

ESG - CARBON MARKETS

NEUTRAL

(Maintained)

Rationale for report: Sector Update

Analyst (s)

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03-2036 2305

EU implements CBAM

The EU Carbon Border Adjustment Mechanism (CBAM) was implemented on 1 January 2026. The mechanism is essentially a carbon tax on imports that are larger than 50 tonnes. The products, which are affected are iron and steel, cement, fertiliser, electricity, hydrogen and aluminium. If there is no delay, CBAM would be applicable to all sectors in 2030F. Under CBAM, EU importers must buy certificates based on the carbon emissions of the goods and then surrender them to the EU Commission via a registry. The price of the CBAM certificate is linked to the weekly EU ETS (Emissions Trading System) prices. The cost of the certificates can be offset against carbon tax paid by the producer of the goods in its country, if any. According to *Bloomberg*, the EU ETS price is €85/tonne currently.

- A barrier for exporters of iron and steel to the EU.** We believe that the data and compliance requirements for EU's CBAM are onerous. Hence, only large companies would be able to comply. According to the EU, Malaysia exported €128mil worth of iron and steel products to the region in 2024. Companies, which export to the EU, include Press Metal Aluminium Holdings. In 2024, Press Metal introduced a low-carbon aluminium under the brand name of GEM. The product has a carbon footprint of less than four tonnes of CO₂e (Scope 1 and 2).
- Incentivises other countries to implement carbon tax or companies to reduce their carbon emissions.** For major exporters of iron and steel to the EU, we believe that the CBAM would incentivise the producing countries to implement a carbon tax so that they remain competitive. Since the implementation of CBAM on 1 January, the main countries of product origin included China, India, Taiwan, Vietnam, Turkiye and Canada. In China, there is no carbon tax but there is an Emissions Trading Scheme, which applies mainly to power plants, steel and cement industries.
- Manufacturers must ensure that their emissions data are accurate and audited.** EU importers rely on emissions data that are provided by the manufacturers of the goods. The data must be verified by an independent accredited party. Some of the data required are emissions data for each production process and product and not the average for the company. The manufacturer must also disclose how the emissions are calculated. The penalty for unreported emissions is between €10 and €50/tonne.
- Will CBAM apply to palm oil?** CBAM is expected to apply to all sectors in 2030F if there is no delay. The implementation of CBAM would raise compliance costs for the plantation companies. Silver lining is that the companies are already collecting emissions data, albeit on a group basis and not for each production process and product.
- EUDR is next.** After the successful roll-out of the CBAM in early-January, we believe that the EU will implement EUDR (EU Deforestation Regulations) on 31 December 2026. Recall that under EUDR, which applies to soybean, palm oil and cocoa, amongst others, the products must be traceable, and they must not come from areas that were deforested after 31 December 2020. Malaysian companies sent trial shipments of EUDR-compliant palm oil to the EU in late-2024.
- Carbon tax in Malaysia?** We believe that it would take time to implement a carbon tax in Malaysia as lawmakers must pass the National Carbon Market Policy and Climate Change Bill first. The carbon tax would be imposed on iron, steel and utility companies in the initial phase.

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	2.42	2,271.7	2.87	7.2	10.1	33.6	24.0
Mega First	Hold	3.25	3,071.9	3.65	36.4	39.3	8.9	8.3
YTL Power	Buy	3.20	26,302.1	4.11	25.5	29.2	12.5	11.0

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