEUTRAL**



Alternative energy or green energy such as solar and wind will be taking the lead in power generation with a target to reach 50% of world's generation mix by 2050. This is on the back of greater awareness of the importance of environmental issues, of reducing dependency on fossil fuels as well as cost of green energy investment trending lower on better economies of scale, technology advancement and innovation. We believe the government's target to achieve 20% RE generation capacity by 2025 is ambitious and to achieve this, there will be more investments and opportunities in this space for local firms to participate. In our opinion, TENAGA is likely to be the big player in this field and hopefully, consumer will benefit from cheaper price and a greener environment. That aside, we maintain our NEUTRAL rating on the Utilities Sector. However, PESTECH is still an alternative small cap play.



**Renewable Energy the way forward.** Last Thursday, we had Mr Camillus Yang, CFO of aNew Energy, a Singapore-based renewal energy consultant, presenting in our knowledge sharing session: Renewable Energy - Prospects and Challenges. He shared with us the overall renewable energy (RE) value chain, outlook and prospects in Malaysia as well as the region. It was a fruitful session as we tapped into his expertise in a subject that is new to most of us. And, it is timely too as it is a hot topic these days given that the government is seriously looking to expand the RE generation portfolios in pursuing a green agenda and lessen reliance on conventional generation assets such as coal-fired and gas-fired power plants. This is especially so for gas fuel, which is partly subsidised and any savings could help to balance the country's fiscal deficit while coal fuel is polluting to the environment. Mr Yang shared

with us mainly two green energy investments, i.e., solar and wind, which are widely implemented within the region, led by China with technology advancement and economies of scale to bring down costs. This could make the green energy a feasible investment over time against the conventional energy infrastructures.

**China the biggest RE player in the region.** Research shows that an estimated USD5.5t of investment in power generating capacity in Asia Pacific is expected between 2018 and 2050. This makes up nearly half of the entire investment projection of USD11.4t globally. Among these regions, China (USD2.7t or 24%) and India (USD1.6t or 14%) are the two biggest investors for power generating assets, especially for wind generation, which exceeds solar generation. Meanwhile, Southeast Asia will be the largest growth market in Asia after China and India with an estimated investment of USD0.5t or 4.3% globally. With the quest to reduce pollution, coal generation assets have started to be phased out in the Western world and we expect the Asian region to follow suit. There are reasons for using alternative energy besides environment issues, such as the levelised cost of electricity being cheaper than conventional energy and cost forecasts for start-up in wind, solar and storage (the renewable trinity) are showing a declining trend. It was projected that by 2050, wind and solar energy will account for 50% of generation capacity due to cost effectiveness, technology advancement and innovations.

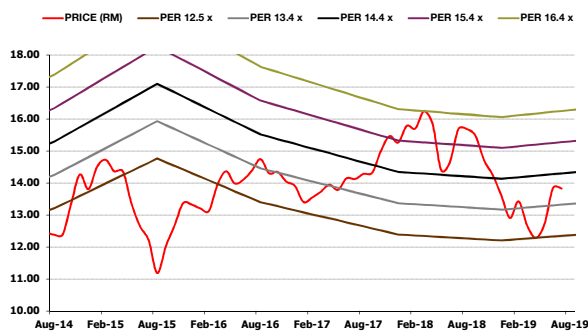
**Malaysia is heading to green energy too.** Since the PH government took over office in May last year, the Energy Minister has been promoting green energy in which she set an ambitious renewable energy target of 20% of electricity generation mix by 2025 from the current level of 2%. In order to achieve such target, a strong growth of alternative energy installations is required over the next five years, amounting to 400MW-500MW new capacity each year. This also presents a good opportunity for solar players as this alternative energy is suitable for the country due to our tropical geographical location in which we have irradiance of more than 3.6 to 3.9 sun-hours a day. This also would attract RE firms to set up shop here, creating jobs. In addition, house owners could invest in rooftops solar for electricity savings arbitration. Nonetheless, a major challenge with solar energy is the large land size needed as 1 hectare of land is only able to facilitate 1MW of generation capacity as compared to coal-fired power plant, for instance, **MALAKOF's (OP; TP: RM1.00)** 1000MW Tanjung Bin Energy Power Plant is located on piece of 65 hectares of land only. Besides, a 20-year PPA for rooftop could potentially put off house-owners.

**More LSS in the future to lead the generation growth.** The bidding submissions of the 500MW Large Scale Solar (LSS) 3 ended last Monday. There are reportedly over 700 documents bought when Energy Commission released the LSS3 bidding with 108 submissions just before the dateline last Monday. We believe the potential investment of RM400m-RM450m for a 100MW solar mill could turn away small companies. So far, we understand that **TENAGA (MP; TP: RM13.40)**, **MALAKOF**, **PESTECH (OP; TP: RM2.00)** and oil & gas players such as **SERBA (OP; TP: RM5.25)** and **UZMA (MP; TP: RM0.76)** have participated in the bidding. We would assume that at least five LSS contracts will be awarded this round assuming a 100MW contract each. The outcome of the bidding is likely to be released by Feb next year or end of this year.

**A good start for the locals but a lot needs to be done. Maintain Neutral for the Utilities Sector.** Overall, we are neutral on the RE prospects, although it looks promising given the initiatives from the government, as the generation mix is still small compared to the conventional assets. We believe TENAGA will be the big player in the local scene given its dominant position in the energy generation sector. And, as an integrated energy operator, TENAGA has cost advantage over other smaller local players such as IPPs. Besides, it should be able to capitalise on its existing hydro plants, such as Kenyir Hydroelectric Power Plant as the water bodies is suitable for floating solar PV. With its current offshore investments, mainly in alternative energy in the UK and Middle East, we believe TENAGA is ready for the challenge. Overall, we maintain our NEUTRAL rating on the sector while PESTECH is still our alternative small-cap play.

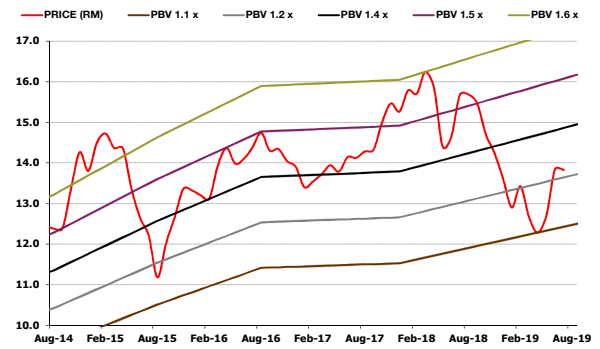
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TENAGA: Fwd Core PER

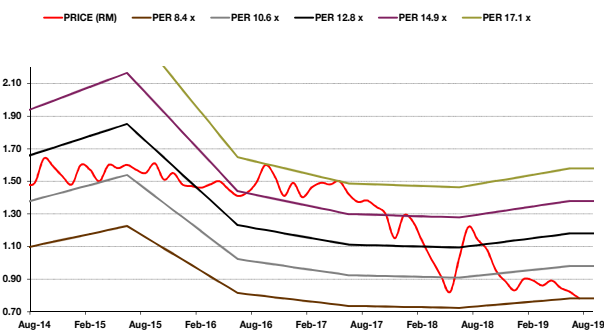


Source: Kenanga Research

TENAGA: Fwd PBV

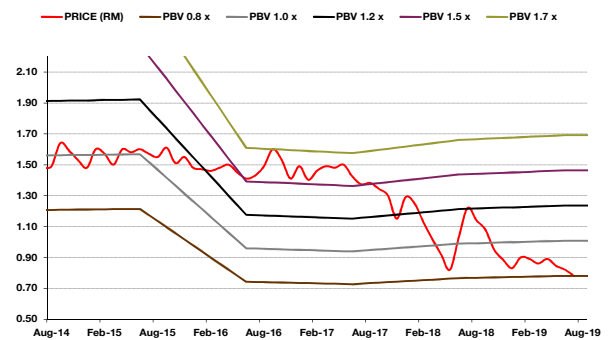


YTLPOWR: Fwd Core PER

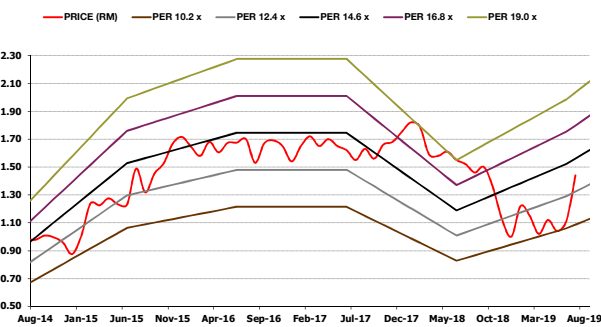


Source: Kenanga Research

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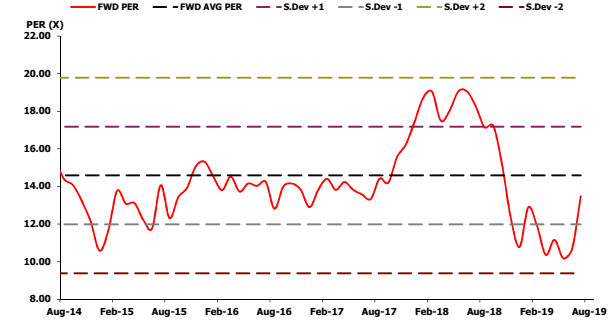


PESTECH: Fwd Core PER

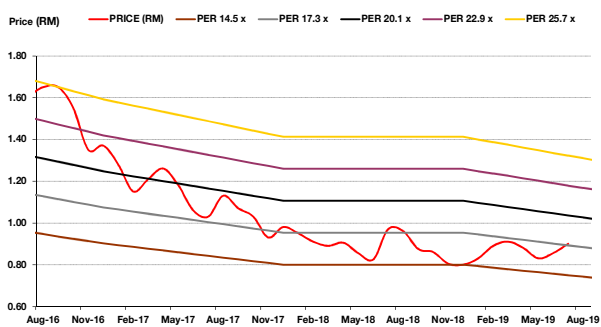


Source: Kenanga Research

PESTECH: Fwd PER Std Dev

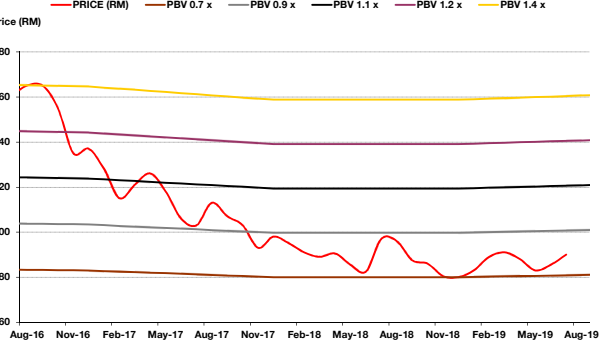


MALAKOF: Fwd PER

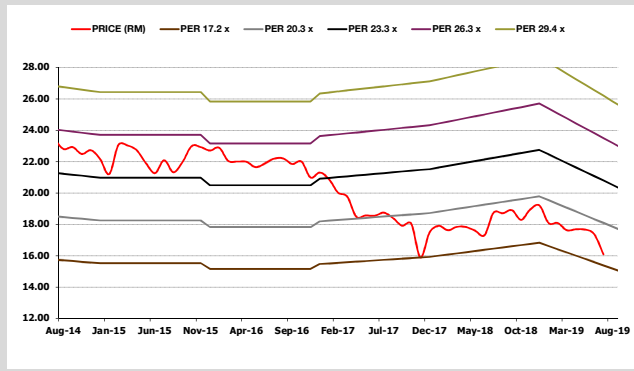


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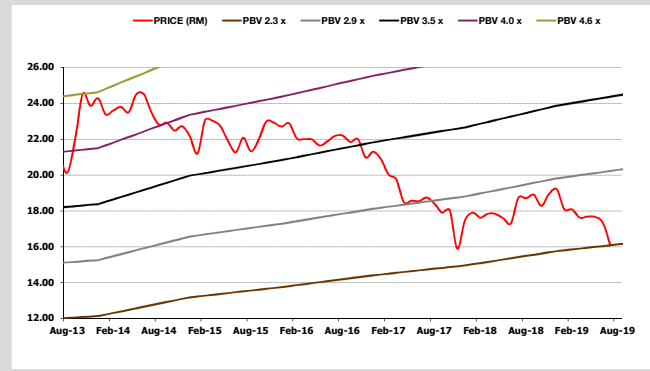
MALAKOF: Fwd PBV



PETGAS: Fwd PER

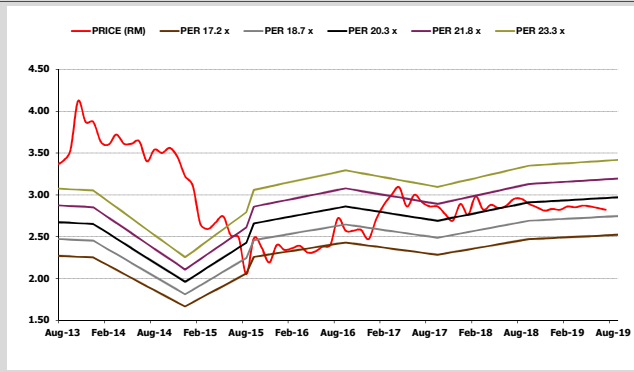


PETGAS: Fwd PBV

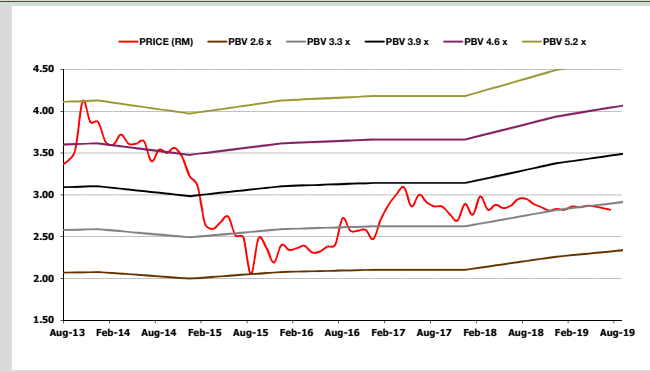


Source: Kenanga Research

GASMSIA: Fwd PER



GASMSIA: Fwd PBV



Source: Kenanga Research

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## Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
GAS MALAYSIA BHD	2.87	3,685.1	Y	12/2019	2.9%	7.7%	8.2%	2.2%	21.7	20.0	19.6	3.6	3.3	17.3%	4.5%	3.00	MP
MALAKOFF CORP BHD	0.875	4,276.1	Y	12/2019	-0.3%	-0.1%	10.5%	4.5%	19.9	18.0	17.3	0.8	0.8	4.3%	4.4%	1.00	OP
PESTECH INTERNATIONAL BHD	1.39	1,062.4	Y	06/2019	6.7%	22.2%	28.0%	30.9%	17.1	13.3	10.2	2.3	2.0	16.0%	0.0%	2.00	OP
PETRONAS GAS BHD	16.00	31,659.7	Y	12/2019	4.8%	-1.8%	5.7%	-14.7%	17.3	16.4	19.2	2.4	2.3	14.5%	4.3%	16.55	MP
TENAGA NASIONAL BHD	13.76	78,251.6	Y	12/2019	3.2%	1.8%	2.6%	2.0%	14.3	14.0	13.7	1.3	1.3	9.3%	3.6%	13.40	MP
YTL POWER INTERNATIONAL BHD	0.730	5,603.0	N	06/2019	3.4%	2.6%	-1.6%	8.0%	8.4	8.5	7.9	0.4	0.4	4.6%	6.8%	0.880	MP
<b>Simple Average</b>					<b>3.4%</b>	<b>5.4%</b>	<b>8.9%</b>	<b>5.5%</b>	<b>16.5</b>	<b>15.1</b>	<b>14.6</b>	<b>1.8</b>	<b>1.7</b>	<b>11.0%</b>	<b>3.9%</b>		

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%  
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%  
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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