

19 June 2024

Renewable Energy

Eternal Sunshine of the Spotless RE Sector

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OVERWEIGHT



We are **OVERWEIGHT** on the renewable energy (RE) sector. Our key focus is on PV system EPCC contractors. The outlook for solar EPCC jobs is strong, underpinned by new contracts under the Corporate Green Power Programme (CGPP) estimated to be worth RM2.4b, and the 2GW Large-Scale Solar 5 (LSS5) worth another RM5b. There is also an additional quota of 500MW under the net energy metering (NEM) scheme. Meanwhile, declining panel prices due to oversupply will boost margins of PV system EPCC contractors and stimulate investment in PV systems, resulting in more jobs for PV system EPCC players. We like both PV system EPCC players under our coverage, i.e. **SLVEST** (OP; TP: RM1.91) and **SAMAIDEN** (OP; TP: RM1.51).

Under the National Energy Transition Roadmap (NETR), the government has set an ambitious target of RE making up of 70% of total generation capacity by 2050 (vs. 25% currently) with an aspiration to achieve net zero GHG by 2050. These targets entail at least 20GW of new RE from now until 2050, of which >90% is expected to come from solar. The government has introduced a laundry list of initiatives to promote investment in solar power generation comprising the Feed-in Tariff (FiT) programme, NEM mechanism, Large-Scale Solar (LSS) and CGPP projects.

Over the immediate term, the flow of PV system EPCC jobs will come from the CGPP with a completion deadline by end-2025. Based on our estimates, the 800MWp capacity under the CGPP will translate to RM2.4b PV system EPCC jobs. Thereafter, the Energy Commission will embark on the 2GW LSS5, the largest LSS programme thus far, in four packages (see Exhibit 1). Under LSS5, developers could bid up to 500MW (vs. only 50MW previously) with operations scheduled to commence in 2026. We expect bidders to submit rates that are comparable to LSS4 (i.e. at a project IRR of 8%). We estimate that there will be at least RM5b worth of PV system EPCC jobs coming from the LSS5.

In addition, there is a new additional quota of 500MW (residential: 200MW; commercial: 300MW) under the NEM initiative which will continue to facilitate investment by businesses in solar energy generation assets. Also, under the Solar For Rakyat Incentive Scheme (solarIS) (using 100MW NEM quota for the residential segment), participants will be offered rebates ranging from RM1,000/kWac up to RM4,000/kWac. The residential segment is still significantly untapped. Based on our estimates, **TENAGA** (OP; TP: RM14.50) has approximately 9.6m domestic customers but only ~30k have installed the rooftop solar thus far. Meanwhile, businesses in general, driven by commercial reasons (i.e. to save cost) and ESG considerations, have voluntarily invested in solar energy generation assets following the recent hikes in electricity tariffs.

There could be some near-term volatility in solar panel prices following the production halt by Chinese players in their plants in Southeast Asia, on the heels of a weak export sales outlook on the doubling in the tariff imposed by the US on solar panels imported from China to 50% (from 25%) effective 1 Aug 2024. Longi has halted all five production lines at its plant in Vietnam and is winding down its operations in Malaysia, Trina is shutting down its plants in Thailand and Vietnam. Nonetheless, barring widespread plant shutdowns by Chinese players, the world as a whole is still massively oversupplied with solar panels (see Exhibit 2). We keep our projection for average solar module price in CY24F relatively unchanged at 10.7 US cents/W vs. 18 US cents/W in CY23, an extension to its multi-year decline (see Exhibit 3 & 4).

Meanwhile, there is a growing market for renewable energy certificates (RECs) backed by demand from corporations as they commit themselves to the RE100 initiative (i.e. the goal of using renewable resources for one's all energy needs) as well as data centres (to achieve the "green" status). Already, >100 companies in Malaysia, predominantly local units of multinational companies with a combined electricity consumption of 4,334 GWh annually, have committed themselves to RE100. At present, RE only makes up about 36% of their total energy consumption, pointing to rising demand for RE and RECs. **SLVEST** offers RECs at a competitive price of USD5-6/MW, vs. USD10/MW of Green Electricity Tariff (GET) of **TENAGA**.

Our sector top picks are:

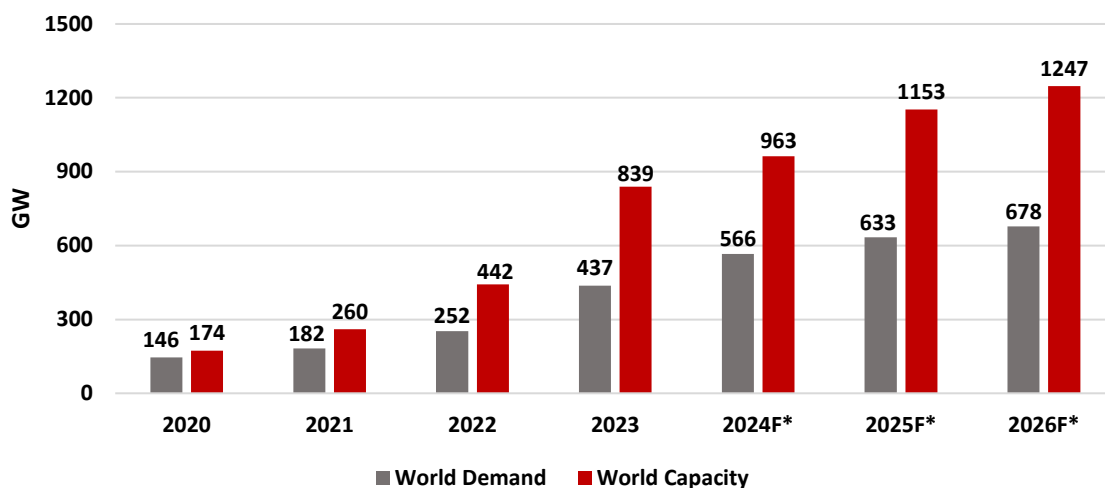
- **SLVEST** for its strong market position, execution track record, clientele and value proposition of its PV system financing programme, and its strong earnings visibility backed by sizeable outstanding order and tender books, and recurring incomes from a growing portfolio of solar assets; and
- **SAMAIDEN** given its focus on residential and commercial projects that typically fetch higher margins, and similarly, its ability to provide end-to-end solutions, including financing to its customers and strong earnings visibility backed by sizeable outstanding order and tender books.

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Exhibit 1: Packages Under LSS5		
Package	Key Features	Key Bidder Criteria
Package 1	Solar projects: rooftop or ground-mounted Quota: 250MW Generation capacity: 1-10MW	Company or consortium: local SME 100% Bumiputera entity (MOF)
Package 2	Solar projects: rooftop or ground-mounted Quota: 250MW Generation capacity: 10-30MW	Company or consortium: local 51% Bumiputera entity (MOF)
Package 3	Solar projects: rooftop or ground-mounted Quota: 1,000MW Generation capacity: 30-500MW	Company: 51% Malaysian equity Consortium: at least one local company with minimum 51% Malaysian equity
Package 4	Solar projects: floating Quota: 500MW Generation capacity: 10-500MW	Company: 51% Malaysian equity Consortium: at least one local company with minimum 51% Malaysian equity

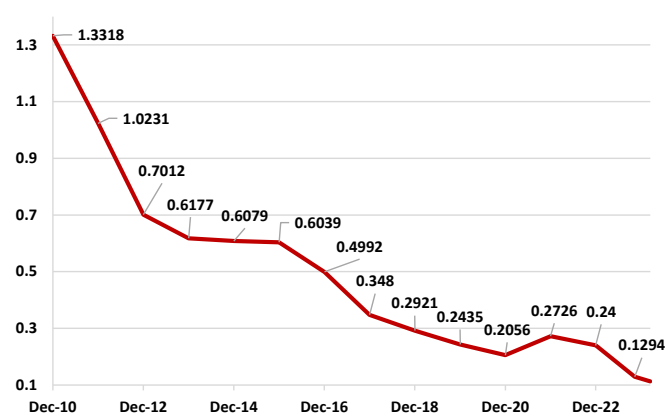
Source: Energy Commission, Kenanga Research

Exhibit 2: Global Supply/Demand for Solar Panels (GW)



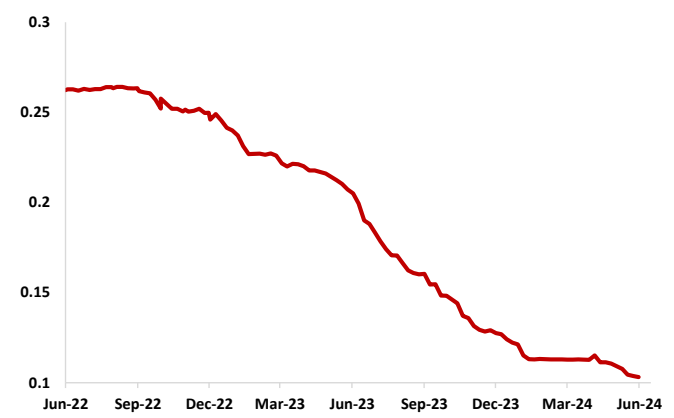
+Kenanga Research's estimates
Source: Bloomberg, Kenanga Research

Exhibit 3: Solar Module Price (USD/W) (2010-2024)



Source: Bloomberg, Kenanga Research

Exhibit 4: Solar Module Price (USD/W) (2022-2024)



Source: Bloomberg, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.				
Stocks Under Coverage																	
PEKAT GROUP BHD*	NR	0.95	NR	N.A.	609.5	Y	03/2024	2.7	3.5	26.8%	31.4%	35.0	26.3	N.A.	N.A.	0.0	0.0%
SAMAIDEN GROUP BHD	OP	1.29	1.51	17.1%	539.9	Y	06/2024	3.5	5.3	26.4%	51.9%	37.1	24.4	5.2	14.9%	0.0	0.0%
SOLARVEST HOLDINGS BHD	OP	1.67	1.91	14.4%	1,160.3	Y	03/2025	6.8	8.5	62.5%	24.2%	24.4	19.6	4.2	19.5%	0.0	0.0%
SUNVIEW GROUP BHD*	NR	0.77	NR	N.A.	396.4	Y	03/2024	3.6	4.7	41.1%	32.7%	22.6	17.1	N.A.	N.A.	0.0	0.0%
Sector Aggregate					2,706.1					39.2%	35.1%	29.8	21.9	5.7	14.8%		0.0%

Source: Kenanga Research

*Note that Pekat & Sunview numbers based on Bloomberg consensus

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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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