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Stronger earnings growth likely for utilities sector

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Commissioning of new DC capacities a catalyst

UTILITIES

PETALING JAYA: Malaysia's utilities sector is expected to maintain its resilience in the second half of 2025, underpinned by favourable regulatory frameworks, increasing capital expenditure and surging demand from data centre (DC) developments.

According to Hong Leong Investment Bank (HLIB) Research, the continuation of regulatory asset base (RAB) mechanisms and a stronger earnings outlook amid stable fuel prices and currency movements bode well for the sector's stability.

"We maintain our 'overweight' call on utilities, given the earnings and dividend sustainability of the sector," the brokerage said.

HLIB Research reaffirmed its "buy" calls on YTL Power International Bhd and Tenaga Nasional Bhd (TNB), with target prices of RM5.02 and RM16.20, respectively.

Meanwhile, PETRONAS Gas Bhd (PetGas) was retained at "hold" with a target price of RM17.86.

HLIB Research noted that the recently introduced RP4 (Regulatory Period 4: 2025 to 2027) tariff structure – which raised the average base electricity tariff to 45.4 sen per kilowatt-hour (kWh) from 39.95 sen per kWh under RP3 – reflected the government's continued commitment to reform.

TNB's allowable return under RP4 remained at 7.3%, while the total allowable capital expenditure surged to RM42.9bil.

"The newly implemented tariff structure effective July 2025 has further reinforced our positive long-term outlook for TNB under RP4," said the brokerage, adding that earnings growth would be driven by an enlarged regulated asset base and new revenue mechanisms.

> "The newly implemented tariff structure effective July 2025 has further reinforced our positive long-term outlook for TNB under the Regulatory Period 4: 2025 to 2027."
>
> Hong Leong Investment Bank Research

"We are not overly concerned about the recent court rulings, as we believe TNB will seek an amicable resolution with the relevant authorities," it noted.

For YTL Power, HLIB Research said the stock remained attractively priced with a forward price-earnings of just 12 times, compared to 16 to 19 times for sector peers.

It said catalysts for YTL Power would stem from the commissioning of new DC capacities, a potential new gas-fired power purchase agreement (PPA), the 500-megawatt solar project, and asset expansion at Ranhill Utilities Bhd.

Notably, WessexWater in the United Kingdom – a YTL Power subsidiary – had been approved for a tariff hike of 13.1% to 20.8% starting April 2025.

Meanwhile, PetGas's stable earnings, backed by regulated revenues under its gas processing agreement and RAB structure, offered steady but less exciting upside.

"While near-term upside may be limited, the stock offers a respectable dividend yield of 4% for 2025 to 2027," HLIB Research said.

Malaysia's peak electricity demand hit 21 gigawatt (GW) in May 2025 – well above the Energy Commission's (EC) forecast of 19.4GW. The EC has since launched tenders to address the shrinking reserve margin, which now stands at around 30%. These include PPA extensions for existing gas-fired plants and new plants totalling up to 8GW in capacity, slated for 2025 to 2029.

"Key contenders for these tenders include TNB and Malakoff Corp Bhd for both categories; while YTL Power, PetGas and Kinergy Advancement Bhd are expected to compete for Category 2," it noted.

The expansion of DCs continues to be a key growth engine. As of March 2025, TNB had built infrastructure to support 2.8GW in DC load, with another 3.6GW under construction.

"According to projections by the Energy Transition and Water Transformation Ministry, DC capacities is expected to further rise to 12.9GW by 2030 and 20.9GW by 2040," the brokerage said.

With Malaysia targeting net-zero emissions by 2050 and phasing out coal by 2044 or earlier, the sector is set to transition toward gas-fired and renewable energy, reinforcing long-term demand.