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Data centres underpin earnings for power companies



The Star, Malaysia

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PETALING JAYA: The rapid development of data centres in Malaysia is powering the utilities sector locally, as demand for electricity continues to grow, analysts say.

In a recent report, Kenanga Research said it was maintaining its electricity demand growth forecast for this year at 3.5%, as load utilisation from data centres rose sharply to 710MW in September last year.

A seasonal contraction in the first quarter occurred last year, but electricity sales in Peninsular Malaysia rebounded strongly in the quarter after that, mainly due to commercial demand from data centres.

According to the research house, on a year-to-date basis, eight new electricity supply agreements (ESA) were signed, adding 1,100MW.

“While demand growth is embedded within the incentive-based regulation framework and capped by revenue mechanisms, stronger demand still enhances plant efficiency and drives higher transmission capital expenditure to meet data centre-re-

lated high-voltage requirements, both of which are earnings-positive for Tenaga Nasional Bhd (TNB),” the report said.

In addition, new opportunities within the brownfield segment to meet rising demand of 6GW to 8GW of new generation capacity by 2030 are also increasing.

“Both TNB and Malakoff Corp Bhd possess land suitable for greenfield developments, while YTL Power International Bhd is reportedly partnering with a landowner for new capacity bids. In our view, the 6GW to 8GW capacity pipeline provides sufficient scale to be meaningfully shared among the major contenders,” Kenanga Research noted.

Meanwhile, gas demand is expected to rise in tandem with electricity, due to the fact that there are no new coal-fired plants planned.

The research house said it expects gas-fired generation to rise toward 50% of the country’s total by 2030.

Some of the companies set to be involved include Petroliam Nasional Bhd, which has

confirmed plans for a third regasification terminal, with PETRONAS Gas Bhd the likely operator given its ownership of the existing terminals in Sungai Udang, Melaka and Pengerang, Johor.

“Lumut has also been cited as a preferred location due to its proximity to Malakoff’s gas assets while we also understand Gas Malaysia Bhd is keen to participate in future regasification developments to support longer-term earnings growth,” Kenanga Research said.

The research house said it was maintaining an “overweight” call on the sector with TNB remaining its top pick, as the long-term primary beneficiary of the data centre boom, given its exposure to demand growth, the up-cycle in capital expenditure for transmission and distribution, and new capacity build-outs.

“Overall, the sector offers earnings resilience underpinned by regulated assets and stable cash flows, supporting attractive yields of up to 6%, particularly from Gas Malaysia Bhd.”