

## SECTOR UPDATE

### Renewable Energy – Malaysia

Bright Prospects For EPCC Solar Players Amid Government's Green Plans

Malaysia's aggressive ramp up to achieve its net zero target will see multi-year robust demand for RE generation, with solar PV installation playing a vital role in Peninsular Malaysia. We expect total solar PV capacity to exceed 6.5GW over 2025-26 as the government calls for tenders for large scale solar (i.e. LSS5, LSS5+ and LSS6). This suggests EPCC replenishment opportunities of RM13-16b in the near term. Maintain OVERWEIGHT. Top pick is Pekat Group.

#### WHAT'S NEW

- **Bright outlook, domestic-driven demand supports earnings visibility.** The National Energy Transition Roadmap (NETR) expects Malaysia to deliver a 32% reduction in greenhouse gas emissions for the energy sector by 2050. To get there, we expect 59GW of renewable energy (with solar photovoltaic (PV) playing a vital role) to be planted up in the next two decades. This is almost double the existing generation capacity of 27GW in Peninsular Malaysia. As such, we see high earnings visibility for solar PV players and this will likely be a multi-year theme. Industry players in a recent Malaysia Photovoltaic Industry Association conference suggested that a positive regulatory framework with good incentives could pave the way for the government to achieve its NETR goals.
- **Higher baseline electricity tariffs a boon for solar PV players.** Solar PV players are expected to benefit from healthy underlying demand as electricity tariff continues an upward trajectory in the medium term. To recap, baseline electricity tariff is expected to increase by 14% (from 39.95 sen/kWh to 45.62 sen/kWh) from 1 Jul 25 onwards. The higher cost to be shouldered by both residential and commercial & industrial consumers will propel consumers to look for more cost-effective options to manage their electricity bill in the near term.
- **NEM 3.0 quota addition.** The Sustainable Energy Development Authority Malaysia (SEDA) has offered an additional quota allocation of 150 MW (existing quota: 450MW) under the Net Energy Metering (NEM) Rakyat programme and 300 MW (existing quota: 1,400MW) under the Net Offset Virtual Aggregation (NOVA) scheme. This offer remains open until 30 Jun 25, or until the quotas are fully subscribed, whichever occurs first. The announcement has been a catalyst for the residential solar PV installation ramp-up in 1Q25, as consumers pursue to benefit from the SolaRIS RM4,000 rebate which will end on 30 Apr 25. We expect to see a healthy revenue growth leading to margin expansion in 1Q25, contributed by the acceleration of residential solar projects.
- **LSS6 and BESS bidding to kick off soon.** The Ministry of Energy Transition and Water Transformation (Petra) has highlighted plans to announce the bidding round for Large Scale Solar Phase 6 (LSS6) in 2H25 with potentially 2GW of capacity and inclusion of a battery energy storage systems (BESS) for certain packages. Petra also plans to open a bidding round for the installation of battery energy storage systems (BESS) to third parties in 3Q25, offering a total capacity of 400MW/1,600MWj (100MW/400MWj capacity per project).

#### PEER COMPARISON

Company	Tickers	Rec	Share Price 23 Apr 25 (RM)	Target Price (RM)	Market Cap (RMm)	PE FY25F (x)	FY26F (x)	EV/EBITDA FY25F (x)	FY26F (x)	Dividend Yield FY25F (%)	FY26F (%)
Pekat Group	PEKAT MK	BUY	1.11	1.45	715.9	19.0	15.9	10.5	8.5	0.9	0.9
Samaiden Group	SAMAIDEN MK	NOT RATED	1.03	n.a.	461.6	20.2	15.8	15.5	7.3	1.4	1.2
Solarvest Holdings	SOLAR MK	NOT RATED	1.62	n.a.	1,208.2	23.8	17.4	14.1	11.7	0.1	0.3
Northern Solar	NORTHERN MK	NOT RATED	0.62	n.a.	245.3	n.a.	n.a.	n.a.	n.a.	0.0	0.0
Sunview Group	SUNVIEW MK	NOT RATED	0.39	n.a.	218.6	20.3	12.4	15.2	8.9	0.0	0.0

Source: Bloomberg, UOB Kay Hian

## OVERWEIGHT

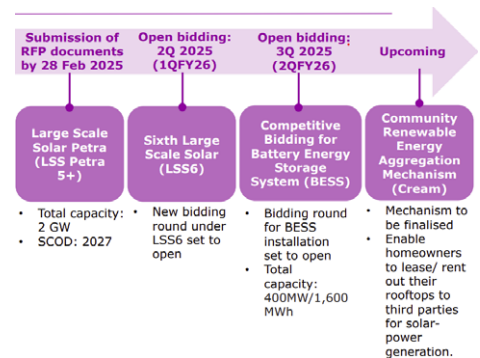
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#### TOP SECTOR PICK

Top pick	Rec	Target Price (RM)	PE (x)	Div Yield (%)
Pekat Group	BUY	1.45	19.0	0.9

Source: Bloomberg, UOB Kay Hian

#### RENEWABLE ENERGY POLICY OUTLOOK



Source: Solarvest

#### NET ENERGY METERING (NEM) 3.0

	Rakyat	GoME	NOVA
Quota Allocation	600 MW	100 MW	1700 MW
Mechanism (Roll-over)	1:1 (12 Months)	1:1 (12 Months)	Average SMP (8 Month)
Offer Period	until 30 June 2025	until 30 June 2025	until 30 June 2025
Offer Rate	Prevailing Gazetted Energy Rate	Prevailing Gazetted Energy Rate	Average System Marginal Price (SMP)
Offer Period	10 Years	10 Years	10 Years
Condition after 10 years	Self-Consumption (Self-Consumption)	Self-Consumption (Self-Consumption)	Self-Consumption (Self-Consumption)
Capacity limit	Single Phase: 5kWac Three Phase: 12.5kWac	1 MWac	Nett offset: 1 MWac Nett offset + Virtual aggregation: 5 MWac
Eligibility	TNB registered consumer under domestic tariff	Government agencies under commercial tariff	Non-domestic account holder

Source: SEDA

#### BREAKDOWN OF NEM 3.0 BY CATEGORIES

NEM 3.0 (Feb 21 – June 25)	Capacity (MW)	Quota Applied	Quota Balance
NEM Rakyat	600	94.1%	5.9%
NEM GoME	100	76.8%	23.2%
NOVA	1,700	67.0%	33.0%
Total	2,400		

Source: SEDA, UOB Kay Hian

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- **Key events to look out for:** a) further announcement of LSS5 and LSS5+ winners; b) LSS6 bidding announcement in 2H25; c) maiden bidding for the BESS programme in 3Q25; and d) lower solar module prices - back to US\$0.07-0.08/watt by 2H25.

#### ACTION

- **Maintain OVERWEIGHT; elevated orderbook driven by 6-7GW of solar plant ups.** We expect total solar PV capacity to exceed 6.5GW over 2025-26 as the government calls for tenders for large scale solar (ie LSS5, LSS5+ and LSS6). Assuming a construction cost of RM2.0m-2.5m per MW, total engineering, procurement, construction and commissioning (EPCC) replenishment opportunities are estimated at a staggering RM13b-16b in the next five years. Also, EPCC margins for these projects are anticipated to be better than that for LLS4, given the recent decline in PV panel prices. We reiterate OVERWEIGHT on the sector. Pekat Group (Pekat) remains our top pick, driven by a robust orderbook of RM600m and full-year consolidation of 60%-owned EPE Switchgear.
- **Key risks to our investment thesis** include: a) extremely competitive tariff range for LSS5+ and LSS6; b) solar module prices remaining elevated in 2H25; and c) changes in government direction in terms of NETR.
- **Pekat Group (PEKAT MK/BUY/Target: RM1.45).** The group commands a robust three-year earnings CAGR of 32% for 2025-27 with good earnings visibility, underpinned by a strong solar plant up in Peninsular Malaysia. Key re-rating catalysts include: a) stronger-than-expected earnings trajectory; b) active capital management; and c) a mainboard listing transfer. Maintain BUY with a target price of RM1.45, with our target price pegged to 2025F mean PE of 25x.

#### ESSENTIALS

- **SolarIS scheme coming to an end.** The introduction of Solar For Rakyat Incentive Scheme (SolarIS) to promote the adoption of new solar PV systems in residential properties will conclude on 30 Apr 25. Malaysian citizens who have successfully applied for the NEM Rakyat scheme from 1 Apr 24 onwards will be eligible for a cash rebate of up to RM4,000. The attractive rebate has registered a 70% substantial increase in the take-up of the NEM Rakyat quota (from 24% to 94% of the 600MW quota), encouraging residential home owners to capitalise on the reduced payback period and better return on investment.
- **Introduction of CREAM.** The Community Renewable Energy Aggregation Mechanism (CREAM) enables homeowners to lease their rooftop space to a local energy generator and aggregator, who can aggregate multiple rooftops to establish a solar PV power generation system. This is another avenue for revenue growth of solar players, we opine. The renewable energy generated can be purchased by a local green consumer located within a 5KM radius of the generation source using an open grid access principle.
- **Interim price hike in solar PV prices due to China's RE reform...** In 2024, solar PV module prices declined to an all-time low of US\$0.07-0.08/watt. This led to a widening of profit margins of most solar EPCC players in Malaysia as they benefitted from low inventory costs. In 1Q25, we understand that several leading Chinese PV companies increased solar module prices after demand for the products recovered. The hike was approximately 10% as China's electricity power industry reform gradually took effect – with China accelerating the reform of renewable energy (RE) power pricing to promote sustainable development. Solar PV model prices are now US\$0.08-0.09/watt.
- **....but expected to normalise again in 2H25.** We expect solar module prices to remain at US\$0.08-0.12/watt up to Jun 25, primarily driven by reduced inventory levels among Chinese manufacturers. This trend is further exacerbated by higher demand as China has accelerated solar installation activity ytd, prompting manufacturers to scale back on low-priced exports. We expect China's installation rush to end by May 25 and prices of solar modules to fall back to US\$0.07-0.08/watt towards 2H25.

#### FOUR PACKAGES UNDER LSS5

Packages	Capacity (MW)	Remarks
Package 1	250	Ground or roof-mounted solar power plants with 1-10MW
Package 2	250	Ground or roof-mounted solar power plants with 10-30MW
Package 3	1,000	Ground or roof-mounted solar power plants with 30-500MW
Package 4	500	Floating solar power plants with permitted generation capacities of 10-500MW Open to companies or consortiums with at least 51% equity ownership by Malaysians
Total	2,000	

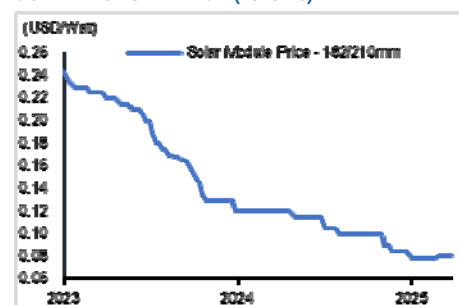
Source: Energy Commission

#### TWO PACKAGES UNDER LSS PETRA 5+

Packages	Capacity (MW)	Remarks
Package 1	1500	Ground solar power plants with 30-500MW generation capacities Open to companies or consortiums with at least 51% equity ownership by Malaysians
Package 2	500	Floating solar power plants with permitted generation capacities of 10-500MW Open to companies or consortiums with at least 51% equity ownership by Malaysians
Total	2,000	

Source: Energy Commission

#### SOLAR MODULE PRICE (2023-25)



Source: Infolink, UOB Kay Hian

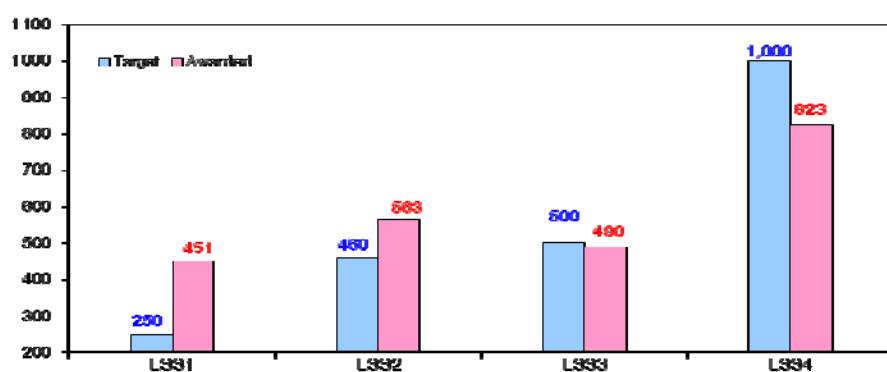
### LSS5 WINNING BIDDERS

Company	Holding Company	Shareholding	Capacity (MWac)	Location	Commercial Operation Date
Daya Cipta	Eden Inc.	100%	29.99	Gebeng, Kuantan, Pahang	28 Jul 27
Nextree Synergy	Solarvest Holdings	60%	60.00	Kuala Langat, Selangor	8 Oct 27
Joint Venture between HEB Energy and Unique HEB Energy	Unique Fire Holdings & HSS Engineers	60%/40%	95.00	Hilir Perak, Perak	11 Oct 27
Samaiden Legasi Timur	Samaiden Group	100%	99.99	Pasir Mas, Kelantan	11 Oct 27
TNB Renewables	Tenaga Nasional	100%	500.00	Bukit Selambau, Kedah	2027
Total			784.98		

Source: Respective companies, UOB Kay Hian

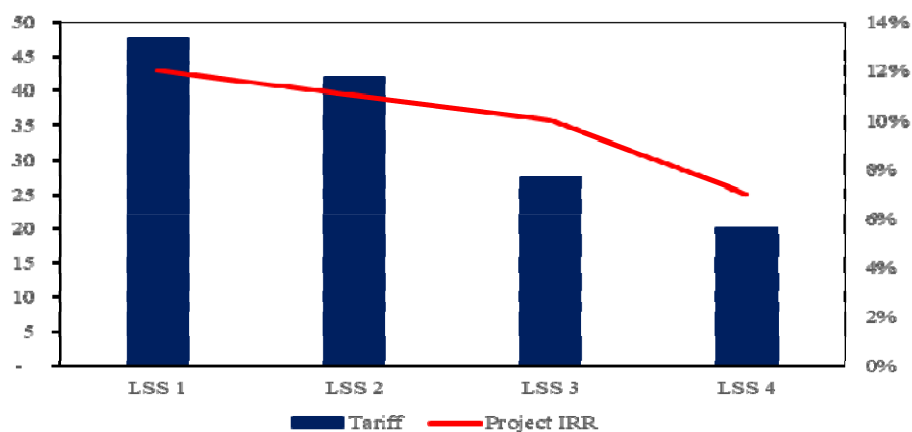
### TENDER AWARD FOR LARGE SCALE SOLAR PROJECTS IN MALAYSIA

(MW)



Source: TNB, Energy Commission, UOB Kay Hian

### LSS PROJECT IRRs ARE FALLING DUE TO COMPETITIVE OPEN BIDDING



Source: TNB, Energy Commission, UOB Kay Hian

### COMPARISON OF LSS 1-5 TARIFF RANGE

LSS	Capacity (MW)	Tariff Range (sen/kWh)
LSS1	451	39.00-65.00
LSS2	562	33.98-53.00
LSS3	491	17.78-58.00
LSS4	823	14.99-26.10
LSS5	2,000	-
LSS5+	2,000	-

Source: Energy Commission, UOB Kay Hian

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