UTILITIES

***Maintain* POSITIVE**

Snippets from NETR Phase-1

KEY INVESTMENT HIGHLIGHTS

- **NETR Phase 1 unveils 10 flagship catalyst projects**
- **Heavy emphasis on RE development and solar deployment**
- **Upcoming Phase 2 launch to outline details on establishing a low carbon pathway, national energy mix and emissions reduction targets and enablers**
- **We keep our POSITIVE stance on Utilities premised on a firm policy layout on energy transition which should drive improved growth and ESG profile**

Focus on scaling up RE capacity. NETR Phase 1 launch focused on 10 flagship catalyst projects and initiatives based on 6 energy transition levers namely, RE, energy efficiency, hydrogen, bioenergy, green mobility and CCUS. The 10 projects worth RM25b launched primarily focused on RE development. Broadly, it includes establishment of a number of RE zones, ESS (energy storage system) development, hydrogen development projects, bioenergy, green mobility and CCUS (carbon capture, utilisation and storage).

Sabah focus was a pleasant surprise. One of the initiatives outlined was on Sabah energy security, which was a pleasant surprise considering minimal fanfare on this prior to the announcement. The initiative entails an integrated measure to secure Sabah's long-term energy supply, which includes development of LSS and small hydropower plants, formulation of policy and regulatory framework on biowaste and feasibility for geothermal. We think **Ranhill (BUY, TP: RM0.73)** could be one of key potential beneficiaries, especially for Sabah LSS and geothermal given its long track record operating in Sabah power sector and having been involved in both LSS in Peninsular and geothermal exploration in Tawau, Sabah. Sabah suffers from (power) undercapacity yet it accounts for 35% of Malaysia's RE resource, hence we believe the move to unlock Sabah's RE potential is a step in the right direction.

Strong focus on solar. Projects under NETR Phase 1 emphasizes RE, especially solar. A number of RE zones are slated to be developed, including a 1GW hybrid solar plant with an integrated RE industrial park to be developed by UEM Group in collaboration with Itramas Corp Sdn Bhd. Meanwhile, **Tenaga (BUY, TP: RM10.50)** will be developing 5 centralised LSS parks totaling 500MW capacity (100MW each) as well as a 2.5GW hybrid hydro floating solar at its Kenyir and Sungai Perak hydro power plants. The hybrid system is expected to allow almost 24-hour RE generation availability. We learnt that these hybrid projects are being considered for export capacity to Singapore, which requires rather demanding 75% load factor for clean energy supply. Tenaga is also investing some RM35b for grid development between 2025-30, which it expects to recover via higher tariffs for RE export and Green programs for consumers.

COMPANY IN FOCUS

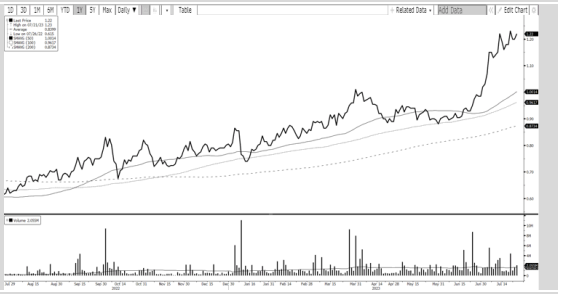
Samaiden Group Berhad

Maintain **BUY** | Unchanged Target price: RM1.54

Price @ 27th July 2023: RM1.29

- Stands to benefit from emphasis on solar development under NETR, backed by a strong balance sheet
- Solid orderbook at 2.1x FY22 revenue
- Strong RM1b tenderbook – upcoming CGPP awards a potential catalyst

Share price chart



Tenaga Nasional Bhd

Maintain **BUY** | Unchanged Target price: RM10.50

Price @ 27th July 2023: RM9.60

- Firm policies to drive aggressive RE targets serves to enhance capacity growth prospects and improve Tenaga's ESG profile
- As a monopoly, Tenaga to benefit from grid investments to support higher VRE penetration and RE exports

Share price chart

ANALYST:
Hafriz Hezry
hafriz.hezry@midf.com.my
03 -2173 8392

EPCC players benefit from solar-heavy focus. We believe the solar EPCC layers namely **Samaiden (BUY, TP: RM1.54), Sunview (BUY, TP: RM1.32)** and **Pekat (BUY, TP: RM0.57)** also stand to benefit from the NETR's heavy focus on solar. Other than the RE zone projects, the NETR emphasizes on rooftop solar development with introduction on a rooftop leasing scheme for individual premise owners to allow usage of their rooftops for solar deployment by solar developers, which is expected to drive development of rooftop solar in the country. Rooftop solar installation accounts for some 42GW (or 16%) of potential solar resource in the country. We reckon the 1.5GW potential alone (from UEM Group's RE zone and Tenaga's solar park) could give rise to ~RM4.5b of EPCC prospects.

Eagerly awaiting Phase 2 launch. NETR Phase 2 is expected to reveal details on establishing a low carbon pathway, national energy mix and emissions reduction targets and enablers. Notably, the NETR gave indications of the Government's intention to implement TPA for the power sector (which is expected to drive growth of corporate PPAs) and restructure electricity tariffs – these are expected to ensure cost reflectiveness and enable higher penetration of RE.

We keep our **POSITIVE** stance on Utilities premised on a firm policy layout for the energy transition, which should drive a sector re-rating on improved growth and ESG profile. Our top picks are the EPCC sub-sector players namely **Samaiden, Sunview and Pekat.** We also turned positive on **Tenaga** as the more aggressive stance on RE development should pave way for it to accelerate decarbonisation of its generation portfolio and improve its ESG profile.

Table 4: Sector Valuation Summary

			Shr Price	EPS (sen)		PE (x)		ROE	Div Yield	Market Cap	TP
Companies	**FYE**	**Rating**	**(RM)**	**FY23**	**FY24**	**FY23**	**FY24**	**(%)**	**(%)**	**(RMm)**	**(RM)**
Ranhill Utilities	Dec	BUY	0.580	3.6	3.5	16.1	16.6	5.9	5.2	741.3	0.73
Tenaga Nasional	Dec	BUY	9.600	83.2	85.6	11.5	11.2	7.0	4.5	54,888.2	10.50
YTL Power	Jun	BUY	1.370	13.6	15.2	10.1	9.0	8.0	5.5	9,560.6	1.54
Samaiden	Jun	BUY	1.290	2.9	5.9	44.8	21.8	19.3	0.0	508.3	1.54
Sunview	Dec	BUY	0.820	2.8	4.7	29.3	17.4	17.5	0.0	383.8	1.32
Pekat	Dec	BUY	0.440	1.9	2.3	23.2	19.1	9.5	0.0	283.8	0.57

Source: Companies, Bloomberg, MIDFR

Key Flagship Projects under NETR Phase 1

Energy Transition Levers	Flagship	Modalities	Champion
Energy Efficiency (EE) 	Efficient Switch	**Energy Efficiency and Conservation Act (EECA)** The Energy Efficiency and Conservation Bill to regulate energy-intensive users, buildings and products will be tabled in Parliament in the fourth quarter of 2023.	NRECC
		Energy Audit For Rail Sector Railway operators to perform energy audit exercise under the Energy Audit Conditional Grant (EACG 2.0) aimed at establishing the current energy consumption baseline, identifying potential energy savings in their premises and lowering utility costs.	MOT
Renewable Energy (RE) 	Renewable Energy Zone (RE Zone)	**Integrated RE Zone** A large-scale, integrated sustainable development spanning the entire energy supply chain, from generation and energy storage to efficient demand management and consumption, will be created. A pilot RE Zone will be established encompassing an industrial park, zero-carbon city, residential development and data centre.	Khazanah Nasional Berhad
		Solar Park Centralised large-scale solar (LSS) parks co-developed by TNB, in partnership with SMEs, cooperatives, and state economic development corporations. These parks will consist of 100 MW deployment per site across 5 sites in several states.	TNB

Renewable Energy (RE)	**Renewable Energy Zone (RE Zone)**	**Hybrid Hydro-Floating Solar PV (HHFS)** Development of 2500 MW HHFS potential at TNB hydro dam reservoirs will increase RE generation close to 24-hour availability. The hydro plant acts as energy storage by conserving the water in the reservoir during peak hours and discharging it during non-peak, while providing quick response to the duck curve. Reduce investment by utilising existing hydro infrastructure as compared to BESS + solar PV. Potential scaling up for future green hydrogen feedstock in collaboration with other hydrogen producers such as Gentari as the green electron offtaker.	TNB
		Residential Solar The construction of 4.5 MW solar capacity across 450 homes in City of Elmina and Bandar Bukit Raja. Up to 10 kW solar capacity per house through rooftop leasing with offtake within the township by high-demand users from the commercial or industrial sector.	Sime Darby Property
	Energy Storage	**Energy Storage System (ESS)** Development of utility-scale ESS to enable higher penetration of variable RE in Malaysia.	NRECC Energy Commission (ST)
	Energy Secure	**Sabah Energy Security Initiative** An integrated initiative is underway to secure the long-term energy supply and support the socioeconomic development of the state. This includes: the development of large-scale solar (LSS) and small hydropower plants; the formulation of policy and regulatory framework on biowaste to ensure a consistent supply of feedstock; and the feasibility of geothermal for power generation.	Energy Commission of Sabah (ECoS)
Hydrogen	**Green Hydrogen**	**Sarawak Hydrogen Hub** Implementation of three integrated projects to produce green hydrogen will propel Sarawak as a regional green hydrogen hub. These projects involve the development of a green hydrogen production plant in Kuching by 2025 for domestic use, and two plants in Bintulu by 2027, mainly for export purposes. Sarawak State Government through SEDC Energy is collaborating with strategic partners to develop the state into a green hydrogen hub.	SEDC Energy
	Hydrogen for Power	**Co-Firing of Hydrogen and Ammonia** Green hydrogen and ammonia co-firing in collaboration with PETRONAS to decarbonise TNB generation plants.	TNB

Energy Transition Levers	Flagship	Modalities	Champion
Bioenergy 	**Biomass Demand Creation**	**Biomass Clustering** Development of potential biomass clusters with a centralised plant using aggregated feedstock from multiple neighbouring mills. Biomass clustering is expected to improve economies of scale as well as securing larger and more reliable feedstock.	NRECC SEDA
		Biomass Co-firing Co-firing initiative at the existing 2100MW Tanjung Bin Power Plant by burning biomass along with coal. Biomass sources include Empty Fruit Bunch (EFB) pellets, wood chips, wood pellets, bamboo pellets, coconut husk and rice husk. A pilot phase of co-firing will commence in 2024 with a view to scale up to a minimum of 15% biomass co-firing capacity by 2027.	Malakoff
Green mobility	**Future Mobility**	**EV Charging Stations** Installation of 10,000 EV charging stations by 2025 along highways and at selected commercial buildings in collaboration with strategic partners, among others, TNB, Plus Malaysia Berhad (PLUS), Permodalan Nasional Berhad (PNB), Gentari and Sunway Group.	MITI
		Mobile Hydrogen Refuelling Station Introduction of the first mobile hydrogen refuelling station for transportation in Peninsular Malaysia, in collaboration with NanoMalaysia Berhad, PETRONAS, United Motor Works (UMW) and the MGTC.	MOSTI
		Public Transport Electrification This project involves electrification of first and last mile public transport and upgrading infrastructure and electrical lines at bus depots for charging, with maintenance, repair and overhaul (MRO) opportunities for local SMEs.	MOT Prasarana
		Solar Photovoltaic (PV) Installation for Rail Operations The Rail Sector Energy Management and Renewable Energy (EMRE) Action Plan entails the installation of Solar Photovoltaic (PV) systems for non-traction electricity usage in rail operations such as stations and depots.	MOT
	**Future Fuel**	**Biofuels Hub** A bio-refinery will be developed in Pengerang, Johor, to serve as a catalyst for creating hubs to produce a range of bio-based products, including sustainable aviation fuel (SAF), hydrotreated vegetable oil (HVO), advanced sustainable fuel (ASF) and biochemicals.	PETRONAS

Energy Transition Levers	Flagship	Modalities	Champion
CCUS 	CCS for Industry	**Regulatory Framework** Development of policy and regulatory framework to facilitate the implementation of CCUS projects, including transboundary carbon movement.	Ministry of Economy
		Kasawari and Lang Lebah CCS Implementation of carbon capture and storage (CCS) catalyst projects for Kasawari and Lang Lebah high-CO_2 gas fields, which are expected to be in operation by 2026 and 2028 respectively. CCS technology will be used to capture CO_2 from the gas production field and store it in the depleted fields.	PETRONAS

Source: Ministry of Economy MIDFR

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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 *rise* 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 *fall* 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