Utilities & RE

POSITIVE (Maintained)

Driving the Green Energy Transition

- Excerpts from our Luncheon Talk with YAB DPM

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HIGHLIGHTS

- Operational RE capacity at 4.57GW as of Jul-25
- Evaluation for LSS PETRA 5+ completed, winners to be notified soon
- New version of NEM to be announced this month, may be a hybrid of NEM and SelCo
- Nuclear to be decided after 2030, only with public acceptance
- Maximum of 2GW from Sarawak to Peninsular, interconnection via subsea cables

INTRODUCTION

We hosted a luncheon talk entitled "Driving the Green Energy Transition" last Wednesday, featuring YAB Dato Sri Haji Fadillah Haji Yusof, the Deputy Prime Minister and Minister of Energy and Water Transformation (PETRA) and the ministry's Deputy Secretary-General (Energy) Mareena Mahpudz. Here are the snippets from the Deputy Prime Minister's keynote address and from the question-and-answer session where they addressed the renewable energy (RE) targets and on nuclear energy. As of Jul-25, Malaysia has achieved an operational RE capacity of 4.57GW, making up about 17.0% of the country's current installed capacity. This is led predominantly by solar at 4.24 GW.

Table 1: Operational RE capacity as at Jul-25

		MW
Solar	Large Scale Solar (LSS)	2,237.00
	Feed-in-Tariff (FIT)	287.85
	Net Energy Metering (NEM) 2.0	417.00
	NEM 3.0	1,301.00
		4,242.85
Biogas		171.78
Mini hydro		81.90
Biomass & Waste-to-energy		74.53
	Total	**4,571.06**

Source: Energy Commission (ST)

LSS PETRA 5+ winners to be notified soon. The Deputy Prime Minister announced that the evaluation process for LSS PETRA 5+ has been completed and that winning bidders will be notified soon. The programme is divided into Package A with a quota of 1.5GW is for land-based solar power plants while Package B is for the remaining 500MW, specifically for floating solar. This will add another 2GW of solar capacity by 2027. We expect further news flow surrounding this in the next few weeks. Following this, we also expect PETRA or ST to announce LSS6, which may add

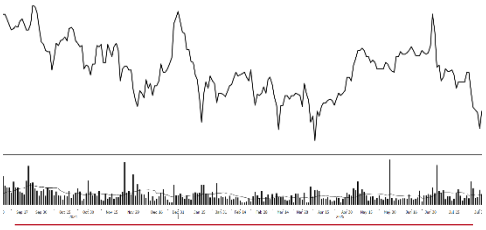
COMPANY *IN FOCUS*

Tenaga Nasional Bhd

BUY | Target Price: RM16.40
Price @ 8 Aug 2025: RM13.80

- Strong electricity demand growth
- The new monthly AFA which replaces the ICPT shields TNB against fuel price fluctuations
- Beneficiary of grip upgrades

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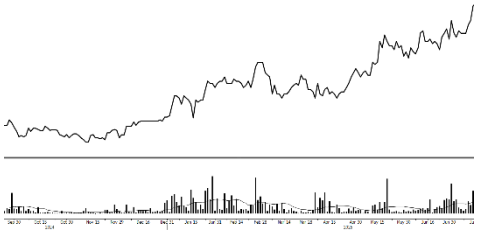


Pekat Group Bhd

BUY | Target Price: RM1.86
Price @ 8 Aug 2025: RM1.50

- Strong order book of over RM600m, benefiting from EPCC of solar rooftops, solar farms and earthing and lightning protection for DCs
- Recently acquired EPE Switchgear, which has consistently won jobs from TNB

SHARE PRICE CHART



another 2GW of solar capacity, coupled with battery energy storage system (BESS) requirements. We have previously estimated that solar will be increasingly dominant accounting for 25%/39%/52%/58% share of the capacity mix in 2035/2040/2045/2050, growing at CAGR of 14% between 2025-2050. This underpins a multi-year growth story for solar EPCC companies and also asset-owners, through power generation over the long-term.

A new version of the NEM. PETRA is expected to announce a new version of the Net Energy Metering (NEM) this month, dubbed the NEM 4.0 or an entirely new naming convention. It was hinted that this could be a hybrid mechanism of NEM and self-consumption (SelCo) or an entirely new programme. PETRA is in the midst of finalising the new programme, which will be aligned with the new tariff structure and designed in a way that gradually shifts away from subsidy dependency. Recall that NEM 3.0 ended on 30th June following the deadline for the additional 100MW under the NEM Rakyat quota. Following the rollout of the new tariff structure under Regulatory Period 4 (RP4) starting Jul-25, PETRA had also announced the continuation for rooftop solar users to earn electricity bill credits for excess solar power generated and exported to the grid for the next 10 years. While domestic and low voltage solar rooftop users continue to be able to offset all three component charges (energy, network and capacity), medium and high voltage users can offset only up to 25% of the network and capacity charges while energy charges can be offset in full. We view this to be fair, as it ensures heavy users pay their fair share of the fixed network upkeep. In the past, non-solar consumers have indirectly subsidised the network and capacity charges for solar users, estimated to be about RM250m per year.

Nuclear, only with public acceptance. The decision to include nuclear as part of the energy mix will only be made after 2030, if it receives public acceptance. Under Strategy A1.5 of the 13th Malaysian Plan, Malaysia will launch a nuclear-power program slated to come online by 2031, integrating nuclear alongside renewables to decarbonise its grid. MyPOWER Corporation will serve as the Nuclear Energy Programme Implementing Organization, responsible for governing the national nuclear program in accordance with International Atomic Energy Agency (IAEA) standards. It will study all necessary frameworks, including international treaties, domestic regulations and human capital requirements. The main ministry that will regulate nuclear in Malaysia is the Ministry of Science, Technology and Innovation (MOSTI). Malaysia's consideration in going nuclear is due to the need for a firm clean energy as coal is phased out. Solar and wind, even with BESS, will still have a certain level of intermittency. Gas, while cleaner than coal, is not entirely clean nor renewable, and therefore seen as a transition fuel. YAB Dato' Sri Fadillah, who visited France and Russia recently, said Malaysia would be signing up to three agreements with the United States and engage South Korea and China.

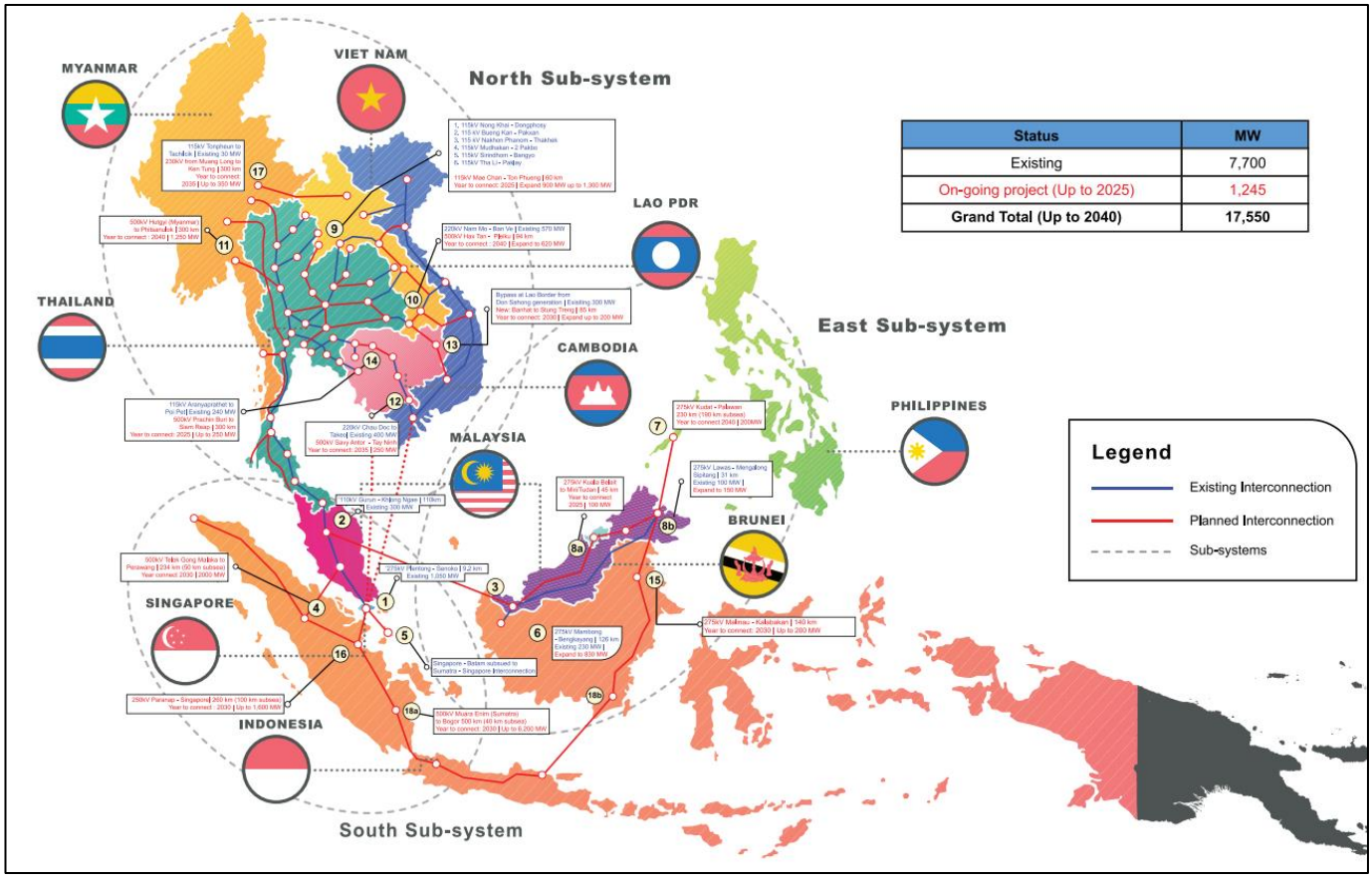
Asean Power Grid and regional connectivity. For starters, Sarawak's strategic positioning as a hydro-centric renewable hub will be reinforced through a dedicated grid link to Peninsular Malaysia, further unifying the nation's clean-energy infrastructure. Considering that 70% of Sarawak's energy comes from hydro, there is expected to be an excess of power from the state. The YAB Deputy Prime Minister said it has been agreed in principle for a maximum of 2GW coming channelled from Sarawak to the Peninsular. In a report last year, the ASEAN Centre for Energy said the interconnection plan is to connect Peninsular Malaysia and Sarawak through grid-to-grid high-voltage DC (HVDC) subsea cables, with a planned 676km line capacity of 2 x 800 MW, or a total of 1.6GW. The implementing agencies are expected to be Tenaga Nasional and Sarawak Energy. Undersea cables can also be expected from Vietnam to Kota Bharu, for the supply of RE from Vietnam to Malaysia. In May-25, a tripartite deal between Malaysia, Singapore and Vietnam was inked to explore the export of RE from Vietnam, particularly offshore green power. About 30% will be imported by Malaysia while the remaining 70% will be sold to Singapore.

Table 2: Priority projects under the ASEAN Power Grid

Connection	Interconnection Capacity (MW)	
	Existing	Future (projected)
Peninsular Malaysia-Singapore	525	1,050
Thailand-Peninsular Malaysia	380	1,043
Sarawak-Peninsular Malaysia	-	1,600
Peninsular Malaysia-Sumatera	-	2,130
Sarawak-West Kalimantan	230	777
Philippines-Sabah	-	500
Sarawak-Brunei	-	TBC
Sarawak-Sabah	-	177
East Sabah-North Kalimantan	-	174

Source: ASEAN Centre for Energy

Figure 1: ASEAN Power Grid Map



Source: ASEAN Centre for Energy

Specific water tariffs for DCs. PETRA is working with state governments to develop specific water tariffs for data centres and heavy industrial users, in a move to ensure that domestic users can continue paying reasonable and affordable rates and to prevent them from cross-subsidising large-scale users. Data centres and industrial users are also encouraged to switch to recycled water and for states to set up zonings in order to have district cooling systems particularly where there will be heavy water usage. This is to ensure more effective and efficient management of water usage and to prevent any "competition" for clean water for human consumption.

Maintain POSITIVE on UTILITIES and RE. We maintain our POSITIVE stance on the Utilities sector and the Renewable Energy subsector, underpinned by the structural policy tailwinds for a deep decarbonisation trajectory in line with the targets under NETR. We view that solar remains a multi-year growth engine, on top of the incoming BESS requirements, which will benefit EPCC players such **as Solarvest (NR), Samaiden (BUY, TP: RM1.59), Pekat (BUY, TP: RM1.86), Sunview (BUY, TP: RM0.54)** and **Northern Solar (NR). Tenaga (BUY, TP: RM16.40)** will be the key beneficiary in the asset ownership space from both RE capacity expansion and grid upgrade investments. Meanwhile, the recent request for proposal (RFP) for new gas-fired power generation capacity also presents a positive catalyst for the sector. This will be undertaken via two categories, which is the extension of the concession period for existing gas-fired power plants with expiring or expired existing power purchase agreements (PPAs) and through the development of new gas-fired power plants. This is expected to add about 8GW of new capacity. We expect independent power producers (IPPs) such as **Malakoff (NR)** and **YTL Power International (BUY, TP: RM4.51)** to be among the front runners for this new scheme. For the longer-term nuclear play, names that can be expected in the space include **Tenaga**, **Malakoff** and **YTL Power International**. As nuclear plants will be greenfield developments in Malaysia, it will definitely require the involvement of the Construction sector, of which we expect contractors such as **Gamuda (BUY, TP: RM5.42 - Under Review)** and **Sunway Construction (BUY, TP: RM6.44)** to be among front runners, both of whom have experience in cosntructing power stations.

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STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	The stock price is expected to rise by >10% within 3 months after a Trading Buy rating has been assigned due to positive news flow.
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	The stock price is expected to fall by >10% within 3 months after a Trading Sell rating has been assigned due to negative news flow.
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