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Energy transition a boon for utility companies

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UTILITIES

PETALING JAYA: CGS International Research (CGSI Research) believes that the government's steady and timely delivery of the National Energy Transition Roadmap (NETR) initiatives should strengthen investor confidence around the country's energy transition ambitions and drive sector earnings growth.

On Tuesday, the government announced the long-awaited bid results for the large-scale solar 5+ (LSS5+) initiative, awarding 2GW of solar capacity to 13 bidders, out of the 37 applications received.

The 13 bidders, which were notified on Sept 2 by the Energy Commission, were selected based on competitive bid prices and compliance with the requirements under the request for proposals.

The projects, which marked the highest approved capacity under the LSS initiative, are slated for commissioning from 2027.

"We gather tariffs are broadly in line with LSS5 levels but early panel price lock-ins will be critical to safeguard project returns amid risks of higher costs," the research house said.

It said the tender was split into

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two packages.

The first is for ground-mounted solar installations with a total quota allocation of 1.5GW, where the size of individual project bids can be in the range of 30MW to 500MW.

The second package involves floating solar installations with a total quota allocation of 500MW, where the size of individual project can be in the range of 10MW to 500MW.

CGSI Research remained "overweight" on Malaysian utilities as the NETR introduced a structural growth dimension to a sector long regarded as defensive.

The research house reiterated its "overweight" on Malaysia utilities with Tenaga Nasional Bhd (TNB) and Malakoff Corp Bhd as its top picks.

It has an "add" call on Malakoff with a target price RM1.20.

"As evidenced by the gas plant

tender by the Energy Commission, the flood of data centre investments coming into Malaysia creates a real need to keep gas assets in operation, in our view, to cope with rapidly rising power demand," the research house said.

"We see Malakoff as a potential beneficiary of this, in addition to upside from potential new green-field power projects in the pipeline," it added.

The research house also has an "add" call on TNB with a target price of RM18.

It pointed out that TNB is a critical enabler of the NETR, a beneficiary of the emerging power sector investment cycle and an indirect play on Malaysia's data centre theme.

"We believe the market is overlooking its earnings upside potential from significantly higher capital expenditure between this year and 2027," CGSI Research added.

The research house highlighted downside risks as being possible derailment of the NETR and unfavourable regulatory shifts.

However, CGSI Research said re-rating catalysts include the successful rollout of policies enabling acceleration in renewable energy capacity.