Renewable Energy

Solar: The Fastest Growing Energy Mix In Peninsular Malaysia; Players Set To Benefit From RM14b CRESS Wins

Highlights

- Solar will be the fastest growing energy mix by 2035, supporting the government's net-zero greenhouse emission by 2050. As the government is supportive, we expect a further drop in SAC for CRESS programme (to 15 sen/kwh).
- This will pave the way for positive CRESS contract win(s) for solar EPCC players. Our sensitivity suggests a 50MW CRESS win can lift market cap by 5%/10%/55% for Solarvest/Pekat/Northern Solar respectively.
- Maintain OVERWEIGHT. We lift Solarvest's target price to RM4.20 to reflect the inflection point as the group enters its next phase of growth with Brookfield. We also continue to like Pekat for its strong set of management, and raise our target price to RM2.30.

Analysis

- **Government committed to NeTR.** We recently attended the Energy Regulatory Insights 2026, organised by the regulator Energy Commission. Key takeaways are: a) the government remains committed to ensuring sustainable and affordable power supply in Malaysia; and b) Malaysia is on track to achieving 70% clean energy capacity by 2050. A NeTR report card will be published in 2027, which will accurately reflect current progress and market trends, and battery storage will be a key enabler for the renewable energy (RE) sector, we opine.
- **Solar: Fastest growing energy mix by 2035.** Solar capacity is projected to grow at a 22% CAGR over the next decade (2026-35), making it the fastest growing energy mix in Peninsular Malaysia. In fact, the grid system operator (GSO) expects peak demand to surge by 50% in 2035, driven largely by data centre (DC) plant ups. To keep pace, GSO expects solar capacity to grow by 5x over the next decade. We remain positive on the RE sector as it is a key enabler in achieving net zero carbon emission by 2050.
- **Supportive RE policy: SAC may drop to 15 sen/kwh.** Importantly, the regulator remains supportive of the RE sector. Our channel checks suggest that the system access charge (SAC) for the Corporate Renewable Energy Supply Scheme (CRESS) may drop from 20sen/kwh to 15 sen/kwh for firm output with battery storage. This is a key re-rating catalyst for solar EPCC players, as the market awaits new CRESS project wins for DC players. Our sensitivity analysis suggests every 50MW CRESS win will raise the market caps of Solarvest/Pekat/Northern Solar by 5%/10%/55% respectively (please see overleaf).
- **The economics of CRESS: Project IRR of 9%.** At present, to maintain competitiveness, solar EPCC players must benchmark their CRESS tariff against Tenaga Nasional's ultra-high-voltage (UHV) charge of 55 sen/kwh for DCs. A 15-year CRESS – based on current SAC charge of 20 sen/kwh – will yield a project IRR of 7%. We believe this is not attractive enough for the likes of Solarvest and Pekat given higher funding costs of 5-6%. It does however, make sense for large players like TNB who have stronger funding leverage. A 5 sen/kwh reduction in SAC will lift CRESS project IRRs to 9%, making it more attractive for solar EPCC players to enter into a long-term CRESS agreement.

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OVERWEIGHT (Maintained)

Segmental Rating

Segment	Rating
Renewable Energy	OVERWEIGHT (Maintained)

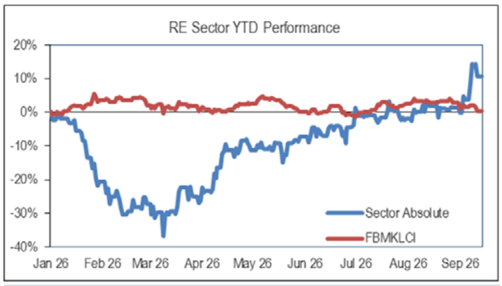
Source: UOB Kay Hian

Sector Picks

Company	Ticker	Rec	Share Price (RM)	Target Price (RM)
Solarvest	SOLAR MK	BUY	3.35	4.20
Pekat Group	PEKAT MK	BUY	2.07	2.30
Northern Solar	NORTHERN MK	BUY	0.69	1.00

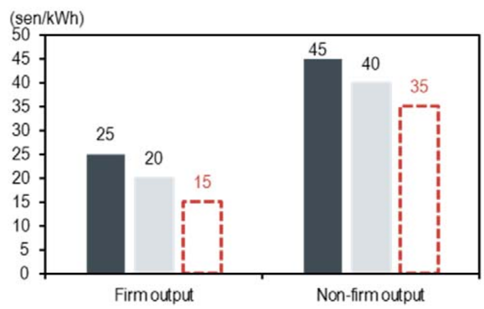
Source: Bloomberg, UOB Kay Hian

Sector Share Price Performance



Source: Bloomberg, UOB Kay Hian

Projected SAC Revision



Source: EC, UOB Kay Hian

Peer Comparison

Company	Ticker	Rec	Price 11 Sep 26 (RM)	Target Price (RM)	Last Year End	PE 2026F/27F (RM)	PE 2027F/28F (RM)	EV/EBITDA 2026F/27F (RM)	EV/EBITDA 2027F/28F (RM)	Yield 2026F/27F (%)	ROE 2026F/27F (%)	Market Cap. (RMm)	Price/NAV (x)
Solarvest Holdings	SOLAR MK	BUY	3.35	4.20	3/26	28.4*	24.0**	17.2*	14.2**	–	12.0*	3,223.3	3.4
Pekat Group	PEKAT MK	BUY	2.07	2.30	12/25	27.0	22.8	10.2	8.4	0.5	10.8	1,468.7	2.9
Northern Solar	NORTHERN MK	BUY	0.69	1.00	3/26	12.1*	7.2**	6.8*	3.7**	–	21.3*	273.0	2.6

** Data for 2027F; ** Data for 2028F*
Source: Bloomberg, UOB Kay Hian

- **RM14b worth of CRESS jobs in the next decade...** The Data Centre Task Force (DCTF) under the Malaysian Investment Development Authority (MIDA) requires new DC developments to source at least 30% of their electricity consumption from RE. Based on Tenaga Nasional's 13GW DC project pipeline, a total of 4GW of new capacity will have to materialise through the CRESS pathway. At RM3.5m/MW project capex, this translates to a potential orderbook of at least RM14b in the next decade. We believe the main DC clusters that will start implementing CRESS would be in Johor and Klang Valley.
- **…with strong DC names looking to tender out CRESS in the near term.** We note that there are jobs aplenty for EPCC players to participate in the CRESS programme. We understand that the likes of the Elmina Google campus have called for a tender under the CRESS programme. We also expect the DayOne and Airtrunk DC clusters in Johor to tender out their RE needs via a CRESS programme. Key contenders for the Elmina Google campus CRESS programme include Gamuda (BUY/Target: RM5.25), Tenaga Nasional (BUY/Target: RM16.30) and Solarvest (BUY/Target: RM4.20).
- **Solarvest represents the best of both worlds.** Solarvest is well positioned to capitalise on near-term earnings growth from EPCC opportunities with long-term recurring income from CRESS asset ownership. We expect the group to emerge as a key beneficiary in the upcoming CRESS EPCC awards, supported by: a) its proven execution track record in utility-scale EPCC projects (20-30% market share); and b) its healthy financial position (net gearing: 0.01x). This is also supported by its aspiration to develop and operate at least 1.5GW of CRESS projects in Malaysia within the next 3-5 years, underpinned by: a) its strategic 51%/49% equity partnership with Brookfield, b) growing RE demand from upcoming DCs, with a mandate to incorporate at least 30% of electricity consumption from RE, and c) robust balance sheet.

1 x 50MW CRESS Win Yields An Equity Value of RM150m

	Market Cap (RMm)	Net profit of a 50MW CRESS (RMm)	% of FY28 net profit	Equity value enhancement of a 50MW CRESS	Comment
Solarvest	3,223.30	6	4%	5%	• A 50MW CRESS will yield a contract value of RM175m, based on RM3.5m/MW – inclusive of Battery Energy Storage System (BESS) • Brookfield tie-up indicates a 1.5GW CRESS win in the next 3-5 years. • This suggests an orderbook of RM5b – lifting current orderbook of RM2.37b by 111%.
Pekat	1,468.70	6	8%	10%	• We believe Pekat can deliver a comfortable 100MW of CRESS project with total orderbook of RM350m – or about 20% of its current market cap. • This will lift current orderbook of RM780m by 45%.
Northern Solar	273.00	6	16%	55%	• A 50-100MW CRESS size may double NS's earnings by FY30, lifting its current orderbook significantly from RM189m to RM364m.

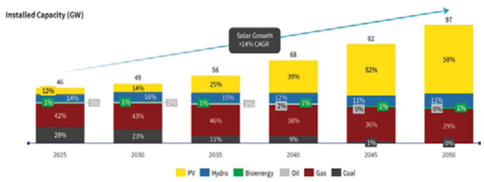
Source: UOB Kay Hian

Project IRR of 9% of CRESS project

FY	2029	2030	2043
Period	1	2	15
Solar Installed capacity (MW)	50	50	50
Days – assume asset plant efficiency yield of 20%	73	73	73
Hours	24	24	24
Annual net electricity generated (kwh)	55,188,000	55,188,000	55,188,000
Levelised Tariff (sen/kwh)	40	40	40
EBITDA (RMm)	22	22	22
CAPEX cost (RMm)	(175)		
We assume RM3.5m/kwh for a CRESS project with battery storage			
Estimated Project IRR, levered	9.3%		

Source: UOB Kay Hian

NETR: Projected Power Capacity Mix By 2050



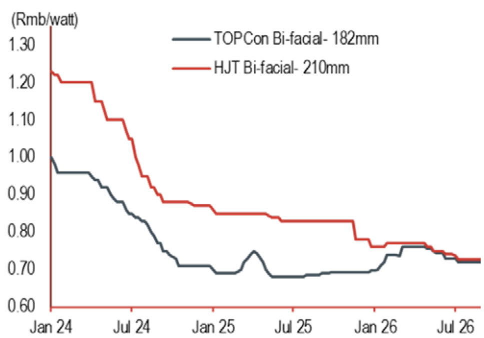
Source: NETR

LSS Projects And Tariff Range

Programme	Capacity (MW)	Tariff Range (sen/kWh
LSS1	451	39.00-65.00
LSS2	562	33.98-53.00
LSS3	491	17.78-58.00
LSS4	823	14.99-26.10
LSS5	1,780	15.00-18.00
LSS5+	1,975	13.00-17.00
LSS6	Solar: 2,500+ BESS: 1,250MW	25.00-28.00
CRESS*	–	45.00-50.00

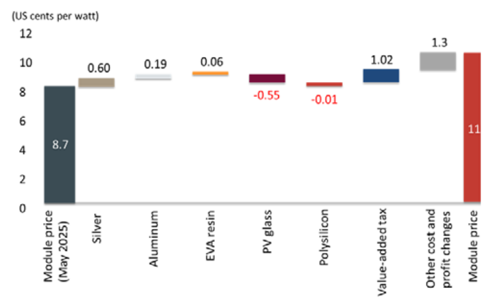
**Includes BESS and SAC charge of 20sen/kWh*
Source: Energy Commission, UOB Kay Hian

Historical Solar Module Prices



Source: Infolink, UOB Kay Hian

2026 Solar Module Price Movement Breakdown



Source: BNEF, UOB Kay Hian

The Basis Structure Of CRESS

- CRESS programme enables businesses to procure green electricity via the national grid through a third-party access (TPA) agreement.
- Under this framework, Tenaga Nasional (Tenaga) levies an SAC charge for the transmission of electricity to end-users.
- While the regulator has previously reduced SAC rates by 5 sen/kWh, to 20 sen/kWh for firm supply and 40 sen/kWh for non-firm supply, our discussions with renewable energy (RE) players indicate that project adoption remains sluggish.
- This is mainly attributable to the combination of elevated SAC charges and the embedded escalation mechanism of up to 15% every three years, which undermines the attractiveness of CRESS project economics.

Source: Energy Commission, UOB Kay Hian

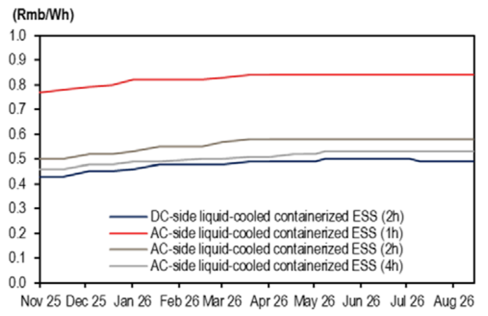
Valuation/Recommendation

- **Maintain OVERWEIGHT; elevated orderbook driven by 8GW of solar plant-ups over the next five years.** We expect total EPCC opportunities of approximately 8GW over 2027-32, driven by the take-off of CRESS projects in 4Q26/1Q27 and the government awarding the tender for LSS6 in 1H27. Assuming a construction cost of RM3.5m per MW, total EPCC replenishment opportunities are estimated at a staggering RM16b-24b over the next five years. Our sector top picks are Solarvest, Pekat Group and Northern Solar.
- **Top pick: Solarvest (BUY/Target: RM4.55).** We expect Solarvest to execute its first CRESS contract win in the next three months, suggesting high orderbook visibility for the stock. Against this backdrop, we raise our target price to RM4.20, pegged to 30x FY28 EPS (+1.5SD from mean PE) from RM3.50, pegged to 25x FY28 EPS (+0.5SD from mean PE). The higher fair value reflects our expectation of: a) a maiden CRESS project announcement, b) ability to secure high-quality offtakers (Tier 1 DC operators), lowering counter-party risk, and c) its Brookfield partnership promoting better financing structure and rates, hence achieving a competitive project WACC. Key earnings catalysts for the stock include: a) a stronger ringgit to offset fluctuating solar PV costs, b) the progressive commissioning of its targeted 1.5GW CRESS asset portfolio, c) external additional third-party CRESS EPCC contract wins, and d) eventual monetisation of solar assets either via a listing or trade sale.
- **Pekat (BUY/Target: RM2.30).** We roll over our valuation to reflect a higher fair value of RM2.30, pegged to 25x 2027F PE (+2SD from mean). We continue to like Pekat for its strong set of management, good and prudent execution of orderbook and projects as well as a healthy balance sheet. Given that its share price has appreciated 25% ytd, we advocate BUY on share price weakness and to accumulate for its strong management team. Key re-rating catalysts for the stock include: a) maiden CRESS EPCC contract win, b) venture into CRESS asset ownership, c) growing dividend payout from its annual 1sen/share net DPS, d) planned mainboard listing in 4Q26; and d) execution of earnings-accretive M&A(s) within the wider power equipment industry (transformer business) and district cooling solutions.
- **Northern Solar (BUY/Target: RM1.00).** Our target price is pegged to 11x FY28F EPS (-1SD from mean PE), with the stock currently trading at an attractive valuation of 12.1x FY27F PE. We expect Northern Solar to double its net profit by FY28, driven by healthy orderbook wins of RM189m across utility-scale solar farms, and the C&I and residential segments. The stock offers a strong three-year revenue and earnings CAGR of 68% and 51% respectively over FY26-29. Key drivers are: a) elevated orderbook potential of small-to-medium sized C&I customers with the rollout of the solar accelerated transition action programme (Solar ATAP), b) potential large-scale self-consumption (SELCO) and utility-scale EPCC contract wins, and c) untapped bite size standalone BESS solutions for existing customers.

Sector Catalyst

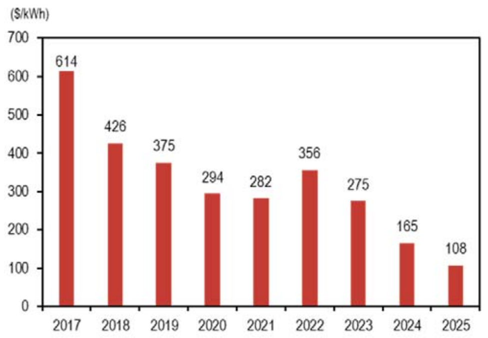
- **Peninsular Malaysia's electricity system demand projected to reach 32GW by 2032.** According to a forecast by the nation's Grid System Operator (GSO), Peninsular Malaysia's electricity system demand is expected to grow

Historical BESS Prices



Source: Infolink, UOB Kay Hian

Annual BESS Price Trend

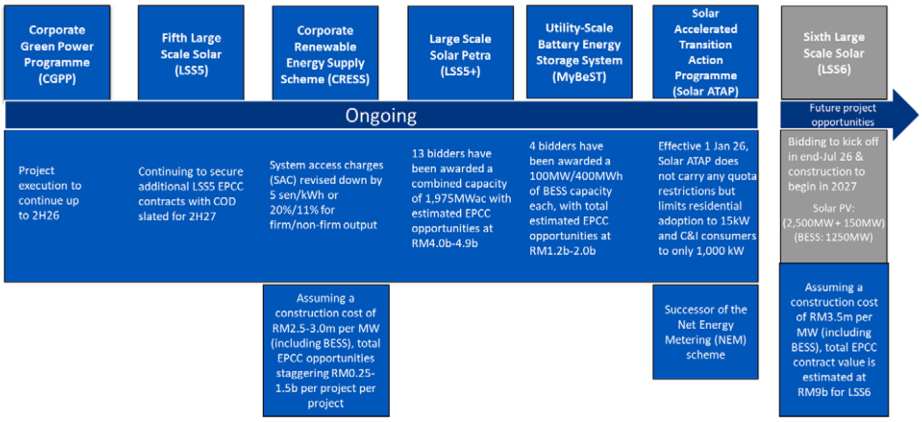


Source: Infolink, UOB Kay Hian

to a staggering 32GW in 2032 (current peak demand: 22GW). The forecast also projects solar generation mix to grow to a record 17.5GW in 2032 from an existing 5.8GW, driven by: a) the commissioning of a total 6.4GW capacity from LSS5/5+/6; b) 4GW of CRESS projects primarily from DC-related demand; and c) growing distributed solar demand under the Solar ATAP and self-consumption (SELCO) programme. Consequently, the country's BESS capacity is expected to expand to 6GW from an existing 100MW (Santong) + 400MW (MyBeST) to ensure grid stability as more RE is injected into the grid.

- **Solar and BESS EPCC opportunities to remain robust over the next five years.** We remain positive on the solar and BESS EPCC landscape, which is poised for sustained growth over the next few years, supported by an estimated 8GW of upcoming solar project plant ups. Growth prospects are further supported by the DCTF under the Malaysian Investment Development Authority (MIDA), which requires new DC developments to source at least 30% of their electricity consumption from RE, thereby creating a strong demand catalyst for CRESS projects. Against this backdrop, Solarvest, Pekat Group and Northern Solar are well positioned to capture a meaningful share of future EPCC awards, supported by their proven execution capabilities and established track records in delivering utility-scale solar EPCC projects. Importantly, the award of any sizeable CRESS EPCC contract could serve as a meaningful earnings catalyst and provide further upside to share prices.

Utility Scale Solar Projects and Consumer Adoption Schemes



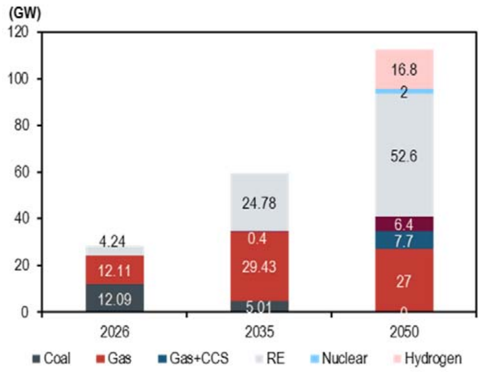
Source: UOB Kay Hian

Malaysia's Energy Capacity And Demand Forecast

	2026	2035	2050
Peak Demand (GW)	22.58	33.47	49.79
Total Capacity (GW)	28.44	59.62	112.50

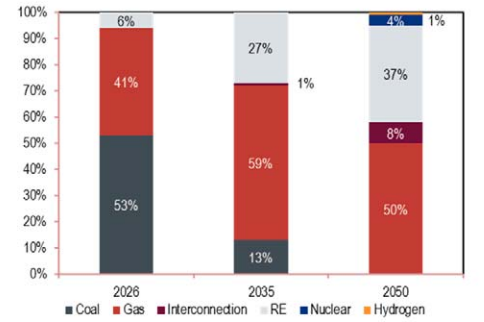
Source: Single Buyer, UOB Kay Hian

70% Clean Energy Capacity By 2050



Source: Single Buyer, UOB Kay Hian

Transitioning Towards A Cleaner Energy Mix



Source: Single Buyer, UOB Kay Hian