19 October 2018 | Sector Update

Utilities – Electricity

***Maintain* POSITIVE**

11th Malaysia Plan Mid-Term Review Takeaways

Part I: Past Performance (2016-2017):

- New power generation installed capacity in Peninsular Malaysia 3825MW (2017) 7626MW (2020)
- Commissioned 6 new power plants with additional capacity of 3825MW in Peninsular Malaysia
- Tax incentive for green projects approved by Promotion of investments Act 1986 and Income Tax 1967
- Green Sukuk financing scheme and Green Technology Financing Scheme
- National Energy Efficiency Action Plan rolled out in 2016

Part II: Issues and challenges:

- Presence of multiple agencies handling different aspects of energy sector led to fragmented governance and co-ordination issues resulting in energy price distortion including natural gas for power sector.
- Generation mix continues to rely heavily on fossil fuel, natural gas being the cleanest fossil fuel became the preferred fuel but removal of gas subsidies has made coal the cheapest option but at a higher environmental cost

Part III: New Priorities and Emphases (2018-2020):

- 7626MW new power generation capacity in Peninsular Malaysia
- RE installed capacity target: 8,885MW, RE target 30% of generation mix by 2030 from 2% currently - no change vs what has been mentioned in recent months
- Explore new RE sources other than existing ones,
- Increase focus on biogas/biomass as source of RE
- Continuation of Large Scale Solar (LSS) program
- Explore new RE technology such as micro grids and storage
- Implementation extended to Sabah (SESB is 83%-owned by Tenaga)
- Extension of existing power plants period to be reviewed
- Enhance electricity access, in particular for remote areas – may look at RE sources to serve demand in these areas

Our initial thoughts on the measures:

The move to explore new RE sources is interesting. Current RE mix comprise mainly solar which accounts for 65% of installed RE capacity. Biogas/biomass account for the bulk of the remaining while small hydros account for 6%. However, other sources of RE currently being developed include the country's 1st geothermal power development in Sabah (by Ranhill's 27%-owned associate Tawau Green Energy). Meanwhile, Malaysia currently has no meaningful contribution from wind power.

Biogas/biomass development. Malaysia is one of the largest palm oil producers in the world and logically should be a big beneficiary of biogas/biomass power development. However, currently only a quarter of palm oil mills in the country are involved in biogas/biomass power production. There is also a lack of listed plays into biogas/biomass.

Step in the right direction. The move into micro grids and energy storage is a step in the right direction to ensure better RE reliability, particularly solar, but comes at additional cost. LSS continuation is a positive – key listed players involved in LSS include: **(1) Tenaga** Nasional **(2) Cypark.** LSS is expected to enter into its 3rd cycle whci is expected to open for bidding in the near future. Average bids have been reducing over the past 2 cycles with bids during the 2nd cycle averaging at around 37sen/kwh. This is reflective of the gradual reduction in capital cost as solar PVs reach better scale. There are still reliability limitations for solar (low availability factor) currently, but this could be addressed by storage technologies, albeit at a higher cost.

Improving electricity access in remote areas, particularly Sabah/Sarawak: These are likely to be via micro hydros/hybrid solar/biogas/biomass and dedicated supplies to the areas without having to connect to the grid which would incur incremental cost.

Alleviate financial pressure on SESB. The extension of the IBR framework to Sabah should help alleviate Sabah Electricity SB's (83%-owned by **Tenaga**) financial burden which is dragged by low tariffs. On top of this, we think the move would aid in plans to construct a stronger West to East Sabah grid over the next few years.

The review of PPA extensions could be a negative for select players. Most of the 1st generation PPAs have already received extensions. These include: **(1) Edra:** Genting Sanyen Power/Powertek (11/13 years extension) **(2) Malakoff:** Segari Energy/Port Dickson Power (10/13 years extension**)** **(3) YTL Power:** Paka (short-term 3-year extension). Meanwhile an estimated 6.5GW of capacity under existing PPAs are scheduled to expire over the next 9 years (most of these are non-Tenaga IPPs).

Streamlining role of monopoly entities. The Government will be reviewing and streamlining the role of state-owned enterprises and monopoly entities to promote market efficiency. A special ministerial committee will review policies and concessions in regards to monopolistic arrangements. While the move may involve **Tenaga** (which essentially has a monopoly of power transmission & distribution in the country), the outcome is still uncertain at this juncture.

We remain **POSITIVE** on the utilities sector. RE players in general are potential beneficiaries of the push to increase RE contribution into the mix. Top picks are **Ranhill (BUY, TP: RM1.15)**, **Tenaga (BUY, TP: RM16.90**), **YTL Power (BUY, TP: RM1.55)** and **YTL Corp (BUY, TP: RM1.55)**.

SECTOR VALUATION COMPARISON

		Shr Price	PE (x)		P/BV	ROE	Div Yield	Target	Total
Companies	**Rating**	**(RM)**	**FY18**	**FY19**	**(x)**	**(%)**	**(%)**	**Price (RM)**	**Upside (%)**
Tenaga	Buy	14.60	11.2	12.6	1.5	10.6	4.4	16.90	20.3
YTL Power	Buy	1.01	11.4	11.3	0.6	5.0	4.5	1.55	55.0
Ranhill	Buy	0.88	12.0	10.2	0.7	13.6	6.8	1.15	20.7
			11.5	*11.4*	*1.0*	*9.7*	*5.2*		

Hafriz Hezry
hafriz.hezry@midf.com.my
03-2173 839

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein This document may not be reproduced, distributed or published in any form or for any purpose.

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.