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Renewable Energy

Abundance of PV System EPCC Jobs

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OVERWEIGHT



We are **OVERWEIGHT** on the renewable energy sector. Our key focus is on PV System EPCC contractors. The outlook for solar EPCC jobs is strong, underpinned by new contracts under the Corporate Green Power Programme (CGPP) estimated to be worth RM2.4b and the 2GW Large-Scale Solar 5 (LSS5) worth another RM5b. There is also an additional quota of 400MW under the net energy metering (NEM) scheme. Meanwhile, declining panel prices due to oversupply will boost margins of PV system EPCC contractors and stimulate investment in PV systems, resulting in more jobs for PV system EPCC players. We like both PV system EPCC players under our coverage, i.e. **SLVEST** (OP; TP: RM1.88) and **SAMAIDEN** (OP; TP: RM1.51).

A laundry list of initiatives. Under the National Energy Transition Roadmap (NETR), the government has set an ambitious target of RE making up of 70% of total generation capacity by 2050 (vs. 25% currently) with an aspiration to achieve net zero GHG by 2050. These targets entail at least 20GW of new RE from now until 2050, of which >90% is expected to come from solar. The government has introduced a laundry list of initiatives to promote investment in solar power generation comprising the Feed-in Tariff (FIT) programme, NEM mechanism, Large-Scale Solar (LSS) and CGPP projects.

Over the immediate term, the flow of PV system EPCC jobs will come from the CGPP with a completion deadline by end-2025, following the completion of Large-Scale Solar 4 (LSS4) in end-2023. Based on our estimates, the 800MWp capacity under the CGPP will translate to RM2.4b in PV system EPCC jobs.

Subsequently, the Energy Commission will embark on LSS5 with a capacity quota of 2GW, which allows developers to bid for up to 500MW (vs. only 50MW previously). We estimate that LSS5 will generate RM5b worth of PV system EPCC jobs, which can keep PV system EPCC contractors busy until 2028.

In addition, there is a new 400MW quota under the NEM scheme from Feb to Dec 2024 to further encourage investment in solar energy assets. Businesses in general, driven by commercial reasons (i.e. to save cost) and ESG considerations, have voluntarily invested in solar energy generation assets following the recent hikes in electricity tariffs.

Falling panel price trend. We project a lower average module price of USD10 cent/W in CY24 vs USD 18 cent/W in CY23, as Tier-1 solar panel manufacturers such as Tongwei, JA, Longi and Jinko flood the market with solar panels. This trend follows a multi-year decline in solar panel prices, plummeting ~92% from USD1.33/W in 2010 (see Exhibit 1).

BloombergNEF, a leading energy researcher, projects a 29% jump in global solar panel installation to 574GW in 2024 from 445GW in 2023. However, we anticipate slower demand growth thereafter, at 9% and 7% in 2025 and 2026, respectively, primarily due to constraints such as accessibility to grid, land and labour. China is expected to maintain its position as the largest solar panel consuming country in the world, commanding a 55% share of the total 574GW of new solar panel installation in 2024, followed by the US (7%) and India (3%).

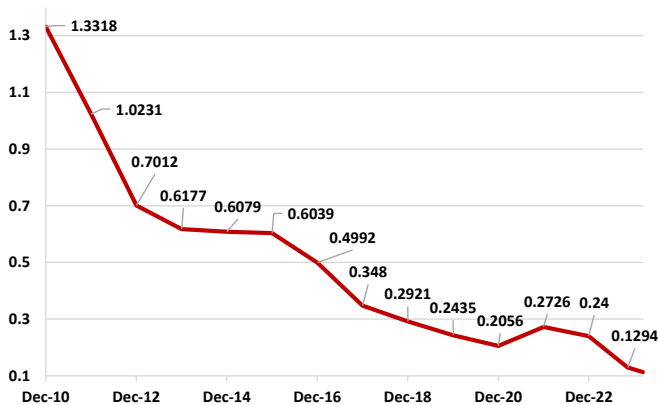
While the demand for solar panels globally is rising on a rapid pace on the transition to green energy, it is outstripped by the supply growth of solar panels (see Exhibit 2). BloombergNEF describes the current state of the solar panel industry as “a game of chicken” amongst the players to see “who will succumb to the pressure and exit the market first”. The players are far from stopping at where they are at present. All in all, prices of solar panels are at historically low levels and supply of components is abundant. Consequently, while solar panel makers struggle to make a profit, PV system EPCC contractors enjoy good margins and are poised for more jobs as cheap solar panel prices stimulate investment in PV systems.

For projects subsequently to LSS4, the capex for PV systems is likely to come in lower than about RM2-2.5m/MW for the LSS4 roll-out given the lower solar panel prices. This should raise IRR to the low to mid-teens, vs.8% under LSS4.

Sector top picks. We like **SLVEST** for its strong market position, execution track record, clientele and value proposition of its PV system financing programme, and its strong earnings visibility backed by sizeable outstanding order and tender books, and recurring incomes from a growing portfolio of solar assets. We like **SAMAIDEN** given its focus on residential and commercial projects that typically fetch higher margins, and similarly, its ability to provide end-to-end solutions, including financing to its customers and strong earnings visibility backed by sizeable outstanding order and tender books.

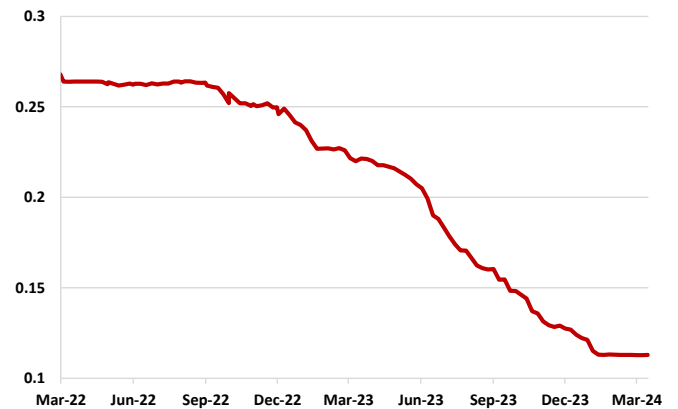
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Exhibit 1: Yearly Solar Module Per Watt (USD)



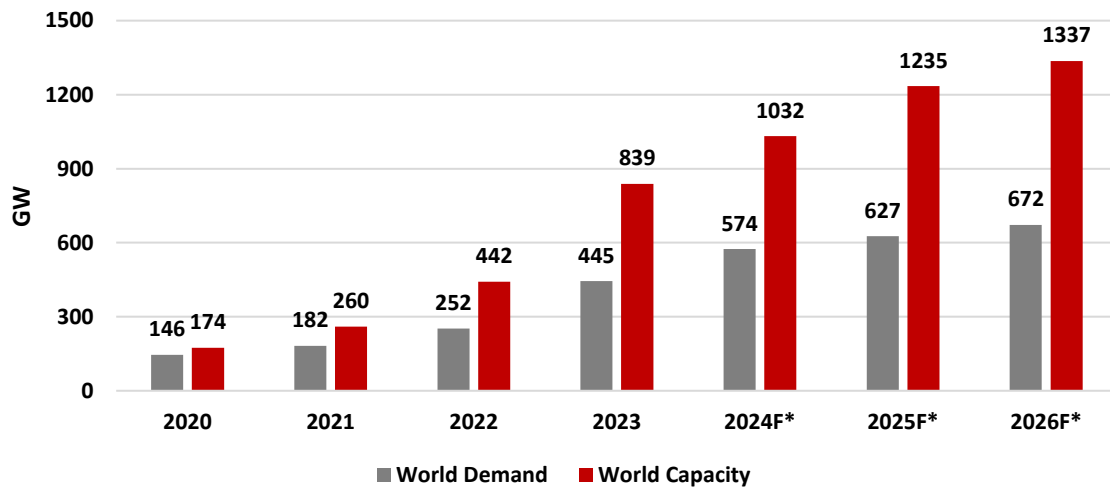
Source: Bloomberg, Kenanga Research

Exhibit 2: Solar Module Per Watt (USD)



Source: Bloomberg, Kenanga Research

Exhibit 3: Global Supply/Demand for Solar Panels (GW)



*Kenanga Research's estimates
Source: Bloomberg, Kenanga Research

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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.				
Stocks Under Coverage																	
PEKAT GROUP BHD*	NR	0.47	NR	N.A.	299.9	Y	03/2024	2.7	3.3	26.8%	21.8%	17.2	14.1	N.A.	N.A.	0.0	0.0%
SAMAIDEN GROUP BHD	OP	1.39	1.51	8.6%	576.6	Y	06/2024	3.7	5.3	33.6%	43.7%	37.8	26.3	5.5	15.7%	0.0	1.39
SOLARVEST HOLDINGS BHD	OP	1.56	1.88	20.5%	1,044.8	Y	03/2024	4.1	6.9	52.8%	67.4%	37.6	22.5	4.8	13.8%	0.0	1.56
SUNVIEW GROUP BHD*	NR	0.66	NR	N.A.	337.0	Y	03/2024	2.1	4.0	-16.9%	90.7%	22.0	14.7	N.A.	N.A.	0.0	0.0%
Sector Aggregate					2,258.2					24.1%	55.9%	28.7	19.4	5.1	14.8%		0.0%

Source: Kenanga Research

*Note that Pekat & Sunview numbers based on Bloomberg consensus

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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