LESTARI GEMS

Vol. 6

A Boost to EV Charging Network

By Joshua Ng l joshuang@kenanga.com.my

Featured Reports

Top Glove: Raising the Bar in Workers Quarters
Automotive: Powering Ahead to Wider Charging Network
Voluntary Carbon Market: BCX completes inaugural auction

ESG News Round-up

EU proposes Net-Zero Industry Act

The European Commission (EC) unveiled a critical regulation on 16 March 2023 that will aim to scale up manufacturing of green technologies in the bloc.

The EC's proposed Net-Zero Industry Act outlines green technologies that will receive particular support and will be subject to a 40% domestic production benchmark.

Top spenders on bottled water

People in Singapore spend the most on bottled water globally, splashing out on average over US$1,300 per head in 2021, a UN study showed.

The money was used to buy over 1,100 litres of water per person, it said, in a review of the global bottled water industry and its impacts on societies and the environment.

Australia ranked second, at about 500 litres and US$386 per head.

Globally, people are spending USD270b a year on bottled water, when under half of that sum could ensure clean tap water access for hundreds of millions of people for years, the report by the United Nations University found. ─ *Eco-Business*

ING toughens oil & gas policy

Dutch lender ING said it had again toughened its lending policy to the oil and gas sector, restricting finance to clients engaged in commodity or trade finance and "midstream" infrastructure.

ING, a leading provider of commodity finance, said it was working on a methodology to reduce the volumes of traded oil and gas it finances in line with global climate goals with a view to setting targets by 2024. ─ *Reuters*

Microsoft signs ocean-based CO2 removal deal

Ocean health company Running Tide announced an agreement with tech giant Microsoft for ocean-based carbon dioxide removal, using technology that accelerates the ocean's ability to naturally remove CO2, and to permanently sink it to the deep ocean.

Under the new agreement, Running Tide will remove 12,000 tons of carbon dioxide equivalent (C02e) on behalf of Microsoft.

H&M launches secondhand resale garment shop

Fashion retailer H&M US has announced the launch of H&M Pre-Loved, a new branded shop offering secondhand garments.

This marked the company's first resale business model in the US.

The launch follows a series of initiatives by H&M Group to improve fashion circularity, including establishing the first global garment collecting initiative by a fashion company in 2013, and investing in companies that develop technologies to enable textile recycling through its investment arm H&M CO:LAB.

ESG CALENDAR

Peer-to-peer Sharing and Networking with Kenanga Investment Bank Berhad

Organiser: UNGCMYB

Date: 24 March 2023
Time: 2.30pm−4pm
Venue: UNGCMYB Office, B2-8-1, Block 2, VSquare @ PJ City Centre, Jln Utara, PJS 52, 46200 Petaling Jaya, Selangor.
Type: Physical (open to UNGCMYB members only)
Register here

ASEAN Circular Plastics Summit 2023

Organiser: Apex International

Date: 29−30 March 2023
Venue: Banyan Tree Bangkok, Bangkok, Thailand
Type: Physical, paid
Register here

Economist Impact 8th Annual Sustainability Week

Organiser: Economist Group

Date: 29−31 March 2023
Venue: London & Virtual
Type: Physical session (GBP899 for 29, 30 & 31 March) & Virtual session (free, 29 March only)
Register here

ESG Rating 4 stars

Company	F4GBM Index	Rating	TP (RM)
ABMB	Yes	OP	4.40
CIMB	Yes	OP	6.55
PBBANK	Yes	OP	4.90
KLK	Yes	OP	27.00
IOI CORP	Yes	MP	4.20
PPB	Yes	OP	19.30
MISC	Yes	MP	7.50
YINSON	Yes	OP	3.65
CTOS	Yes	OP	1.80
SUNCON		OP	2.13
GAMUDA		OP	5.15
SAMAIDEN		OP	1.15

ESG Rating 2 stars

Company	F4GBM Index	Rating	TP (RM)
TENAGA	Yes	MP	10.00
ARMADA	Yes	OP	0.75
TAANN		MP	3.90
KOSSAN		UP	0.85
SUPERMAX		UP	0.70
BAT		MP	12.00
CARLSBERG		MP	23.05
HEINEKEN		MP	27.70

Top Glove Corporation

Raising the Bar in Workers Quarters

By Raymond Choo Ping Khoon l pkchoo@kenanga.com.my

Top Glove's efforts in enhancing its workers quarters continue to gain traction in tandem with the Workers' Minimum Standards of Housing and Amenities Act 1990 (Act 446). From our recent site visit, we observed a marked improvement in the workers' living conditions which could set an industry benchmark. We maintain our asset-based TP of RM0.58 and UNDERPERFORM call.

Raising the bar with spanking new workers quarters. In its quest to further improve its workers living quarters and further comply with the Workers' Minimum Standards of Housing and Amenities Act 1990 (Act 446), TOGLOV has moved up several notches with its latest workers quarters. Labour dependency remains entrenched in the gloves industry. We estimate that 60−80% of glove producers' labour force consists of foreign workers. Due to the labour-intensive nature of the industry, it is unsurprising that the sector continues to be on the radar of non-government organisations (NGOs).

According to Act 446, employers are required to abide by regulations that include space requirement and minimum thickness of mattress. For non-dormitory accommodation, a room must measure at least 3m x 2.7m for 2 workers. Other criteria under the Act include the provision of bed at no less than 1.7m^2 with mattress of at least 4 inches thick, lockers, dining space with a table and chairs, a ratio of one bathroom and toilet to six employees and fans plus lighting for the living space. The accommodation must have the Certificate of Accommodation (CFA) by the Department of Labour.

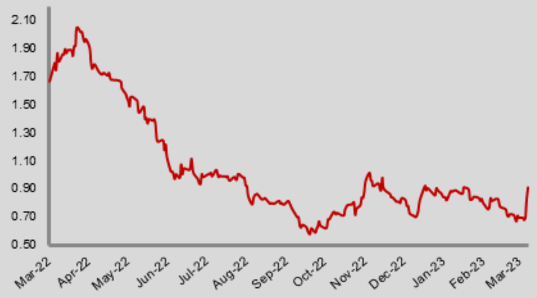
Brand new workers accommodation. TOPGLOV's spanking new Kenangan Meru apartment located in Meru, Klang struck us as massive, conducive, boasting a spacious compound encompassing a swimming pool, gym, laundry-cum-pantry area, mini market, a hair salon (barber shop), multi-purpose hall and open recreational facilities including basketball and badminton courts. The group moved the workers into this apartment at the end of 4QCY22 and it currently houses 1,500 workers comprising Malaysians, Nepalis, Indonesians and Bangladeshis with a maximum capacity for 2,200 workers. These workers were relocated from the Westlite PKNS accommodation in Petaling Jaya following the expiration of the rental tenure there.

Kenangan Meru, costing RM95m, consists of 2 blocks of residential units spread over 9 floors with separate floors for male and female workers. There are 288 units in total, each unit comes with 3 bedrooms and 2 bathrooms. Every floor has 16 units of which each intermediate unit (about 1,040 sq ft) and corner unit (about 1,080 sq ft), accommodates 8 and 10 workers, respectively. Every unit also has its own kitchen and drying area. A common laundry-cum-pantry, cooking and dining area are also available on the ground floor. As many of the workers cycle to work (factories are located within a 3km radius), there is also a bicycle repair shop. For the safety and wellbeing of the workers, entry to the apartment is allowed only to those with security tags. Wardens are assigned on 3 shifts for each floor with chat groups set up to ensure that any issue is dealt with quickly. A team of auxiliary police is also on standby to ensure peace and security.

UNDERPERFORM ↔

Price:	**RM0.915**
Target Price:	**RM0.58 ↔**

Share Price Performance



KLCI	1,411.73
YTD KLCI change	-5.6%
YTD stock price change	1.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TOPG MK
Market Cap (RM m)	7,326.7
Shares Outstanding	8,007.3
52-week range (H)	2.09
52-week range (L)	0.57
3-mth avg daily vol:	45,198,790
Free Float	44%
Beta	1.7

Major Shareholders

Tan Sri Dr Lim Wee Chai	27.8%
Central Depository Pte Ltd	7.7%
Firstway United Corp	6.9%

Summary Earnings Table

FY Aug (RM m)	2022A	2023F	2024F
Turnover	5573	3980	4280
PBT	365	-246	381
Net Profit / (loss)	236	-498	121
Core NP	236	-450	41
Consensus NP	-	-420	64
Earnings Revision	-	-	-
EPS (sen)	2.9	-5.5	0.5
EPS growth (%)	(97.1)	(290.6)	(109.2)
NDPS (sen)	1.2	0.0	0.3
BVPS (RM)	0.68	0.64	0.64
PER (x)	31.8	NM	181.7
PBV (x)	1.3	1.4	1.4
Net gearing (x)	Net Cash	Net cash	Net cash
Net Div. Yield (%)	1.4	NA	0.3

According to TOPGLOV, the accommodation exceeds the requirements under Act 446. For instance, the group provides five-inch mattresses which is thicker than required for each worker, and ensures that they have a space of between 3.6- and three-square metre each in their accommodation, lockers, water filters at all quarters; as well as subsidised meals. A bus service is provided to and from the factories at regular intervals for the workers' convenience. It also has a Zero Harm and Safety Health Emergency Preparedness Programme as well as a Workers' Health Protection Programme.

Following our visit, we raise our rating for Workers Safety & Wellbeing to 3½ stars while ascribing a rating of 3 stars for Legal & Regulatory Compliance. Our overall ESG score for TOPGLOV remains at 3 stars.

Outlook. We expect the operating environment to remain challenging in subsequent quarters being plagued by massive oversupply, reluctance of customers to commit to sizeable orders and hold substantial stocks. MARGMA projects 12%−15% growth in the global demand for rubber gloves annually from 2023, following an estimated 19% contraction to 399b pieces in 2022. It believes the supply-demand equilibrium may return in 6−9 months. However, we beg to differ, expecting the overcapacity situation to persist at least over the next two years. Based on our estimates, the demand-supply situation will only start to head towards equilibrium in 2025 when there is virtually no more new capacity coming onstream while the global demand for gloves continues to rise by 15% per annum underpinned by rising hygiene awareness. Still, capacity is seen to expand further in 2023.

We project the demand for gloves to rise by 15% in 2023, which is consistent with MARGMA's forecast. However, this will do little to ease the overcapacity situation as the global glove production capacity will grow another 16% to 595b pieces during the year, as more capacity planned by incumbent and new players during the pandemic years − enticed by super-fat margins that had evaporated − finally come online. This will result in the excess capacity rising by 22% to 137b pieces from 112b pieces in 2022. The expanded overcapacity means low prices and depressed plant utilisation will likely persist in 2023. Not helping the already dire situation is the reluctance of customers to commit to sizeable orders and hold substantial stocks on expectations of further decline in prices.

We reiterate our **UNDERPERFORM** call and TP of RM0.58 based on 0.9x FY23F BVPS, at a 50% discount to the sector's average of 1.7x during the last downturns in 2008-2011 and 2014-2015 as we believe the current downturn could go down in history as one of the deepest ever. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 3).

Key risks to our recommendation: (i) the industry turning the corner sooner on stronger-than-expected growth in demand for gloves driven by rising hygiene standards and health awareness globally, (ii) industry consolidation reducing competition among players, and (iii) epidemic and pandemic occurrences.

The exterior of Kenanga Meru apartment

Source: Company, Kenanga Research

Another view of Kenangan Meru apartment

Source: Company, Kenanga Research

Bedroom with lockers

Source: Company, Kenanga Research

Laundry area with washing machines and dryer

Source: Company, Kenanga Research

Common food and dining area

Source: Company, Kenanga Research

Apartment's drying area

Source: Company, Kenanga Research

Apartment's dining area

Source: Company, Kenanga Research

Common cooking area

Source: Company, Kenanga Research

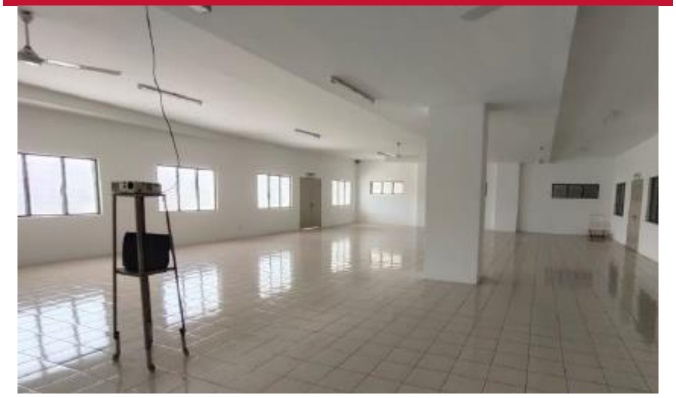
Sports facilities/area

Source: Company, Kenanga Research

Mini market

Source: Company, Kenanga Research

Multi-purpose hall



Source: Company, Kenanga Research

Bicycle parking area

Source: Company, Kenanga Research

Sports and recreation area

Source: Company, Kenanga Research

Swimming pool

Source: Company, Kenanga Research

Income Statement

FY Aug (RM m)	2020A	2021A	2022A	2023F	2024F
Revenue	7,236.3	16,403	5,573	3,980	4,280
EBITDA	2,583.7	10,454	722	(246)	381
Depreciation	(198.6)	(219)	(348)	(247)	(255)
PBT	2,301.4	10,143	365	(498)	121
Taxation	(397.6)	(2,158)	(73)	107	(27)
MI	(36.8)	(114)	(56)	(59)	(53)
Net Profit	1,867.0	7,871	236	(450)	41

Balance Sheet

FY Aug (RM m)	2020A	2021A	2022A	2023F	2024F
PPE	3034.8	4021.8	4502.9	4652.9	4802.9
Subs. & Assoc.	183.7	13.9	9.8	9.8	9.8
Inventories	525.6	1179.5	564.0	286.2	277.8
Receivables	803.1	685.6	236.1	166.4	178.9
Other assets	1192.9	1447.1	1802.1	1725.4	1725.4
Other investment	1722.5	1630.4	506.3	506.3	506.3
Cash	1210.4	878.3	444.1	114.5	48.4
Total Assets	8672.9	9856.6	8065.3	7461.5	7549.4
LT borrowings	217.6	146.0	93.0	91.9	92.0
ST borrowings	323.3	312.7	306.1	306.1	306.1
Payables	670.7	644.0	426.5	163.6	168.0
Other liabilities	1151.8	1373.6	435.1	435.1	444.6
Minorities	1320.6	1348.1	1214.3	1273.3	1326.5
Net Assets	4988.9	6032.2	5590.3	5191.5	5212.2
Share capital	1675.7	1841.7	1842.2	1842.2	1842.2
Reserves	3313.2	4190.6	3748.1	3349.3	3370.0
Equity	4988.9	6032.2	5590.3	5191.5	5212.2

Cashflow Statement

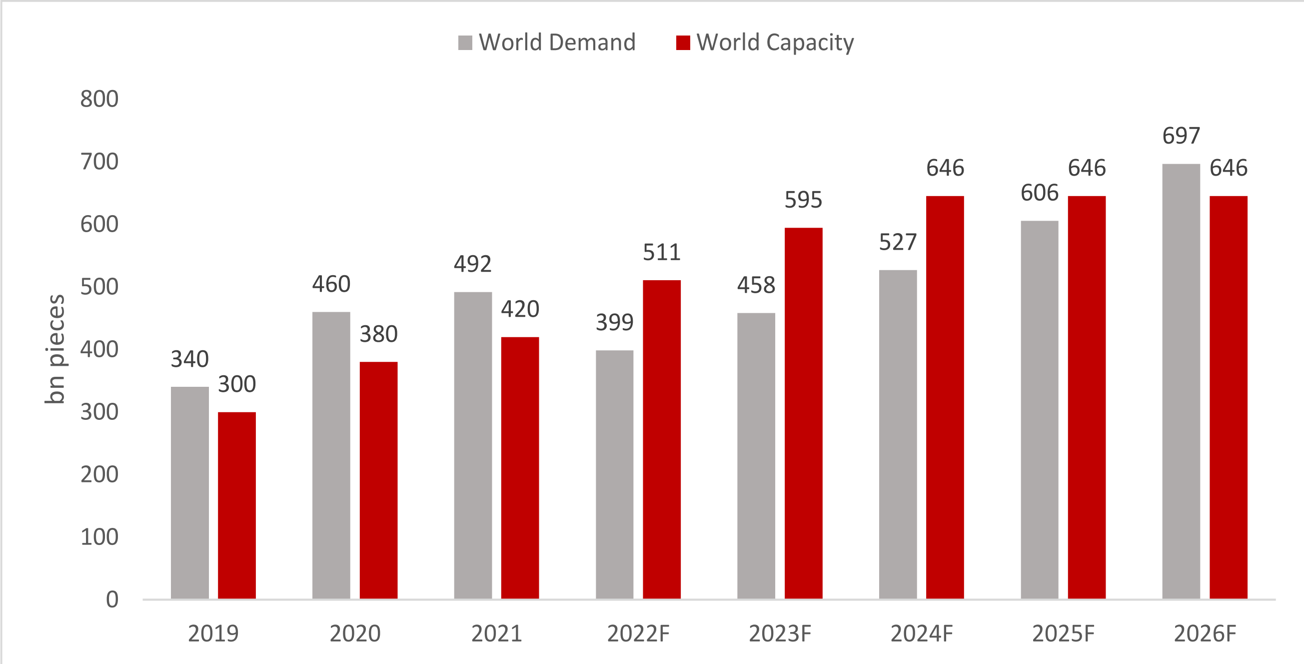
FY Aug (RM m)	2020A	2021A	2022A	2023F	2024F
Operating CF	3,171.3	7,809	136	-70	348
Investing CF	(2,083.0)	-1,236	172	-96	-99
Financing CF	(43.7)	-6,903	-740	-159	-315
Change In Cash	1,044.6	-330	-433	-325	-66

Financial Data & Ratios

FY Aug	2020A	2021A	2022A	2023F	2024F
Growth					
Turnover	50.7%	126.7%	-66.0%	-28.6%	7.5%
EBITDA	265.6%	304.6%	-93.1%	-134.0%	-255%
Operating Profit	359.0%	332.0%	-96.3%	-231.8%	-125%
PBT	434.3%	340.7%	-96.4%	-236.2%	-124%
Core Net Profit	403.7%	321.6%	-97.0%	-290.6%	-109%
Profitability					
EBITDA Margin	35.7%	63.7%	13.0%	-6.2%	8.9%
Operating Margin	32.5%	61.8%	6.7%	-12.4%	3.0%
PBT Margin	31.8%	61.8%	6.6%	-12.5%	2.8%
Core Net Margin	25.8%	48.0%	4.2%	-11.3%	1.0%
Effective Tax Rate	17.3	21.3	20.0	21.5	22.0
ROA	31.6%	152.3%	5.8%	-16.1%	2.5%
ROE	50.4%	142.8%	4.1%	-8.4%	0.8%
DuPont Analysis					
Net Margin (%)	25.8	48.0	4.2	(11.3)	1.0
Assets T/O (x)	1.2	0.6	1.4	1.9	1.8
ROE (%)	50.4	142.8	4.1	-8.4	0.8
Valuations					
EPS (sen)	22.9	96.0	2.9	-5.5	0.5
NDPS	11.4	66.9	1.4	-2.7	0.3
BVPS (RM)	0.61	0.74	0.68	0.64	0.64
PER (x)	4.0	1.0	31.8	-16.7	181.7
Net div (%)	12.5	73.1	1.6	-3.0	0.3
P/BV (x)	1.5	1.2	1.3	1.4	1.4

Source: Kenanga Research, Bursa Malaysia

Estimated Global Demand/Supply - Excess Supply over CY22-CY24



Source: Kenanga Research

Stock ESG Ratings:

	Criterion	Rating
GENERAL	Earnings Sustainability & Quality	★ ★ ☆
	Community Investment	★ ★ ★
	Workers Safety & Wellbeing	★ ★ ★ ☆
	Corporate Governance	★ ★ ★ ☆
	Anti-Corruption Policy	★ ★ ★
	Emissions Management	★ ★ ☆
SPECIFIC	Product Quality & Safety	★ ★ ★ ☆
	Effluent/Waste Management	★ ★ ★
	Automation & Innovation	★ ★ ★
	Energy Efficiency	★ ★ ★
	Supply Chain Management	★ ★ ★
	Legal & Regulatory Compliance	★ ★ ★
	OVERALL	★ ★ ★

☆	denotes half-star
★	-10% discount to TP
★★	-5% discount to TP
★★★	TP unchanged
★★★★	+5% premium to TP
★★★★★	+10% premium to TP

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net. Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
HARTALEGA HOLDINGS BHD	UP	1.90	1.35	-28.9%	6,512	Y	03/2023	0.7	(0.7)	-99%	-202%	270.3	N.A.	1.3	0.5%	3.0	1.6%
KOSSAN RUBBER INDUSTRIES	UP	1.22	0.850	-30.3%	3,121	Y	12/2023	(1.1)	0.9	-101%	-19%	N.A.	136.3	0.8	-0.7%	0.0	0.0%
SUPERMAX CORP BHD	UP	0.875	0.700	-20.0%	2,381	Y	06/2023	(6.3)	0.9	-124%	-86%	N.A.	98.0	0.5	-3.6%	0.0	0.0%
TOP GLOVE CORP BHD	UP	0.915	0.580	-36.6%	7,510	Y	08/2023	(5.5)	0.5	-291%	-91%	N.A.	181.7	1.4	-8.3%	0.0	0.0%

Source: Kenanga Research

This section is intentionally left blank

Automotive

Powering Ahead to Wider Charging Network

OVERWEIGHT

↔

By Wan Mustaqim Bin Wan Ab Aziz I wanmustaqim@kenanga.com.my

We visited Gentari EV Charge Hub, Bangi Golf Resort, Selangor, getting the lowdown on the current developments of electric vehicles' charging network, using the charging point and driving the Hyundai Ioniq 5 and Hyundai Kona for a complete first-hand EV experience. We strongly feel that the transition to battery electric vehicles (BEV) is inevitable if Malaysia is to achieve net-zero GHG emissions by 2050. Gentari shared that although it has strong backing from the Petronas Group, it aims to chart its own path in delivering clean energy solutions, going beyond rolling out 500 EV charging points by end-2023 in support of the national target of 10k EV charging points by 2025. All in all, we believe that a strong and holistic EV policy coupled with the right incentives for players in the EV ecosystem could fast-track the adoption of zero-emission vehicles. Our sector top picks are MBMR (OP; TP: RM4.60) and UMW (OP; TP: RM4.70). Maintain OVERWEIGHT on the sector.

We visited **Gentari EV Charge Hub**, Bangi Golf Resort, Selangor (Exhibit 2), and came away feeling charged up about the future of EVs in Malaysia. The charging hub has 12 bays, 6 each for AC (alternating current, 2 for 7kW charging and 4 for 11kW) and DC (direct current, fast charging, 2 for 120kW charging and 3 for 200kW dynamic charging) points. The EV charging process was smooth using the "Setel" mobile application (owned by Petronas Dagangan) to book the charging point, monitor the whole process remotely (Exhibit 5) and even halt the charging at any time. Alternatively, users can also use the ChargeEV application (owned by GreenTech Malaysia). Payment can be done via the respective applications as well. The apps also have a map function, directing users to the nearest charging hub.

Co-developed by EV Connection (EVC) and Gentari, the charging hub at the Bangi Golf Resort has also been awarded the Energy Commission's **EV Charging System (EVCS) licence**, the second charging hub after X Park @ Sunway Serene in Sungai Way Free Trade Industrial Zone. This means that besides having fulfilled the required standards and safety requirements for public charging infrastructure, EVC is allowed to charge EV charging based on kWh instead of a time-based per-minute pricing. This allows more equitable and fair pricing for consumers as they pay for the electricity utilised rather than parking time. The Energy Commission has made it mandatory for all charge point operators in new and existing sites to obtain the EVCS by 31 March this year. As at the time of writing, 11 EVCS licences have been issued for charging hubs throughout Peninsular Malaysia (3 in Selangor, 2 in Perak, 2 in Pahang and 1 each in Negeri Sembilan, Melaka, Johor and Terengganu).

Gentari takes its name from the words "generation" and "lestari" (sustainability). Established in September 2022, Gentari is a clean energy solutions company, wholly owned by Petronas, tasked to independently pursue and deliver integrated sustainable energy solutions. Gentari focuses on three areas: (i) renewable energy, (ii) hydrogen, and (iii) green mobility. It has set several targets to be achieved by 2030 i.e. (a) to build a renewable energy capacity of 30−40 GW in key markets via solar, onshore and offshore wind, and battery storage projects, (ii) to offer cost-competitive low carbon hydrogen solutions, producing up to 1.2 million tonnes per annum (MTPA) of clean hydrogen, and (iii) to support the EV ecosystem by capturing 10% market share, equivalent to 25,000 public charging points across key markets in the Asia Pacific (Exhibit 1). Thus far, Gentari already has 1.1 GW of renewable energy capacity in operations and under development globally.

Electrification of the local transportation sector is a vital step towards a net-zero 2050. According to Malaysia's Fourth Biennial Update Report under the UN Framework Convention on Climate Change (UNFCCC) GHG emissions from the transport sector were the second highest (after energy industries) in 2019 at 25.05% of the total energy sector's emissions. The bulk of the emissions was from road transport. Hence the use of EV will directly reduce GHG emissions. Under the Low Carbon Mobility Blueprint 2021−2030, the government aims to install 10,000 public charging stations by 2025 (1,000 DC chargers, 9,000 AC chargers). More recently, the Ministry of International Trade and Industry (MITI) said Malaysia is expected to have 4,000 charging points by the end of this year. However, progress has been slow with only about 1,000 charging stations available at present. The need for more charging stations is made more urgent with the increasing number of electrified vehicles registered in Malaysia. Currently, there are already more than 100,000 electrified vehicles which include over 10,000 EVs, 80,000 petrol-electric hybrid vehicles and 2,700 diesel-electric hybrids.

In the recent Budget 2023, Gentari has committed to building 500 units of EV charging points by end-2023 in Malaysia. It has already installed 153 units in Malaysia and 161 units in India as of March 2023, and is looking to ramp up to 9,000 charging points by 2026 as part of its plan to provide 25,000 EV charging points across key markets in Asia Pacific by 2030. Gentari guided that it is on track to achieve 500 units EV charging points locally by end-2023 and is ready to embark on other green mobility initiatives to support Malaysia's aspiration under the Low Carbon Mobility Blueprint. These include its B2B Vehicle-as-a-Service (VaaS) model, which offers EV leasing and subscriptions to businesses, starting with light-duty electric vehicles. Gentari has successfully delivered over 250 electric two-wheelers and three-wheelers as part of its green mobility fleet in India and Malaysia.

Exhibit 1: Gentari Aspiration by 2030

Renewable Energy

Hydrogen

Green Mobility

Source: Companies, Kenanga Research

EV charging modes and connectors. There are four charging modes available in Malaysia (Exhibit 5). These are: (i) domestic socket − simple cable but at risk of overheating, (ii) domestic socket − cable with communicating charge control and protective device, (iii) dedicated power socket − incorporates charge monitoring, and (iv) indirect connection of the vehicle to the grid via external charger (includes charge monitoring device). On the other hand, there are three types of EV charging connectors (Exhibit 5) i.e. (i) AC (type 2 connector), (ii) DC (combo CCS type 2) and (iii) DC (CHAdeMO or "charge for moving"). The most common connectors in Malaysia are the first two, which are used by Gentari.

Challenges in ramping up charging hubs. Apart from financial support, Gentari has been able to ramp up its charging station installation capacity due to its access to the chain of Petronas stations owned by Petronas Dagangan nationwide, where it can readily put up charging points at strategic locations. However, there are speed bumps hampering the expansion of the charging network. Gentari listed land acquisition, the tedious process of obtaining various local authorities' approvals to set up a charging hub, and having sufficient energy to power up the charging points. Nevertheless, the underlying issue remains the lack of a holistic strategy in building up a robust EV ecosystem that will encourage the adoption of EVs, building up of technology and talent, and the related industries.

First leap towards electrification. Meanwhile, MITI Minister Tengku Datuk Seri Zafrul Tengku Abdul Aziz said Malaysia aims to attract RM20b in EV investments by 2025. This is in tandem with the national target for EVs and hybrid vehicles reaching 15% total industry volume (TIV) by 2030, and 38% of TIV by 2040. Malaysia is aiming to attract more investments from China, home to the world's biggest EV manufacturer BYD, 6 of the 10 biggest EV battery makers and 60% of global EV sales, for the development of EV infrastructure.

Marking Malaysia's first venture to electrify the transportation sector in January 2023, CFM Bhd and Thailand's Energy Absolute signed a joint venture agreement to set up a RM5b manufacturing plant for electric buses, ferries and trains. For a start, the 50:50 JV, called Energy Absolute Malaysia, will import 200 electric buses from Thailand for use in public transportation.

Other notable EV investments in Malaysia include the RM1b that Fieldman EV Sdn Bhd is investing in Melaka to construct the nation's first EV assembly plant, and Samsung SDI Energy Malaysia Sdn Bhd's RM7b for an EV battery cell manufacturing facility in Seremban which is expected to be operational in 2025.

Tesla setting up shop. According to MITI, Tesla will establish a head office, the Tesla experience and service centres, and an EV "supercharger" network. Tesla's entry was facilitated by MITI through the battery electric vehicle (BEV) Global Leaders programme which is aimed at boosting local BEV demand. The US EV designer and manufacturer is the first applicant of this initiative. Tesla operates on a direct-to-consumer sales model without involving the use of dealers. All bookings are made online while Tesla experience centres function as physical showrooms and delivery centres. Since Tesla does not work with any shareholding partners in all the countries that it operates in, the entry of Tesla into Malaysia could also mean that some concessions could have been made with certain requirements like franchise APs, which could have been granted as part of the BEV Global Leaders initiative.

While this has sparked excitement among local proponents of EV adoption, it was not a total surprise. In May 2022, Tesla was reported to have expressed interest in setting up its "supercharger" network in Malaysia which could benefit its customers in Singapore and Thailand. Tesla first opened its sales portal in Singapore in February 2021, delivering its first car in July 2021. Last year, it sold 875 EVs in Singapore, giving Tesla the biggest market share of 24%. In Thailand, Tesla started taking orders in December 2022. More recently, it was reported that Indonesia is close to signing a preliminary deal with Tesla on the setting up of a production facility.

Policy-driven growth. Globally and at home, the rising trend of EV adoption is tied to climate change policies as countries strive to reduce their GHG emissions in line with the 1.5°C limit to global warming by 2050. Hence the push for EVs is often led by governments, implementing policies that promote the transition to renewable energy and the advancement of digital and green economy. In Malaysia, there several incentives to encourage the adoption of EVs such as: (i) the full exemption of import duty on components, excise duty, and sales tax for CKD (completely knocked-down) EVs until 31 December 2027, and (ii) the full exemption of import and excise duties for CBU (completely built-up) EVs until 31 December 2025. For manufacturers of EV charging equipment, the following incentives are provided: (i) 100% income tax exemption (FY2023 until FY2032) and 100% investment tax allowance (up to 5 years). While these lagged the stronger measures of other countries in the region, it is a boost to kickstart the development of an EV ecosystem.

For comparison, Thailand has set an aggressive target where 30% of total automotive production will be EVs by 2030. The Indonesian government aims to make 20% of all domestic cars manufactured to be EVs by 2025 while Singapore plans to cease new diesel car registrations from 2025 and requires all new car and taxi registrations to be of cleaner-energy models from 2030.

Malaysia's transportation sector is ripe for electrification and EVs for private use are starting to make a presence. While there are numerous issues to tackle before Malaysia can drive on the EV track, having enough charging points is the crucial first step.

Exhibit 2: Gentari EV Charge Hub in Bangi Golf Resort, Selangor, in partnership with EV Connection (EVC)

Source: Kenanga Research

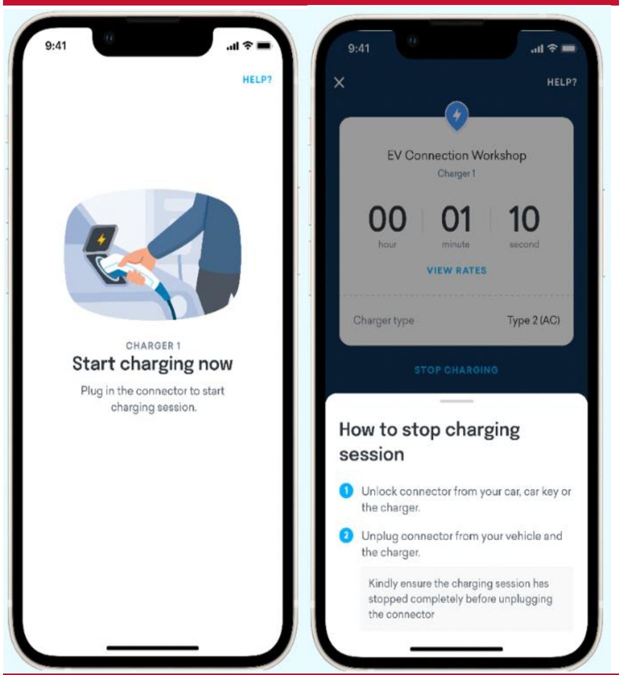
Exhibit 3: Gentari EV Charge Hub, Petronas Bandar Baru Ayer Hitam, Johor-wholly-owned by Gentari

Source: Paultan.org. Kenanga Research

Exhibit 4: DC charging point 240kW (2 points), and 120kW (1 point)

Source: Kenanga Research

Exhibit 5: Charging process through Setel app



Source: Paultan.org. Kenanga Research

Exhibit 6: EV Charging Mode in Malaysia

Source: Suruhanjaya Tenaga (Energy Commission)

Exhibit 7: EV Charging Connector

Source: Suruhanjaya Tenaga (Energy Commission)

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net. Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BERMAZ AUTO BHD	OP	2.20	2.65	20.45%	2,563.5	Y	04/2023	16.7	18.3	24.7%	9.4%	13.2	12.0	3.2	26.2%	11.7	5.3%
DRB-HICOM BHD	MP	1.49	1.40	-6.04%	2,880.5	Y	12/2023	15.4	16.2	-1.9%	5.3%	9.7	9.2	0.3	3.4%	2.0	1.3%
MBM RESOURCES BHD	OP	3.64	4.60	26.37%	1,422.8	Y	12/2023	65.6	67.7	14.5%	3.2%	5.6	5.4	0.6	12.0%	26.0	7.1%
SIME DARBY BHD	OP	2.16	2.60	20.37%	14,721.7	Y	06/2023	17.3	19.0	-1.8%	10.1%	12.5	11.4	0.9	7.3%	12.0	5.6%
TAN CHONG MOTOR HOLDINGS BHD	UP	1.13	0.800	-29.20%	736.9	N	12/2023	(7.4)	(4.8)	-232.2%	-164.6%	N.A.	N.A.	0.3	-1.8%	3.0	2.7%
UMW HOLDINGS BHD	OP	3.79	4.70	24.01%	4,427.8	Y	12/2023	35.9	38.3	6.6%	6.7%	10.5	9.9	1.0	9.4%	15.0	4.0%
SECTOR AGGREGATE					**26,753.2**					**2.6%**	**9.0%**	**11.7**	**10.7**	**0.7**	**6.2%**		**4.3%**

Source: Kenanga Research

This section is intentionally left blank

Voluntary Carbon Market

BCX Completes Inaugural Carbon Credit Auction

By Joshua Ng l joshuang@kenanga.com.my

Bursa Malaysia's subsidiary, the Bursa Carbon Exchange (BCX), has successfully carried out Malaysia's inaugural carbon credit auction on 16 March 2023. The auction, which was carried out electronically, saw 15 buyers from various industries purchasing a total of 150,000 Verra-registered carbon credits.

The BCX, which is the world's first shariah-compliant carbon exchange, enables the trading of standardised contracts with underlying carbon credits from climate-friendly projects and solutions, which corporates can use to offset emission footprint and meet climate goals.

With this key milestone, the auction facilitated the price discovery of carbon credits from two new products offered by the BCX i.e. the Global Nature-based Plus Carbon Contract (GNC+) and the Global Technology-based Carbon Contract (GTC) (Exhibit 1). The carbon credits were cleared at their respective reserve prices.

The 100,000 GNC+ contracts featured carbon credits from Cambodia's Southern Cardamom Project, which is a REDD+ (reducing emissions from deforestation and forest degradation) project from that comes with climate, community and biodiversity (CCB) standard that provides additional co-benefits, contributing to the livelihoods of local communities and biodiversity conservation in the Indo-Burma biodiversity hotspot. The GNC+ contracts fetched a clearing price of RM68.00 per contract at the auction.

Meanwhile, the 50,000 GTC contracts featured carbon credits from the Linshu Biogas Recovery and Power Generation Project in China. The project had benefits of generating clean energy, providing decent work and addressing climate change by reducing fugitive methane emission leakage to the atmosphere. The GTC contracts were oversubscribed and cleared at RM18.50 per contract.

According to Bursa Malaysia, there was strong interest and healthy price signal by the domestic corporate sector, notably government-linked companies and financial institutions, which demonstrated their leadership in the budding voluntary carbon market (VCM) space in Malaysia.

The successful bidders at the auction were AmBank (M) Bhd, AmBank Islamic Bhd, AmInvestment Bank Bhd, AU Synergy Sdn Bhd, CIMB Bank Bhd, Malayan Banking Bhd, Malaysia Steel Works (KL) Bhd, MIDF Amanah Investment Bank Bhd, Permodalan Nasional Bhd, Pet Far Eastern (M) Sdn Bhd, Petronas, Press Metal Aluminium Holdings Bhd, Telekom Malaysia Bhd and Yinson Holdings Bhd.

To ensure proper governance during price discovery, Bursa Malaysia did not participate in the bidding process but purchased carbon credits only at the auction clearing price. The carbon credits from both projects were supplied by Vitol Asia Pte Ltd.

The BCX will continue to expand its product offerings in the VCM by accelerating the development of a healthy pipeline of carbon offset projects via a series of awareness and capacity building programmes drawing on the expertise of local and international VCM practitioners. It will also facilitate engagements between the public and private sectors towards developing conducive policies to support the emerging VCM industry and market.

To further spur the development of the VCM ecosystem, Prime Minister Datuk Seri Anwar Ibrahim has announced RM10m in seed funding for Malaysian-generated carbon credits to be traded on BCX.

Companies interested to participate in the Bursa Carbon Exchange are encouraged to submit their application form, which can be downloaded from https://bcx.bursamalaysia.com.

Exhibit 1: Auction details	
Date	Thursday, 16 March 2023
Contract Type	**1. Global nature-based plus carbon contract (GNC+)** Project: Southern Cardamom REDD+ (reducing emissions from deforestation and forest degradation) Location: Koh Kong, Cambodia Volume: 100,000 contracts Transacted price: RM68.00 per contract Project type: Agriculture forestry and other land use (AFOLU-REDD+) Vintage: 2021 Project ID: 1748 **2. Global technology-based contract (GTC)** Project: Linshu biogas recovery and power generation Location: Linshu town, Shandong province, China Volume: 50,000 contracts Transacted price: RM18.50 per contract Project type: Waste handling and disposal (wastewater treatment) Vintage: 2019−2020 Project ID: 2402
Auction Volume	150,000 contracts with 150,000 underlying Verra verified carbon units (VCUs) from the above projects.

This section is intentionally left blank

Published by:

KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880   Website: www.kenanga.com.my   E-mail: research@kenanga.com.my