

ESG - CARBON MARKETS

NEUTRAL

(Maintained)

Rationale for report: Sector Update

Analyst (s)

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Mitigating carbon tax in Malaysia

Recently, we organised a webinar on carbon pricing instruments in Malaysia and the role of Bursa Carbon Exchange in creating a marketplace for them. We believe that interest on the Bursa Carbon Exchange (BCX) would improve when the carbon tax is introduced. In January, the Natural Resources and Environmental Sustainability Ministry said that the National Climate Change Bill would be tabled for its first reading in March in the Dewan Rakyat. The National Carbon Market Policy is also being finalised to create a framework for carbon trading in tandem with the National Climate Change Bill.

- How to price carbon or greenhouse emissions?** We understand that there are four types of carbon pricing mechanisms. These are carbon tax, voluntary carbon markets, emissions trading system and overseas trading of carbon credits. On the BCX, the price of one tonne of carbon dioxide for nature-based contracts is more than RM30.00, which is higher than REC's (renewable energy certificate) RM5.00. The higher value for nature-based contracts can be attributed to the conservation projects' higher development costs (e.g. satellite monitoring) and biodiversity features. The period of maintenance for conservation projects is also longer than RE projects such as solar.
- Interest on BCX is still lacklustre.** This is due to a few reasons. First, compliance on carbon reduction or emissions is voluntary in Malaysia. There is no penalty for failing to meet emission targets. Also, a significant portion of RECs are traded over the counter instead of on an exchange. If a carbon tax is implemented however, we believe that interest on BCX would improve as it could be a faster or cheaper way to offset or reduce carbon emissions.
- However, there is another platform to buy RECs in Malaysia.** The Malaysia Green Attribute Trading System (mGATS) is operated by the largest utility in Malaysia. Companies can buy RECs to offset carbon emissions and meet sustainability goals. There are more solar and hydro projects for mGATS' RECs compared to BCX. However, only Malaysian companies can buy and redeem the RECs in mGATS.
- There are many green energy options.** To reduce or offset carbon emissions, the private sector can (1) install rooftop solar panels under SELCO or ATAP scheme, (2) buy green electricity at a premium or (3) buy carbon credits/RECs. To buy green electricity, companies can choose between Green Electricity Tariff (GET) and CRESS. In November 2025, ByteDance System secured GET for three years from the largest utility in Malaysia. Under GET, customers pay a premium of only 3 to 5 sen/kWh.
- GET could be cheaper and less troublesome than CRESS.** Under CRESS, the system access charges are 40 sen without battery systems and 20 sen with battery systems.
- Carbon tax in the coming years.** We believe that carbon tax would be implemented in Malaysia. However, it may take time. The Climate Change Bill and National Carbon Market Policy must be passed first. Recall that in the initial phase, carbon tax would be imposed on iron, steel and utility companies in Malaysia. For utilities, an issue is how will the carbon tax be reflected or incorporated in the Power Purchase Agreements, which were signed years ago.

Quick Take

VALUATION MATRIX

Companies	Call	Share price RM/share	Market cap RMmil	Target price RM/share	EPS		PE	
					(sen)	(sen)	(x)	(x)
					FY26F	FY27F	FY26F	FY27F
Malakoff	Hold	0.78	3,811.9	0.82	5.9	7.1	13.2	11.0
Solarvest	Hold	2.02	1,896.2	2.43	7.7	10.0	26.2	20.2
Mega First	Hold	2.77	2,618.2	3.56	35.6	39.1	7.8	7.1
YTL Power	Buy	2.77	22,767.7	3.37	21.2	23.7	13.1	11.7

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