

## UTILITIES SECTOR


**Maintain NEUTRAL**

### Sizeable Projects Lined Up for the ETR

#### DEVELOPMENT

- According to a statement by the Minister of Economy, the Government will be announcing some RM25b worth of national projects under the Energy Transition Roadmap (ETR). The first phase of the roadmap will consist of 10 national flagship energy transition projects to be developed with the participation of the private sector, as part of the Government's structural reforms of the economy.

#### OUR VIEW

- **Ambitious RE target.** At the centre of the ETR is an ambitious target of achieving 70% RE capacity mix by 2050, a significant increase compared to the 31% target by 2025 and 40% target by 2035. While we are not privy to the exact details of the 10 flagship projects, the Minister of Economy had indicated previously that total investments worth RM637b until 2050 are required to achieve the RE target, which includes investments in RE generation sources, strengthening of grid infrastructure including transmission lines enhancement, energy storage system integration and operation costs of grid system networks.
- **ETR to be released in phases.** The ETR is expected to be announced in phases, with the 1<sup>st</sup> phase encompassing strategic projects and initiatives such as hydrogen, solar farms as well as RE special zones. The 2<sup>nd</sup> phase is expected to involve enablers such as legislative reforms, incentive funding that will be put through to accelerate the transition.
- **What has transpired so far?**
  1. RE capacity to be increased to 70% by 2050 from 25% as at end-2022. The expansion of RE capacity is expected to enable surplus RE generation capacity to be exchanged across borders with regional neighbours
  2. Lifting of the RE export ban and development of a cross border RE export mechanism via an electricity exchange system to be developed and established by the Government
  3. Implementation of RE development to be expanded based on the concept of self-contained systems to spur investments along the RE value chain and diversification of RE programs based on willing buyer-willing seller approach to encourage corporate involvement.
  4. Direct allocation of development budget for the installation of solar systems on Government buildings, enabling Government ministries and agencies to benefit from electricity bill savings
- **A hydrogen economy technology roadmap is also expected to be announced in 2HCY23**, which is expected to outline initiatives to develop Malaysia's hydrogen economy. Based on IRENA's RE outlook, hydrogen will provide a complementary solution to meet Malaysia's ambitious climate objectives, where green hydrogen could comprise up to 5% of total final consumption (including non-energy use) by 2050. Hydrogen is expected to play a role in decarbonising some industrial sub-sectors and meeting a growing export market for green hydrogen in Asia and the Pacific.
- **We keep to our sector thesis**, in that we see pockets of opportunities within the sector, particularly in the RE space backed by strong Government support to develop a "green economy". At this juncture, our top picks are **YTL Power (BUY, TP: RM1.54)** as a play into RE exports and the group's new strategic focus on building up RE and data centre capacity. **Tenaga (NEUTRAL, TP: RM10.00)** is a potential beneficiary of grid investments to accommodate variable RE growth in the mix. We also like **Ranhill (BUY, TP: RM0.73)** – although Ranhill's core business is in water operations, it has exposure to power generation assets and is beefing up efforts to grow RE capacity via the LSS and CGPP programs. Broadly, we believe the RE EPCC players such as **Solarvest, Samaiden, Sunview** and **Pekat** also stand to benefit from country's RE drive. 

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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 <i>rise</i> 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 <i>fall</i> 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