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Data centre boom powers next leg of growth

The Malaysian Reserve, Malaysia

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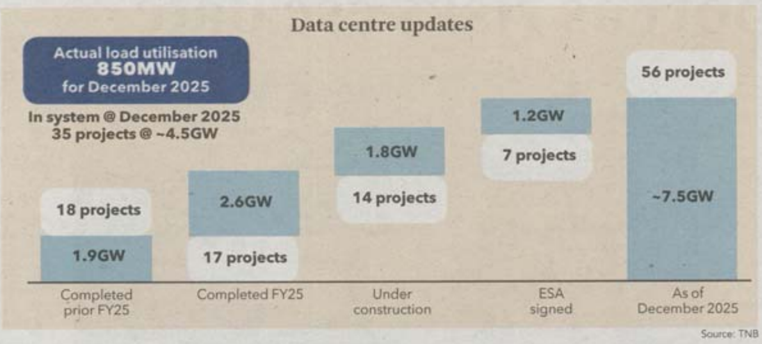
by TMR



Source: TNB

MALAYSIA'S utilities sector is entering a new growth phase, underpinned by surging electricity demand from data centres and a multi-year capacity expansion cycle that could see six gigawatts (GW) to 8GW of new power generation added by 2030.

In a sector update, Kenanga Investment Bank Bhd maintained its 'Overweight' call, citing resilient demand, stable earnings visibility and expanding infrastructure requirements across the power value chain.

At the centre of this growth story is Tenaga Nasional Bhd (TNB), which remains the research house's top pick, alongside independent power producers (IPPs) and gas infrastructure players.

"The utilities sector remains a prime beneficiary of the country's accelerating data centre rollout, underpinned by resilient electricity demand growth and long-term recurring income streams," it said.

Demand Uplift Led by Data Centres

Electricity demand is expected to remain robust, with TNB projecting growth of 4% to 4.5% in financial year 2026 (FY26), outpacing Kenanga's earlier 3.5% assumption and broadly tracking economic expansion.

The key driver is the rapid scaling of Malaysia's data centre industry. Load utilisation from this segment doubled to 850 megawatts (MW) as of December 2025 from 405MW a year earlier, highlighting the speed of capacity ramp-up.

While overall demand growth moderated to 2.3% in FY25 from a high base of 6.2% in FY24, the commercial segment expanded 10%, driven largely by data centres and retail activity. This offset a 5.8% contraction in industrial demand, particularly from the iron and steel sector.

The pipeline remains strong. As at end-2025, 35 data centre projects totalling 4,500MW had been completed — including 17 commissioned during the year — with a further 1,800MW under construction. In addition, 49 electricity supply agreements (ESAs) have been signed, representing 7,500MW of capacity.

Kenanga said the surge is already translating into earnings gains for TNB, noting that its generation unit saw core net profit jump sharply to RM315.6 million in FY25 from RM10.6 million a year earlier.

Next Phase: NewGen26

Following the completion of the New Generation Capacity for Peninsular Malaysia 2025-2029 (NewGen25) cycle, attention has shifted to NewGen26, which will support Malaysia's target of 6GW to 8GW of new capacity by 2030.

The Energy Commission (EC) awarded NewGen25 projects in February, including a 1,400MW combined-cycle plant in Paka, Terengganu, to a TNB-led consortium, alongside power purchase agreement (PPA) extensions for nine IPPs with a combined capacity of 4,869MW.

These extensions involved assets owned by TNB, Malakoff Corp Bhd, Edra Power Holdings Sdn Bhd (Edra Energy) and a Petroliam Nasional Bhd (Petronas) unit.

A new tender for gas-based capacity for 2029 to 2031 — NewGen26 — has already been launched, with submissions due in July 2026.

Kenanga expects TNB and Malakoff to remain strong contenders given their existing land banks, while YTL Power International Bhd is understood to be partnering landowners for potential bids.

"Malakoff has already secured four units of gas turbines and generators capable of supporting two new 1,400MW plants, and we believe the 6GW to 8GW pipeline provides sufficient scale for all major players to participate meaningfully," it said.

Gas Emerges as Key Transition Fuel

As Malaysia phases out coal-fired generation, natural gas is set to play a larger role in the energy mix, rising to about 50% by 2030 from 33.6% currently.

This transition is driven by data centre demand, coal plant retirements and the rollout of new gas-fired capacity.

The shift is also catalysing investment in gas infrastructure. Petronas Gas Bhd is seen as a likely operator of a proposed third regasification terminal (RGT), following confirmation by Petronas of plans for a new facility in Lumut, Perak.

Meanwhile, Gas Malaysia Bhd has secured approval for a RM2 billion to RM3 billion RGT in Yan, Kedah, with capacity of up to six million tonnes per annum, aimed at strengthening energy security in the northern region.

Kenanga noted that rising gas demand, supported by new power plants and infrastructure, underpins earnings visibility for both companies.

Fuel Cost Volatility Manageable

Recent spikes in fuel prices due to geopolitical tensions in the West Asia are expected to have limited impact on sector earnings.

"Rising gas/coal prices remain neutral for the players," the research house said, pointing to established fuel cost pass-through mechanisms for TNB and Malakoff.

In fact, higher coal prices could temporarily boost margins for generators due to timing differences between reported and actual fuel costs.

For Gas Malaysia, the impact is largely muted given its "cost-plus" pricing structure, which ensures stable margins based on the Malaysia Reference Price (MRP).

Even a 10% increase in MRP would lift FY26 net profit by only RM6 million, or about 1.5%, based on Kenanga's estimates.

Grid Upgrades Drive Ancillary Plays

Beyond generation and gas, the data centre boom is also driving demand for grid infrastructure, particularly high-voltage transmission and distribution networks.

Kenanga highlighted Southern Cable Group Bhd as a key proxy to this theme, given its exposure to power cable demand.

"With around three giga watts, alternating current (GWac) of ESAs in the pipeline, demand for power cables, a key component of power infrastructure, is expected to remain firm over the medium term," it said.

While rising polymer prices pose some margin risks, the impact is expected to be manageable. The company has secured sufficient inventory for near-term production, while its upcoming in-house compounding plant is expected to support margins.

Resilient Earnings, Attractive Yields

Overall, the utilities sector continues to offer a combination of defensive earnings and structural growth, supported by regulated assets, stable cashflows and consistent dividends.

Kenanga estimates yields of up to about 6% across the sector, particularly from Gas Malaysia.

"We continue to rate the utilities sector 'Overweight'," it said.

"TNB remains our top pick, as the long-term primary beneficiary of the data centre boom, given its exposure to demand growth, the transmission and distribution (T&D) capital expenditure (capex) upcycle, and new capacity build-outs."

With multiple growth levers — from data centres and new generation capacity to gas infrastructure and grid upgrades — the sector appears well-positioned to power Malaysia's next phase of industrial expansion.