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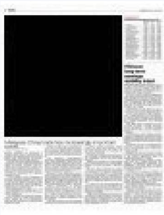

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Demand for power to stimulate earnings growth

The Star, Malaysia

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Renewables, data centres to benefit multiple companies

UTILITIES

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>
> RHB Research

PETALING JAYA: Malaysia's electricity generation is expected to chart strong growth in the coming years, underpinned by resilient demand and robust momentum in the development of renewable energy, analysts say.

Key opportunities are emerging in data centres, large-scale solar projects, and community-based green initiatives.

As such, RHB Research maintained its "overweight" stance on the sector, pointing to Tenaga Nasional Bhd (TNB), YTL Power International Bhd and Solarvest Holdings Bhd as top investment picks, citing strong fundamentals and sectoral tailwinds.

"We believe that the long-term data centre growth story is crucial to Malaysia's energy transition as demand for electricity from data centres is needed to support the continuous upgrades in the country's transmission and distribution infrastructure," the research house said.

Electricity consumption rose by 6.2% year-on-year last year, buoyed by a rebound in commercial demand, which rose 9.2% and robust growth in the domestic segment with a 8.5% rise.

RHB Research noted that TNB's current renewable energy capacity stood at 4.5 gigawatts (GW), representing 21% of total capacity.

"We believe the near-term electricity demand growth will continue to remain solid, backed by the rising actual load utilisation from completed data centre projects," the research house added.

On infrastructure investment, contingent capital expenditure (capex) plans remain a focal point.

"TNB guided that the contingent capex is investment required to maintain the security of supply, meet potential demand growth in supporting economic priorities, and facilitate the energy transition, which includes infrastructure upgrades and interconnection projects," RHB Research said.

The projects have received pre-approval from the Energy Commission and will be activated when certain demand triggers emerge.

Among these are new electricity supply agreements with data centres and the scaling up of distribution automation and smart metering systems.

The recovery mechanism is still under discussion, though it will maintain the regulatory return rate of 7.3%.

The latest data centre update pointed to continued expansion in capacity, with electricity supply agreements signed totalling 5.9GW in the fourth quarter of last year, up from 4.7GW in the previous quarter.

"There were 18 data centre projects as of end-2024 with total capacity of 1.9GW, of which nine projects (1.3GW) were completed last year," RHB Research noted.

However, geopolitical factors could weigh on longer-term prospects.

"We believe there will be increased scrutiny on data centres that China is involved with, which may dampen investor confidence," the research house cautioned.

It added that while non-artificial intelligence data centre projects should proceed as planned, US restrictions on exports of AI chips might impact future Chinese-backed data centre investments.

Meanwhile, the renewable segment continues to power ahead, with Solarvest and Samaiden Group Bhd delivering results in line with expectations.

"We anticipate a stronger performances in Solarvest's fourth quarter ended March 31, and Samaiden's first half of its financial year ending June 30," said RHB Research, attributing this to the rollout of Corporate Green Power Programme (CGPP) contracts.

Solarvest recently secured a 500MW engineering, procurement, construction and commissioning (EPCC) job from TNB and another 29.99MW from SV Flux.

Samaiden clinched a 99MW quota under the large-scale solar five (LSS5) programme, while Solarvest added a 60MW capacity through a 60%-held partnership.

The sector received a further boost from the announcement of LSS5+ and the upcoming LSS6, which could collectively bring in more than 6GW of new capacity.

"This round of awards is expected to introduce at least 2GW of new opportunities," RHB Research said, noting that falling solar panel prices offer further upside for contractors.

On the residential front, the Community Renewable Aggregation Mechanism, or Cream, is being finalised.

"Homeowners can lease or rent out their rooftop spaces to third parties, allowing the integration of multiple rooftops to develop solar photovoltaic (PV) systems to supply green electricity," RHB Research stated.

Battery energy storage systems, or Bess, are also moving ahead, the research house said, with the government opening competitive bidding for four projects totalling 400MW/1,600 megawatt-hour, due to begin operations by next year.

RHB Research said: "Our outlook remains upbeat, as the sector, particularly the RE space, has strong growth potential, with several key drivers set to boost its near-term performance."

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