Renewable Energy Sector Update

Path to Liberalisation

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Summary

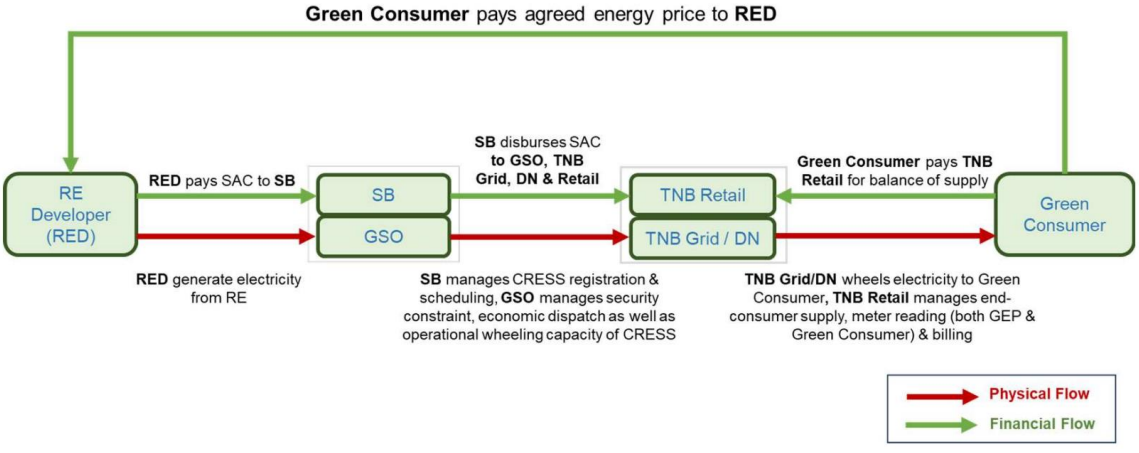
- **Energy Commission launched the CRESS framework on 20 Sep 24 to promote clean energy solutions in the country.**
- **We are neutral on CRESS due to the high system access charge (SAC), which may discourage user adoption against subscribing to the Green Electricity Tariff (GET)**
- **Nonetheless, we maintain an Overweight stance on the RE sector, due to key policy supports under the NETR and historically low solar module prices, which should drive interest in solar investments and benefit solar EPCC players.**

Sector Update

- **CRESS.** On 20 Sep 24, the Energy Commission launched the Corporate Renewable Energy Supply Scheme (CRESS) framework, scheduled for implementation later in the same month. The scheme applies to high voltage (HV) and medium voltage (MV) corporate consumers in Peninsular Malaysia, offering access to green energy and promoting sustainability in the country.

- **How it works?** Under the CRESS framework, there are four key parties: (i) the Renewable Energy (RE) developer, (ii) the Green Consumer (corporate consumer), (iii) the Single Buyer (SB), and (iv) Tenaga Nasional Berhad (TNB).
  i. Green Consumer will pay the RE developer for energy at an agreed price (which includes the RE cost plus the SAC). along with a separate service fee to TNB.
  ii. RE developer will dispatch the RE using TNB's grid and pay the SB the SAC based on the category (either 25 sen/kWh or 45 sen/kWh).
  iii. SB is responsible for overseeing dispatch scheduling and managing settlements for the energy produced by the RE developer. This includes passing the SAC to TNB for grid usage.
  iv. TNB is primarily responsible for end-user services, including billing, customer support, and grid operation.
  v. RE developer must have at least 51% local ownership and the green energy plant must have an installed capacity of at least 30MW with a direct connection.

Overview of the CRESS framework



Source: EC

- **System Access Charge (SAC).** CRESS framework offers two SAC rates: (i) 25 sen/kWh for renewable energy (RE) plants with firm output, such as solar plants with an energy storage system storing at least 50% of their capacity, and (ii) 45 sen/kWh for non-firm output. Should a firm-output RE plant fails to meet its required output, it will automatically be charged the non-firm rate of 45 sen/kWh. The framework also includes a market support measure, allowing developers to sell electricity to the SB at 8 sen/kWh for a limited time.

- **CRESS vs CGPP.** We see the CRESS framework as a variation of CGPP, but with a more liberalised approach. Key differences are: i) CGPP operates via a virtual PPA with the RE developer, while CRESS uses a physical PPA through the grid system, ii) CGPP is based on bidding within a quota of 800MW, whereas CRESS operates on a willing buyer and willing seller basis, iii) CGPP is typically limited to one corporate consumer, while CRESS allows contracts involving multiple corporate consumers, and iv) CGPP is locked into a 21-year PPA, while CRESS is not limited by a fixed agreement term.

- **In-house views.** We are neutral on this framework as it seems less appealing to users as compared against subscribing to GET. Based on our in-house analysis, GET offers a more attractive rate for MV and HV commercial users compared with CRESS (see Appendix below). However, there could be higher uptake of CRESS if: i) the SAC for non-firm output is reduced to 25 sen/kWh, ii) the cost of BESS becomes more commercially viable, and/or iii) an expectation of much higher electricity from the grid over the medium to long term, which could be attributed to elevated coal or natural gas prices.

- Nonetheless, we maintain an **Overweight** view on the RE sector, backed by policy supports under the NETR. With solar module prices at a historic low of USD0.10/watt due to oversupply, this is likely to spark even more interest in solar investments. Combined with ongoing RE initiatives driving the transition to low-carbon solutions, this should benefit solar EPCC companies under our coverage, **Solarvest (BUY, TP:RM1.94), Samaiden (BUY, TP:RM1.66)** and **Pekat (BUY, TP:RM1.20)**.

Top Picks

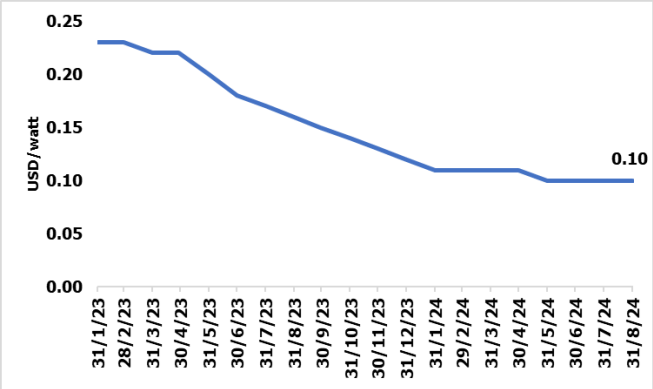
Company	Recommendation	FYE	Price (RM)	TP (RM)	P/E (x) FY24	P/E (x) FY25F	P/E (x) FY26F	Gross DY (%)	Gearing (x)	Orderbook RM 'm
Solarvest Holdings Bhd	BUY	Mar	1.57	1.94	31.6	21.2	17.8	N/A	0.69	469.0
Pekat Group Bhd	BUY	Dec	0.97	1.20	31.6	16.3	12.5	1.0	0.05	180.0
Samaiden Group Bhd	BUY	Jun	1.10	1.66	44.1	22.5	15.2	0.6	0.05	313.5
Sunview Group Bhd	N/A	Mar	0.50	N/A	31.6	15.0	11.5	N/A	0.41	196.9
Average					**34.7**	**18.7**	**14.2**	**0.8**	**0.3**	**289.9**

Sunview P/E multiple fotrecasts based on Bloomberg consensus expectations

Pekat P/E ratio for FY24 is based on forecast EPS

Source: Bloomberg, Apex Securities

Solar module price trend



Source: Bloomberg, Apex Securities

Appendix

In our assumption, we specifically focus on MV and HV commercial users as we expect the primary demand for CRESS will originate from data centres as players aim to decarbonise their operations. We also assume peak period rate as solar generation from CRESS will only be applicable during peak period of electricity generation (8am to 10pm).

MV commercial users:

i. **For users subscribing to GET.** Assuming a MV commercial user with a 1MW peak demand, a maximum demand rate of 45.1 sen/kW, a peak period rate of 36.5 sen/kWh, operating 4 hours during peak period daily or equivalent to 120 hours per month at peak demand of 1MW, fully utilising the GET of 20 sen/kWh. The calculation results in an average rate of 56.9 sen/kWh.

ii. **For users subscribing to CRESS.** The SAC of 45 sen/kWh is added to the solar generation cost, which we assume to be 18 sen/kWh (lower end of LSS4 winning bid's tariff), bringing the rate to 63.0 sen/kWh.

HV commercial user comparison:

i. **For users subscribing to GET.** Assuming a HV commercial user with a 1MW peak demand, a maximum demand rate of 43.60 sen/kW, a peak period rate of 34.5 sen/kWh, operating 4 hours during peak period daily or equivalent to 120 hours per month at peak demand of 1MW, fully utilising the GET of 20 sen/kWh. The calculation results in an average rate of 54.9 sen/kW.

ii. **For users subscribing to CRESS.** The rate should be same as MV users subscribing to CRESS at 63 sen/kWh.

As a result, GET offers more attractive rates for both MV and HV commercial users at 56.9 sen/kWh and 54.9 sen/kWh respectively compared with CRESS's 63.0 sen/kWh. For RE firm output with BESS, the tariff is likely much higher as BESS is currently still not commercially viable (>USD100/kWh). While CRESS provides greater flexibility in contracts and access to multiple developers, its higher cost may discourage users' adoption.

Summary of the tariffs for GET and CRESS

Assumption	GET		CRESS	
	MV	HV	MV	HV
Maximum demand (sen/kW)	45.1	43.6		
Peak period (sen/kWh)	36.5	34.5		
GET (sen/kWh)	20.0	20.0		
ICPT (sen/kWh)	0.0	0.0		
SAC (sen/kWh)			45.0	45.0
Solar cost (sen/kWh)			18.0	18.0
4 hours of sunlight/day				
Assume the supply is for 1MW DC				
Final Tariff (sen/kWh)	**56.9**	**54.9**	**63.0**	**63.0**

Source: Apex Securities

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RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS
BUY: Total returns* are expected to exceed 10% within the next 12 months.
HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.
SELL: Total returns* are expected to be below -10% within the next 12 months.
TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.
TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.
*Capital gain + dividend yield

SECTOR RECOMMENDATIONS
OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.
NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

DISCLAIMER