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Energy - Overweight

The Sun, Malaysia



Energy Overweight



Source: Company data, RHB

AMONG the big-cap utility names, TNB and YTLP chalked results that met expectations. TNB recorded a lower effective tax rate (ETR) during Q4, which was in line with our, but ahead of Street assumptions. YTLP also saw stronger contributions from its water segment, which mitigated the softer performance from its power generation business.

Petronas Gas (PTG) and Malakoff delivered results that missed earnings forecasts. The former's earnings fell 7% YoY due to a higher-than-expected ETR and opex, while the latter was impacted by disruptions at its coal plants.

Among the solar names under our coverage, Samaiden surprised on the upside due to the progressive recognition of several utility-scale projects. Meanwhile, Solarvest's earnings were in line, with its outstanding orderbook rising 16% QoQ to a record high of RM1.5 billion. In the water utility space, Ranhill Utilities (RAHH) pulled off an outperformance due to stronger-than-expected margins post tariff hike, while Taliworks Corp's (TWK) earnings were in line.

We like energy as a defensive sector, should the geopolitical tensions persist, resulting in a market risk-off mode. This is because big-cap utility names (eg TNB, PTG) have minimal exposure to non-domestic risks (fuel costs, non-domestic operations, regulated fuel costs and FX), while regulated frameworks provide stable earnings with 4-5% dividend yields. In addition, we see YTLP as a potential beneficiary of an increase in gas prices, resulting in higher spark spreads. Meanwhile, the cost pass-through mechanism for TNB's and PTG's regulated business ensure that cost fluctuations will have a neutral impact on their earnings. We would lean towards TNB, YTLP and PTG in a risk-off environment. – **RHB Research, March 10**