

SECTOR UPDATE

Utilities – Malaysia

Energy Boost In Peninsular Malaysia

The onset of aggressive DC plant-ups alongside Malaysia’s net-zero ambition suggest ample opportunities for power players to expand their businesses. We expect 5GW of new plant-ups by 2030 and another 10-15GW by 2040. Key beneficiaries are: a) EPCC contractors with experience in building power plants, b) TNB genco and IPP Malakoff, and c) RE players. Maintain MARKET WEIGHT. Top picks: Malakoff and Pekat. Blue-sky scenario for TNB implies a fair value of RM14.50.

WHAT’S NEW

- **Power crunch a boon for power producers...** The onset of aggressive data centre (DC) plant-ups in Malaysia alongside the country’s ambition to drive net-zero emissions by 2050 suggest ample opportunities for power producers to expand their businesses. In essence, the potential power crunch arising from the DC boom implies that the government may rethink its power supply plan – which we believe may lead to the frontloading of new plant-ups in Peninsular Malaysia. Key beneficiaries are Tenaga Nasional Berhad’s genco, independent power producer Malakoff and in the longer run, renewable energy (RE) players.
- **...and suggests at least 5GW of thermal power plants to be awarded by 2H24/2025.** By the end of 2030, the system is projected to require 5GW of new capacity (thermal and RE) to meet demand growth, maintain optimum reserve margin for system reliability and replace retired plants (see table overleaf). Beyond 2030, the system may require 10GW of additional capacity (thermal and RE) for the same purpose. Assuming that a total of 5GW of DCs are built by 2035, the system may require a total of 15GW beyond 2030.
- **Key beneficiaries.** We highlight potential beneficiaries on three fronts: a) large to mid-cap EPCCs with experience in building power plants, working alongside technology partners ie Alstom, GE (see table overleaf); b) gencos and IPPs – TNB Genco, Malakoff and unlisted Edra; and c) solar players – Pekat, Solarvest (Not Rated), Samaiden (Not Rated) and Sunview (Not Rated).
- **Going green with NeTR.** As Malaysia champions green, there will be opportunities for meaningful investments in large-scale solar as well as other biomass/biogas/waste-to-energy plants. The National Energy Transition Roadmap (NeTR) has set out ambitious targets for Malaysia, aiming to achieve net-zero emissions by 2050. The plan is comprehensive and outlines a gradual increase in renewable energy shares, targeting 31% by 2025, 40% by 2035, and an impressive 70% by 2050. In the next 1-2 years, we expect 3GW of solar projects to be awarded through the Corporate Green Power Programme (CGPP) and large-scale solar 5 (LSS5) scheme. Assuming a construction cost of RM2m-2.5m/MW, EPCC works are estimated at RM6b-7b over 1-2 years. This will boost the replenishment of orderbook of existing RE players within the engineering, procurement, construction and commissioning (EPCC) segment. Additionally, partial ownership of the solar farms will help lift recurring income for the RE EPCC players.

PEER COMPARISON

Company	Tickers	Rec	Share Price	Target Price	Market Cap	PE		EV/EBITDA		Dividend Yield	
			15 Jul 24 (RM)	(RM)		FY24F (x)	FY25F (x)	FY24F (x)	FY25F (x)	FY24F (%)	FY25F (%)
Malakoff Corp	MLK MK	BUY	0.830	1.05	4,056	15.4	14.0	5.2	5.2	5.2	5.7
Tenaga	TNB MK	HOLD	14.48	13.20	84,171	18.9	18.4	5.8	6.0	3.4	3.5
Gas Malaysia	GMB MK	HOLD	3.63	3.50	4,661	13.0	12.2	7.3	6.9	6.3	6.5
<b>RE</b>											
Pekat Group	Pekat MK	BUY	1.05	1.09	677.2	28.9	19.8	22.1	14.6	0.0	0.0
Samaiden Group	SAMAIDEN MK	N.R.	1.28	n.a.	544	25.6	19.4	19.2	12.3	4.5	3.7
Solarvest Holdings	SOLAR MK	N.R.	1.61	n.a.	1,118	29.8	26.4	15.4	12.7	4.6	3.9
Sunview Group	SUNVIEW MK	N.R.	0.70	n.a.	360	33.1	17.8	12.8	9.0	2.1	N/A

Source: UOB Kay Hian

MARKET WEIGHT

(Maintained)

SECTOR TOP PICKS (UTILITY)

Top pick	Rec	Target Price (RM)	EV/EBITDA (x)	Div Yield (%)
Malakoff	BUY	1.05	0.83	5.2
Pekat	BUY	1.09	1.05	-

Source: Bloomberg, UOB Kay Hian

SECTOR TOP PICKS (CONSTRUCTION)

Top pick	Rec	Target Price (RM)	PER (x)	Div Yield (%)
Gamuda	BUY	8.88	16.9	1.5
Sunway Construction	BUY	4.32	20.9	2.9
Kerjaya Prospek	BUY	2.10	13.1	5.4

Source: Bloomberg, UOB Kay Hian

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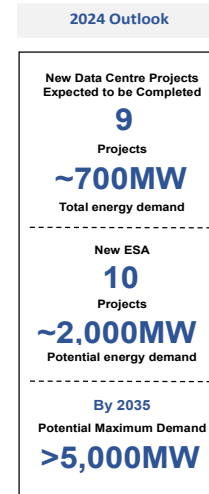
**ACTION**

- Utilities: Maintain MARKET WEIGHT** on the sector as TNB's recent share price rally has pushed sector valuation to +2SD above the long-term PE mean. The sector is trading at 18x 2025F sector net profit of RM5.3b, driven largely by TNB's 42% ytd share price surge vs the FBMKLCI's 11% ytd performance. We believe the current valuation has largely priced in expectations of the sector benefitting from NeTR and higher electricity demand (for TNB) stemming from the exponential plant-up of data centres in Johor and Klang Valley over the next 3-5 years. **Our top picks are:** a) Malakoff, as it is a pure play in the next plant-up cycle in Peninsular Malaysia, and b) Pekat, which is also a beneficiary of higher RE orderbook from CGPP, LSS5 and NeTR. **TNB's blue-sky scenario, based on generous regulatory returns of 7.3% for Regulatory Period 4 (RP4), suggests a fair value of RM14.50.** Our base-case target price of RM13.20 assumes a 7% regulatory return in RP4.
- Construction: Maintain OVERWEIGHT.** For domestic thermal power plant projects, only selective players within the sector such as Mudajaya Group (Non-rated), Kinergy Advancement (Non-rated), Zelan Bhd (Non-rated), Pestech (Non-rated) and IJM (HOLD; TP:RM2.76) have track records in EPCC works and may benefit from this round of capacity upcycle. Nevertheless, we retain our OVERWEIGHT sector rating in anticipation of the huge mega project pipeline in 2H24-2025 (potential total contract value of >RM230b) and stronger private job flows. **Our top picks** remain as Gamuda, Sunway Construction (Suncon) and Kerjaya Prospek, backed by their sturdy orderbooks and resilient earnings.

**ESSENTIALS**

- Malakoff (BUY/Target: RM1.08).** We expect Malakoff to potentially win two 1,400MW gas-fired power plants in the near term. The new thermal power plants will likely be slated for commercial operation in 2029-30. The potential wins will increase Malakoff's power generation capacity by 40%. It will help to replenish expiring power plants, namely the 350MW Prai power plant (expired: Jun 24) and 1,303MW Segari Energy Venture power plant (expiring: 2027). The potential wins are worth an equity value of RM2,268m (or 45 sen/share). Capex is estimated at RM10b for the two power plants, based on US\$700,000/MW. We also believe there is adequate headroom for Malakoff to gear up (as its net debt was ~1x as of Mar 24). Malakoff also has the option of looking for a partner to participate in the project, similar to Tanjong Bin Energy's partner ie EPF, which has a 10% minority stake in the project.
- TNB (HOLD/Target: RM13.20).** With a 51% market share of installed capacity in Peninsular Malaysia, we expect Tenaga's generation unit (TNB Genco) to benefit from new power plants to be rolled out by the government. This will help to replenish expiring power plants in the next two years, namely TNB Gelugor (310MW) and TNB Putrajaya (249MW). TNB has a total generation capacity of 13.8GW. That said, we expect earnings uplift from new power plant win(s) to be relatively small for the enlarged TNB group. This is because TNB Genco accounts for only 10% of group pretax profit. 90% of TNB's pretax profit is derived from the regulated transmission & distribution (T&D) business division.
- Pekat (BUY/Target: RM1.09).** Pekat is set to capitalise on the enormous growth in solar energy demand, backed by its proven track record of delivered rooftop solar PV systems and LSS projects. That said, we foresee better performances across its solar, ELP and trading segments amid brighter prospects. The ongoing acquisition of EPE Switchgears would also bring about huge synergies, thus further propelling its earnings momentum. Maintain BUY and a target price of RM1.09, based on 2025F PE of 30x - which is 0.5SD above its three-year mean of 25x. Our target PE of 30x is benchmarked against Solarvest Holdings' (the largest pure-play solar company on Bursa Malaysia) as Pekat's valuation is set to expand swiftly on re-rating catalysts in the coming years.

**TENAGA DATA CENTRE OUTLOOK**



Source: Tenaga Nasional

**JOHOR DATA CENTRE SUPPLY PIPELINE 2024**

Property	Capacity (MW)	Estimated Completion
Sea Data Centre	72	2024
GDS and YTL Power International	n.a.	2024(Phase 1)
Airtrunk Data Centre	50(Phase 1)	2024(Phase 1)
International Business Exchange Equinix Data Centre	n.a.	2024
Yondr Data Centre	200	2024
K2 Data Centre	300	2024
MN Holdings and Shanghai DC-Science	120	2024
PDG Data Centre	60(Phase 1)	2024

Source: Savills

**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
<b>Total</b>	<b>2,000</b>	

Source: Energy Commission

### POWER GENERATION DEVELOPMENT PLAN (2021-2030)

Year	Generation Capacity (31% RE Capacity Mix for Malaysia)	Retiring Plants
2021	Edra Energy (CCGT) (3x747 MW) RE (860 MW)	YTL Power (CCGT) (585 MW)
2022	RE (652 MW)	TNB Pasir Gudang (CCGT) (275 MW) GB3 (CCGT) (640 MW)
2023	RE (663 MW)	Panglima (CCGT) (720 MW)
2024	TADMAX (CCGT) (2x600 MW) RE (855 MW)	SKS Prai (CCGT) (341 MW) TTPC (CCGT) (650 MW) TNB Gelugor (CCGT) (310 MW)
2025	RE (818 MW)	TNB Putrajaya GT4 & GT5 (CCGT) (249 MW)
2026	THB (CCGT) (2x600 MW) RE (117 MW)	KLPP (CCGT) (675 MW)

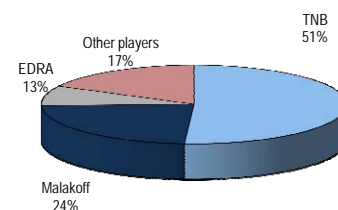
Source: Energy Commission

### CONTRACTORS WITH THERMAL POWER PLANT TRACK RECORD

Year	Power Plant	Contractors Involved
2003	Prai Power Plant (350MW)	Consortium of Sumitomo, GE Power, and Doosan
2004	Gautami Power Plant (469 MW)	Originally developed by Satyam Construction Co with Maytas Infra and IJM (India). IJM holds 20% equity stake.
2006	Tanjung Bin Power Plant (3x700MW)	Consortium of Sumitomo Holdings and Zelan Group
2010	Gautami Power Plant Expansion (800 MW)	Consortium including Siemens, Hyundai, and L&T
2014	Thermal Power Plant at Chhattisgarh, India (4x360MW)	RKM Powergen Private Limited, Mudajaya Group's 26% stake-owned associate
2015	Power Plant at Southeast Sulawesi, Indonesia (2x7MW)	PT Harmoni Energy Indonesia, Mudajaya Group's 46%-owned associate
2016	Tanjung Bin Power Plant Extension T4 (1000MW)	Consortium of GE Power, Mudajaya and Shin Eversendai Engineering
2016	Prai 2 Combined Cycle Power Plant (1071MW)	Consortium of Samsung C&T, Siemens, and Doosan Heavy Industries & Construction
2019	Pulau Indah Combined-Cycle Power Plant (1200MW)	Consortium comprising Posco Engineering & Construction (POSCO), Mitsubishi and PEC Powercon
2019	Jimah East power project (2GW)	Consortium of Toshiba Corporation, IHI Corporation, Hyundai Engineering Company, and Hyundai Engineering
2021	Track 4A Gas Fired Power Plant, Johor (1440MW)	Consortium of CTCL Corp and GE Power
2022	Kapar Energy Venture's Unit 3 Power Plant (300 MW)	Power plant control systems were upgraded by Pestech (44.8% owned by IJM)
2022	Edra Melaka Power Plant (2.2GW)	Consortium of Hyundai Engineering, Hyundai Engineering and Construction, and Hyundai Engineering Malaysia
2022	Kapar Combined Cycle Power Plant (2100MW)	TNB Genco and Widad Group
2023	Petronas ZLNG Power Plant, Sabah (52MW)	Kejuruteraan Asastera Bhd (KAB)

Source: Energy Commission

### GENERATION MARKET SHARE



Source: UOB Kay Hian

### TNB GENCO BREAKDOWN

## TNB Genco

At Genco, we ensure that the environment and community where our business operation is protected. Presently, we own **51.1%** of Malaysia's power generation market-share with a total contracted capacity of **13.8GW**.

Total contracted capacity in Peninsular Malaysia

**13.8GW**



Source: Tenaga Nasional Berhad

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