Headline	TNB banks on data centres to drive power demand		
MediaTitle	The Star		
Date	05 Mar 2024	Language	English
Circulation	175,986	Readership	527,958
Section	StarBiz	Page No	8
ArticleSize	451 cm²	Journalist	N/A
PR Value	RM 68,091		

TNB banks on data centres to drive power demand

Energy needs from sector set to hit 5,000MW by 2035

UTILITIES

PETALING JAYA: The thriving data centre market in the country will drive electricity demand, auguring well for Tenaga Nasional Bhd (TNB).

According to Kenanga Research, the power group has guided for electricity demand growth of 2.5%-3% in financial year 2024 (FY24), higher than the 1.7% embedded in the Incentive-Based Regulation (IBR) mechanism, and largely to come from new data centres.

"The higher demand should entail a higher base under Regulatory Period (RP) 4, boosting TNB's earnings from FY25," said Kenanga Research in a report following a fourth quarter (4Q) FY23 results briefing with the group.

Demand growth for FY23 came in at 3.6%, led by the commercial and domestic segments.

In FY23, nine data centre projects with about 635 megawatt (MW) capacity were completed, which will bring annual sales of about RM350mil to Tenaga. Of these projects, two – the GDS Data Centre and the SIPP YTL Data Centre Park – were completed ahead of time.

"At the same time, TNB has signed electricity supply agreements (ESA) with nine projects for a total potential demand of 2,300MW of electricity.

"In FY24, nine more data centre projects with requirements of about 700MW are expected to be completed while 10 new ESAs are expected to be concluded with potential energy demand of 2,000MW. As such, this will result in a total potential maximum demand of more than 5,000MW of electricity from data centres by 2035," said the research firm.

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>
> Kenanga Research

On the supply side, the group is transitioning into a green entity with about 7,700MW of green-energy developments in the pipeline.

So far, the budgeted RM2.76bil for FY23 energy transition (ET) capital expenditure (capex) was fully utilised while the ET capex for FY24 is RM3.33bil.

For context, RP 3 approved ET capex is RM8.2bil, to be used over FY22 to FY24.

The research house noted that as fuel costs increased, the Imbalance Cost Pass-Through (ICPT) mechanism's under-recovery was raised by 6% to RM2.11bil – the first hike since 4Q22.

"However, it was still 67% off the peak of RM6.40bil in 4Q22. As a result, its receivables (including ICPT receivables) dropped substantially by 56% from the peak of RM22bil in 4Q22 to RM9.7bil in 4Q23," Kenanga Research added.

TNB reported weak FY23 core profit after tax and minority interests at RM3.3il, dragged down by its loss-making domestic power-generation segment.

Hong Leong Investment Bank Research (HLIB Research) said the results were within its expectation, but below consensus. The research firm said it is "neutral" on TNB's earnings outlook following the management briefing.

"TNB's regulated earnings and cash flow remain sustainable in FY24, given stable fuel prices. Management remains upbeat on the progress of various projects under the National Energy Transition Roadmap, ensuring potential earnings growth in the longer term.

"However, we fear that near-term earnings will remain affected by the power-generation segment, facing unscheduled downtime (currently only the Manjung 4 power plant) and step down in capacity rate financing (CRF), as well as expiry of power-purchase agreements," said HLIB Research.

Furthermore it added that contributions from new projects are only expected to be more meaningful from 2026 onwards.

HLIB Research said the power-generation segment "remains a black box to the investment community without details being readily available".

The segment recorded a fuel-margin gain of RM1.1bil in FY22, resulting to a profit of RM860.5mil. In FY23, the segment recorded a fuel-margin loss of RM618.7mil, with a resulting loss for the segment of RM526.8mil.

"We fear the segment may continue dragging on the group. We understand FY24 will be hit by the downtime of Manjung 4 and step down of CRF of the Port Dickson plant starting early 2024."