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Data centre demand to energise TNB growth

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ENERGY

PETALING JAYA: Rising demand from data centres (DCs) continues to underpin Tenaga Nasional Bhd's (TNB) growth prospects, with the utility having secured electricity supply agreements for 59 projects with a combined capacity of 8.3GW.

Of the total, 36 projects have been completed with a maximum capacity of 4.5GW, said RHB Research in a report after hosting a meeting with TNB's senior management.

"All the DCs are on a 'take-or-pay' arrangement for the first five years of operations, allowing TNB to recoup its entire capital expenditure (capex)."

"Management said DC enquiries remain robust, as it maintains its target to add 1GW of new capacity per year," the research house added.

The utility shared that about 72% of the projects originate from the United States and Singapore, while 68% of the secured capacity is located in Johor, reinforcing the state's position as Malaysia's key DC hub.

The sustained pipeline is expected to support higher capex over the coming years, alongside TNB's plans to expand generation capacity and potentially secure another new gas-fired power plant under the government's NewGen26 combined-cycle gas turbine programme.

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Utility main beneficiary of multi-year investment upcycle

According to the research house, TNB had submitted a bid for the NewGen26 tender, which closed on July 1.

"Given the government's need to add 6GW of new capacity by 2030, we believe TNB is a frontrunner for the NewGen26 tender."

"Assuming TNB wins another 1.4GW tender, we estimate a potential 5% upside to our target price (of RM16.50) for the stock."

Shares of TNB traded at RM14.36 at the time of writing.

TNB has also secured six gas turbines, including two reserved for its 1.4GW Paka plant, which it won in the NewGen25 bid.

Based on its generation plan, TNB aims to add 11.8GW of new capacity by 2033, which should help offset the expected 6.6GW capacity scheduled for retirement.

"Management believes the surplus 5.2GW capacity will be sufficient for TNB to

maintain a comfortable reserve margin while meeting rising demand from DCs," said RHB Research.

The research house, which maintained a "buy" call on the stock, said its RM16.50 target price was based on 19 times its projected financial year 2026 earnings, which is one standard deviation above the stock's three-year average valuation.

It said the premium valuation is "justified" as TNB stands to be the biggest beneficiary of Malaysia's National Energy Transition Roadmap (NETR), while its regulated business model provides a stable and predictable earnings base.

Meanwhile, BIMB Research said momentum in the utility sector is expected to strengthen in the second half of financial year 2026, supported by four key catalysts: the award of the NewGen26 programme, the continued rollout of NETR initiatives,

sustained electricity demand from the DC boom, and an acceleration in regulated capex under Regulatory Period 4.

"These developments are expected to drive a multi-year investment cycle across the utilities sector, supporting earnings growth of 10.6% year-on-year," BIMB Research added.

The research house said electricity demand is projected to grow 4.5% to 5.5% in 2026, up from 2.3% in 2025, driven by the rapid expansion of DCs.

Furthermore, it noted that demand growth reached 7% in the first quarter of this year, the strongest since the second quarter of 2024 and outpacing gross domestic growth of 5.4%.

TNB is one of BIMB Research's sector stock picks.

It has a "buy" on the stock with RM16.77 target price.