Sector Update | Wednesday, 10 May 2023

# POWER UTILITIES

***Maintain* NEUTRAL**

## Sowing the seed for future energy trade

### KEY INVESTMENT HIGHLIGHTS

- **Committing to more aggressive RE capacity mix target under latest policy update**
- **RE export ban lifted to tap on regional demand, positioning Malaysia for future regional RE trade,**
- **YTL Power (BUY, TP: RM1.12), YTL Corp (BUY, TP: RM0.83) and Tenaga (NEUTRAL, TP: RM10.00) are potential immediate-term beneficiaries**
- **Decision also opens up opportunities for RE asset developers and EPCC players to tap on export potential**

**RE target lifted.** A few updates to the RE policy were announced by NRECC together with the Ministry of Economy yesterday. The first involves a new RE capacity mix target of 70% by 2050. The current targets under the MyRER are 31% RE capacity mix by 2025 and 40% by 2035 against an RE capacity mix of 25% as of end-2022. While no further details were released, the new 2050 target signals a significant jump from the 40% mix targeted in 2035, which we believe is expected to be enabled by much larger adoption of grid-scale energy storage systems in the future to accommodate variable RE sources. Pilot deployment of battery energy storage system (BESS) is scheduled from 2030 onwards under the current generation development plan.

**RE export ban lifted.** Another key announcement was the lifting of the current RE export ban and the development of an electricity exchange system to enable cross-border RE trading. This is expected to allow domestic RE capacity to grow at a faster and larger scale capitalising on rising regional RE demand. A low hanging fruit is Singapore which lacks land size to accommodate RE generation and houses a lot of the region's RE100 MNCs - RE100 is a global initiative involving companies that are committed to 100% RE across its operations. Malaysia has an advantage here given proximity to Singapore and an existing interconnection. As RE-sourced electricity in Singapore commands much higher tariffs, this could also drive investments into solar+BESS projects which may have not been feasible previously at local tariffs. Retail "green electricity plans" range from SGD0.32-0.45/kwh (RM1.07-1.50/kwh) relative to Malaysia's base tariff of RM0.40/kwh (RM0.60 including ICPT surcharge for high-voltage non-domestic customers).

**Positioning for regional power trading**. In the long run, the new policy on RE trade aims to position Malaysia at the centre of the regional electricity trade, riding on the ASEAN grid interconnection initiative. The move aims to capitalize on the ample RE resource in the country and its strategic geographical location at the centre of the region. To give perspective on Malaysia's RE potential, the 18GW of RE capacity required to achieve the country's mid-term target of 40% RE capacity mix by 2035, accounts for just 6.2% of the total 289GW RE resource identified in the country.

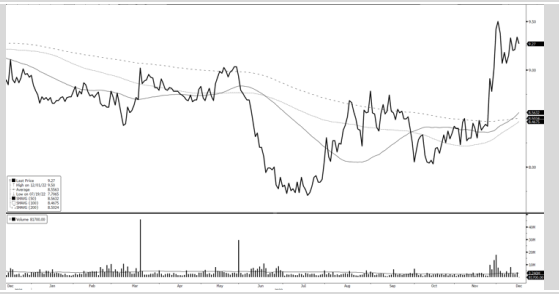
**COMPANY IN FOCUS**

**YTL Power International Bhd**

Maintain **BUY |** Unchanged Target price: RM1.12 (U.R.)
Price @ 9th May 2023: RM1.10

- Immediate-term advantage in tapping on RE export to Singapore given entrenched position in Singapore power sector and ready landbank in Johor to accommodate solar capacity
- Riding on strong recovery in Singapore electricity market

**Share price chart**

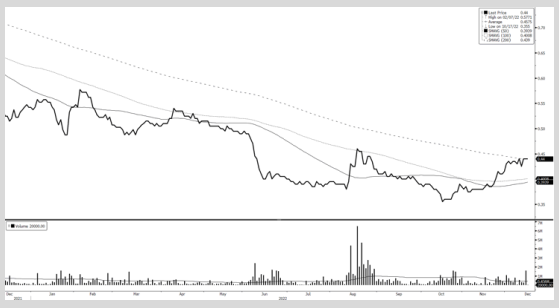


**Tenaga Nasional Bhd**

Maintain **NEUTRAL |** Unchanged Target price: RM10.00
Price @ 9th May 2023: RM9.20

- Potential beneficiary of higher capex into the grid to accommodate regional RE trade
- Beneficiary of increased wheeling charges given monopoly of the national grid

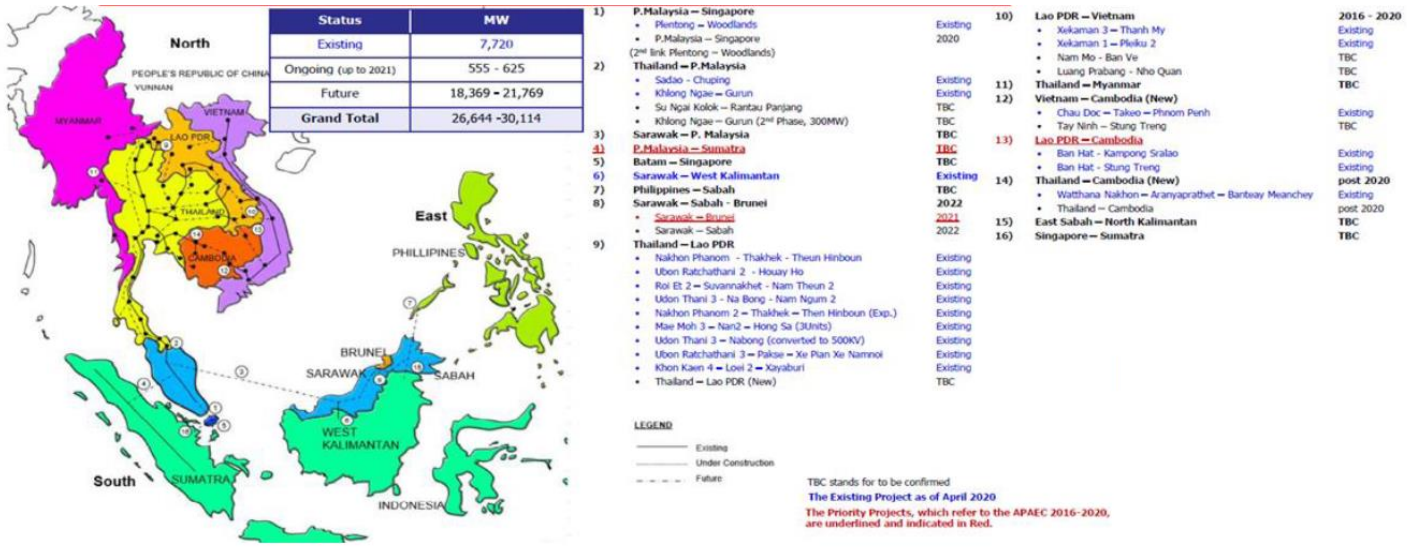
**Share price chart**



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**The ASEAN Power Grid** (APG) is an initiative to construct a regional power interconnection to connect the region, first on cross border bilateral terms, and to gradually expand to sub-regional basis and subsequently leading to a total integrated South East Asia power grid system. As one of the physical energy infrastructure projects in the Master Plan of the ASEAN Connectivity, the APG project is expected to enhance electricity trade across borders that would provide benefits to meet the rising electricity demand and improve access to energy services in the region. Seven of the 16 power interconnection projects have been completed thus far.

## Exhibit xx: ASEAN Interconnection Projects (as at April 2020)

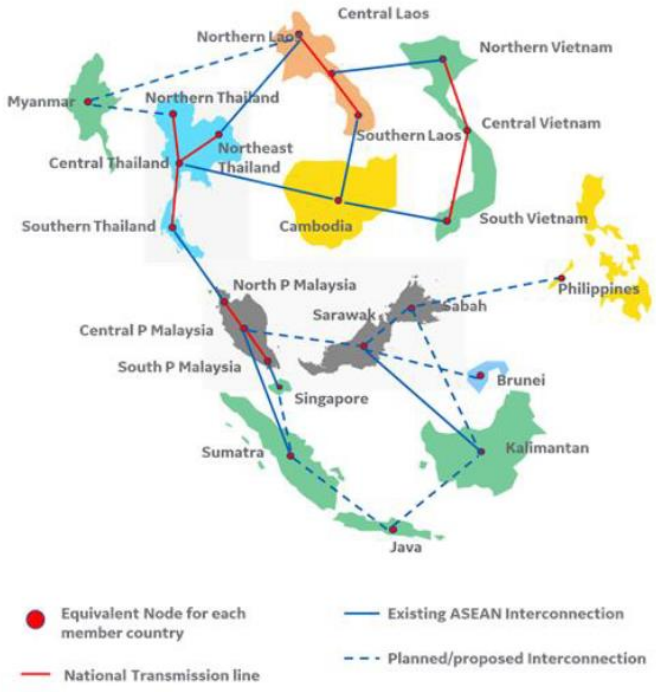



| Status | MW |
|---|---|
| Existing | 7,720 |
| Ongoing (up to 2021) | 555 - 625 |
| Future | 18,369 - 21,769 |
| Grand Total | 26,644 -30,114 |

| | | | | | |
|---|---|---|---|---|---|
| 1) | P.Malaysia – Singapore | | 10) | Lao PDR – Vietnam | 2016 - 2020 |
| | • Plentong – Woodlands | Existing | | • Xekaman 3 – Thanh My | Existing |
| | • P.Malaysia – Singapore (2nd link Plentong – Woodlands) | 2020 | | • Xekaman 1 – Pleiku 2 | Existing |
| 2) | Thailand – P.Malaysia | | | • Nam Mo - Ban Ve | TBC |
| | • Sadao - Chuping | Existing | | • Luang Prabang - Nho Quan | TBC |
| | • Khlong Ngae – Gurun | Existing | 11) | Thailand – Myanmar | TBC |
| | • Su Ngai Kolok – Rantau Panjang | TBC | 12) | Vietnam – Cambodia (New) | |
| | • Khlong Ngae – Gurun (2nd Phase, 300MW) | TBC | | • Chau Doc – Takeo – Phnom Penh | Existing |
| 3) | Sarawak – P. Malaysia | TBC | | • Tay Ninh – Stung Treng | TBC |
| 4) | P.Malaysia – Sumatra | TBC | 13) | Lao PDR – Cambodia | |
| 5) | Batam – Singapore | TBC | | • Ban Hat - Kampong Sralao | Existing |
| 6) | Sarawak – West Kalimantan | Existing | | • Ban Hat - Stung Treng | Existing |
| 7) | Philippines – Sabah | TBC | 14) | Thailand – Cambodia (New) | post 2020 |
| 8) | Sarawak – Sabah - Brunei | 2022 | | • Watthana Nakhon – Aranyaprathet – Banteay Meanchey | Existing |
| | • Sarawak – Brunei | 2021 | | • Thailand – Cambodia | post 2020 |
| | • Sarawak – Sabah | 2022 | 15) | East Sabah – North Kalimantan | TBC |
| 9) | Thailand – Lao PDR | | 16) | Singapore – Sumatra | TBC |
| | • Nakhon Phanom - Thakhek - Theun Hinboun | Existing | | | |
| | • Ubon Ratchathani 2 - Houay Ho | Existing | | | |
| | • Roi Et 2 – Suvannakhet - Nam Theun 2 | Existing | | | |
| | • Udon Thani 3 - Na Bong - Nam Ngum 2 | Existing | | | |
| | • Nakhon Phanom 2 – Thakhek – Then Hinboun (Exp.) | Existing | | | |
| | • Mae Moh 3 – Nan2 – Hong Sa (3Units) | Existing | | | |
| | • Udon Thani 3 – Nabong (converted to 500KV) | Existing | | | |
| | • Ubon Ratchathani 3 – Pakse – Xe Pian Xe Namnoi | Existing | | | |
| | • Khon Kaen 4 – Loei 2 – Xayaburi | Existing | | | |
| | • Thailand – Lao PDR (New) | TBC | | | |

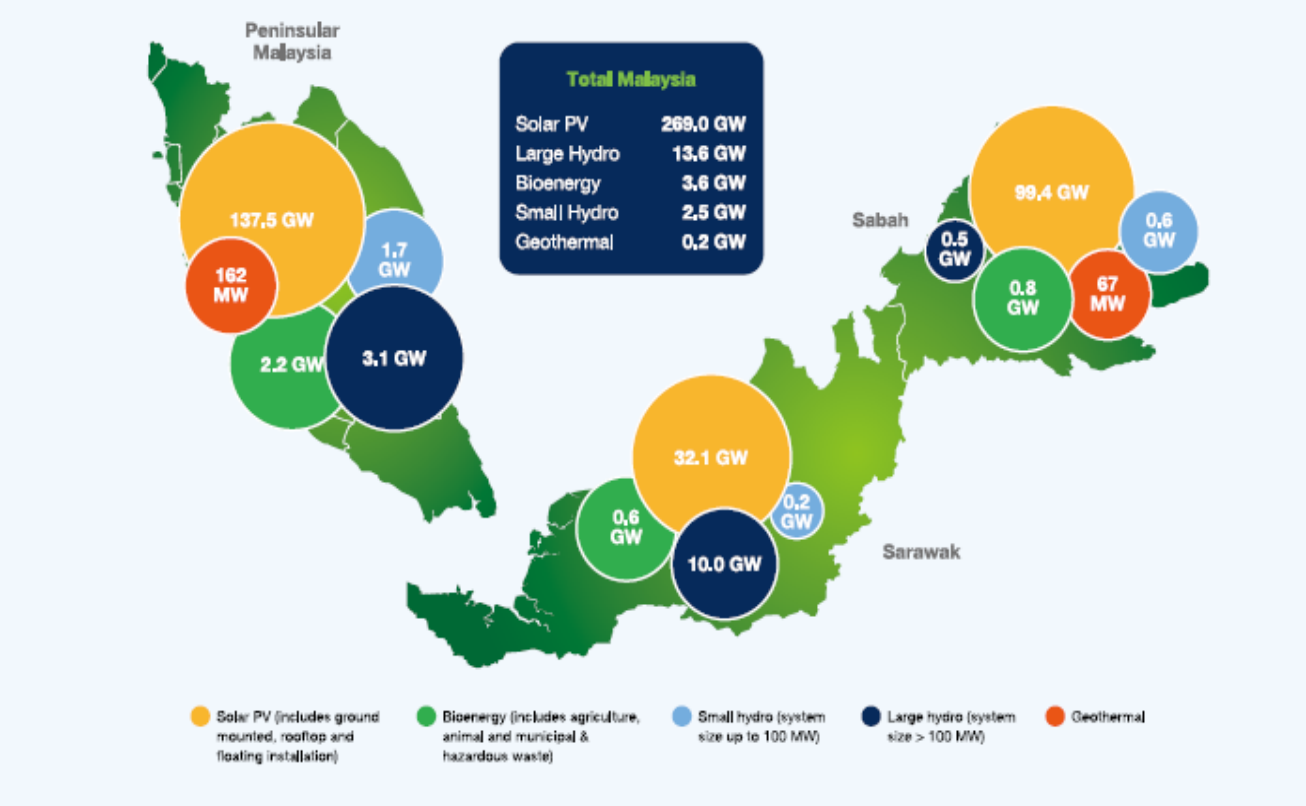
*Source: ASEAN Centre for Energy, MIDFR*

## Exhibit 2: Existing and proposed ASEAN interconnections




*Source: ASEAN Centre for Energy MIDFR*

## Exhibit 3: Summary of RE resource potential in Malaysia – a total of 289GW



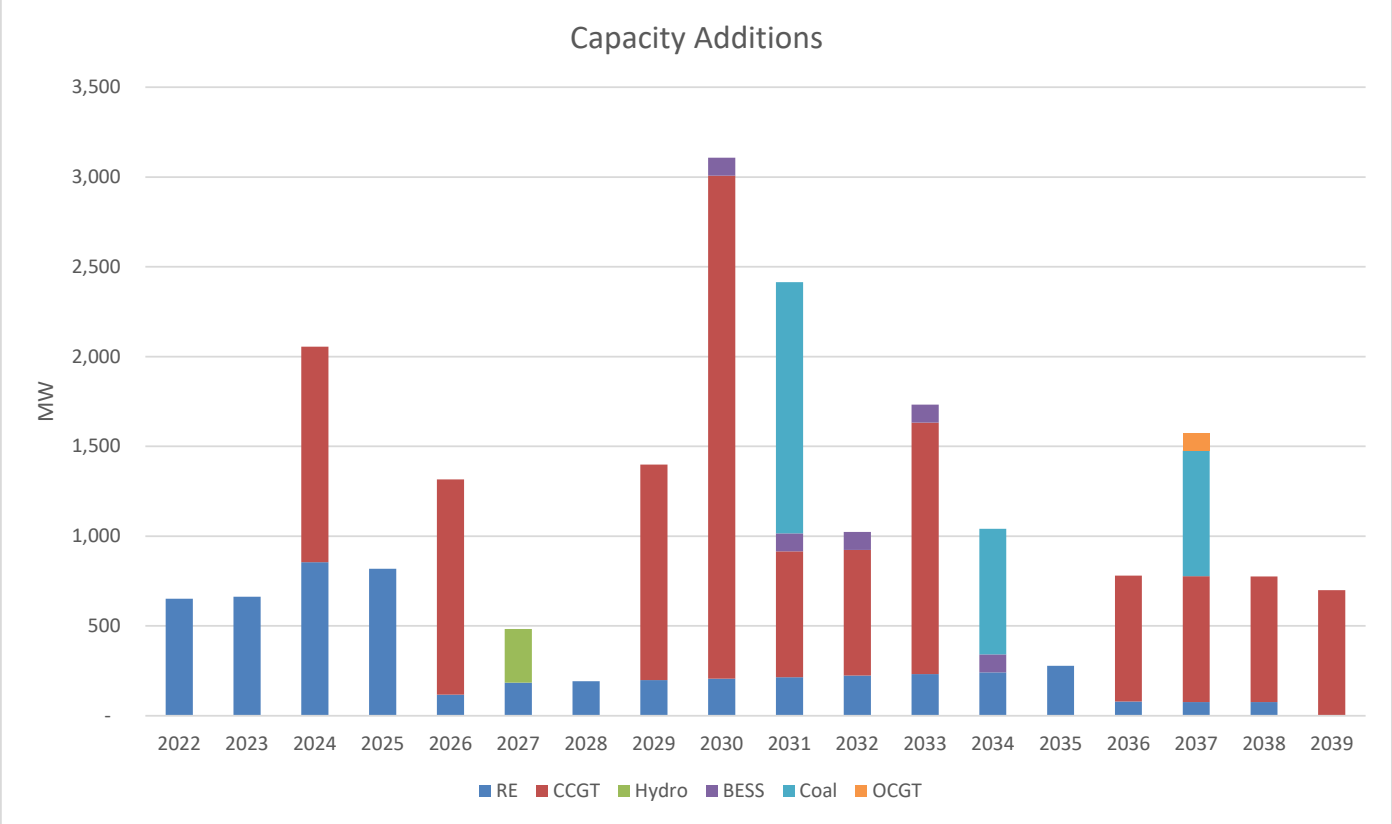

*Source: MyRER, MIDFR*

## Table 1: Summary of RE targets among ASEAN countries – Malaysia is one of the most aggressive

| | Malaysia | Indonesia | Philippines | Thailand | Vietnam | Singapore |
|---|---|---|---|---|---|---|
| **Latest RE Policy** | MyRER | National Energy Roadmap | Sectoral Energy Plan & Roadmap | Power Development Plan | Power Development Plan | Singapore's Energy Story |
| **Overall RE targets** | 31% RE installed capacity by 2025, 40% by 2035, 50% by 2050 | RE installed capacity of 45GW by 2025, 168GW by 2050, 31% of national primary energy supply in 2050 | RE installed capacity of 20GW by 2040 | 33% RE installed capacity by 2037 with RE mix as following: (1) Solar: 6GW (2) Biomass: 5.57GW, (3) Wind: 3GW, (4) Hydropower: 3.3GW, (5) Biogas: 0.6GW, (6) MSW: 0.5GW | 32% RE installed capacity by 2030, 45% by 2050 | At least 2GW of solar by 2030 and energy storage deployment target of 200MW post-2025 |

*Source: MyRER, MIDFR*

**Chart 1: Projected capacity additions under the current Generation Development Plan up till 2039**




*Source: Malaysia Power Generation Development Plan 2021-39, MIDFR*

**Recommendation.** The updated RE target is expected to involve investments of up RM637b up till 2050 involving power generation sources, grid infrastructure and energy storage capacity. Broadly, the latest policy decisions also signal to potential third-party access to the grid to allow transmission of power from RE generators to its end customers, and is a step towards market liberalization, in our opinion. We believe **YTL Power (BUY, TP: RM1.12 – Under Review)** and indirectly, **YTL Corp (BUY, TP: RM0.83** – owns 54% of YTL Power) stand to benefit in the immediate term given its advantage in having existing power generation and power retail operations in Singapore. Its 2000-acre land in Johor can accommodate up to 500MW solar capacity, though we believe part of this will be utilized to power its own planned data centers. We believe **Tenaga (NEUTRAL, TP: RM10.00)** stands to benefit from wheeling charges given its monopoly of the national transmission grid. We also believe Tenaga will benefit from higher capex into grid infrastructure to accommodate the envisioned regional RE trade, which will be positive for its regulated earnings. Having said that, we believe the potentially increased demand for RE exports will drive more requirement for RE capacity and do not rule out other existing RE owners & developers such as **Ranhill Utilities (BUY, TP: RM0.70), Jentayu (Non-rated)** and **Cypark (Non-rated)** to tap on this potential. EPCC players such as **Solarvest (Non-rated)** and **Samaiden (Non-rated)** are also obvious potential beneficiaries.

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| **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. |
| **ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell** | |
| ☆☆☆☆ | Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
| ☆☆☆ | Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
| ☆☆ | Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
| ☆ | Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology