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Utilities sector to continue benefitting from data centres

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PETALING JAYA: Kenanga Research continues to like the utilities sector for its earnings defensiveness and resilience, backed by regulated assets that generate recurring cash flow to provide decent dividend yields of up to 3%.

The research house has reaffirmed its "overweight" call on the sector with Tenaga Nasional Bhd (TNB) as its top pick.

It said TNB would be a long-term beneficiary of the influx of foreign direct investment to build data centres in the country, while it also sees value in YTL Power International Bhd for its artificial intelligence (AI) data centre venture.

"TNB's earnings are expected to be led by higher demand from new data centres, which boost its plant efficiency and drives the bottom line.

"Higher capital expenditure on transmission and distribution infrastructure is also expected, propelled by data centres and this adds to its regulated asset base for Regulatory Period 4 from January 2025 onwards," Kenanga Research said.

The research house expects electricity demand growth this year to remain robust, driven by increasing demand from data centres.

It said this was supported by three consecutive quarters of record electricity demand, which grew 9.6% year-on-year (y-o-y), 6.3% y-o-y, and 6.1% y-o-y, with data centres requiring 150 megawatts (MW), 190MW, and 248MW of energy from the first quarter to third quarter of the financial year ending Dec 31, 2024 respectively.

However, it added that this represented only 15% of the completed 1,700MW capacity of data centres as of September 2024.

"Therefore, demand from this segment is expected to surge in the future. Additionally, there is a potential demand growth opportunity of 7,200MW, including 31 projects (equivalent to 4,700MW) for which electricity supply agreements are already signed.

Meanwhile, the research house said all eyes would be on YTL Power's AI data centre delivery as the Nvidia Blackwell chips to be used in the 20MW AI-focused data centre are scheduled to be delivered in the first quarter this year.

In addition, the delivery of the building for the remaining 80MW AI data centre is expected to be ready by the second quarter of the year.

"The successful delivery of the AI data centre over the next 12 months remains pivotal to YTL Power's earnings performance. In a blue-sky scenario, YTL Power's fair value could rise to RM6.53, compared with our target price of RM5 if the AI data centre project is executed successfully," the research house added.