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Utilities sector set for stronger second half

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Rising demand and grid spending to support earnings

UTILITIES

PETALING JAYA: The utilities sector is set for a stronger second half (2H26) as electricity demand remains resilient and energy-transition investments gather pace.

Rising power consumption, faster grid spending and improving regulatory visibility should continue to support earnings growth across the sector.

BIMB Research maintains its "overweight" rating on the sector, leaving its 2026 earnings forecasts unchanged and projecting sector core earnings growth of about 10.6% year-on-year (y-o-y).

"The second-quarter of financial year 2026 (2Q26) results provided no reason to change our estimates, while the key 2H26 catalysts remain intact," the research house said.

Its top picks remain Tenaga Nasional Bhd (TNB), rated "buy" with a target price of RM16.77, and Solarvest Holdings Bhd, also rated "buy" with a target price of RM3.24.

The sector's aggregate earnings rose 3.4% y-o-y in 2Q26, although they fell 12% quarter-on-quarter (q-o-q), driven mainly by TNB, Ranhill Utilities Bhd and Solarvest.

TNB continued to benefit from robust electricity demand, with electricity sales increasing 9% q-o-q.

The bigger catalyst for TNB is accelerating capital expenditure (capex), particularly as demand reaches new highs.

TNB spent RM7.1bil in 1H26, including RM5.6bil in regulated capex, against its RM18bil 2026 target.

BIMB Research expects spending to accelerate materially in 2H26 as physical works on infrastructure projects gather pace.

> "With grid spending accelerating and renewable energy projects moving into execution, investors are likely to focus more closely on companies with visible order books, strong project delivery and sustainable earnings growth."
>
> An analyst

The electricity system recorded a new peak demand of 22,014 megawatts in August, with commercial demand, particularly from data centres, providing a key driver.

"This means that the need for grid investment is becoming increasingly urgent, prompting an acceleration in capex – positive for TNB's medium-term regulated earnings," it said.

Meanwhile, Malakoff Corp Bhd's earnings recovery remains on track following the resolution of operational issues at its Tanjung Bin Plant.

Higher plant availability and stronger capacity payments should support 2H26 earnings, while BIMB Research expects stronger cash generation to enable the group to resume dividend distribution at year-end.

Gas-related utilities are also heading into a stronger 2H26.

BIMB Research expects the margin recovery period to rise to about RM35 per million British thermal units (MMBtu) in 3Q26 from around RM33 per MMBtu in 1H26, before reaching RM48 per MMBtu in 4Q26.

For Solarvest, the sequential decline in its latest quarterly earnings is not viewed as a concern, with core net profit still rising 20% y-o-y.

The company expects earnings to strengthen as engineering, procurement, construction and commissioning works ramp up across its utility-scale projects.

BIMB Research said large scale solar 5 (LSS5) and LSS5+ will form a substantial portion of Solarvest's project pipeline, positioning project execution as a key driver of earnings acceleration.

Meanwhile, one analyst told *StarBiz* the utilities sector's outlook is positive, as rising electricity demand and energy transition are increasingly reinforcing each other, creating a supportive backdrop for earnings and investment opportunities.

"With grid spending accelerating and renewable energy projects moving into execution, investors are likely to focus more closely on companies with visible order books, strong project delivery and sustainable earnings growth."