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Muted earnings outlook seen for utilities sector

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PETALING JAYA: Malaysia's utilities sector is poised for a muted earnings outlook in 2025, even as it starts the year on a higher valuation base.

Despite growing electricity demand driven by the expansion of data centres, the sector faces limited incremental catalysts and regulatory constraints that temper potential benefits.

Maybank Investment Bank (Maybank IB) Research maintained a "neutral" stance on the sector, highlighting its cautious view.

"The utilities sector is starting 2025 on a higher valuation base, but with fewer incremental catalysts and a more muted earnings outlook," the brokerage highlighted in its report yesterday noted.

According to Maybank IB Research, net profit growth for the utilities sector is expected to taper to 7% in 2025 from 23% in 2024. It noted that the robust growth in 2024 was driven by YTL Power International Bhd's peak earnings at PowerSeraya and Malakoff Corp Bhd's return to profitability.

For 2025, growth is expected to stem from Tenaga Nasional Bhd's (TNB) recovery of generation earnings, with potential upside if contingent capital expenditure (capex) for Regulatory Period 4 (RP4) is fully deployed.

Maybank IB Research identified YTL Power as its preferred pick, citing "potential uplift from artificial intelligence compute" as a growth driver.

The brokerage also reiterated a "buy" rating on Mega First Corp Bhd, which it said had "balance sheet headroom for new growth projects". Maybank IB Research recommended "hold" on TNB, noting that the "positives are mostly priced-in for now".

> "We also note internal rate of returns for new domestic generation projects are increasingly less lucrative."
>
> Maybank Investment Bank Research

"We believe electricity demand growth could remain elevated in the coming years as more data centres become operational.

"However, under the prevailing regulatory framework (TNB's incentive-based regulation model and independent power producers' power purchase agreement model) in Malaysia, both grid and generation earnings are largely insulated from demand risk, and thus does not materially benefit from demand upside," Maybank IB Research explained.

"We also note internal rate of returns for new domestic generation projects are increasingly less lucrative. Nevertheless, there is potential upside risk to our TNB forecasts if RP4 contingent capex is deployed in full," it added.

The brokerage noted that electricity demand in Peninsular Malaysia rose 7.3% year-on-year in the first nine months of 2024, reflecting the growing presence of data centres. Of the 1.7 gigawatt of data centre capacity completed by the end of September 2024, actual utilisation was just 15%.

TNB had projected that data centres could account for 23% of current peak demand, with electricity demand expected to grow at a compound annual growth rate of 3% to 4%, nearly double the previous sub-2% rate, the research house noted.

Last month, TNB announced a new base tariff of 45.62 sen per kilowatt-hour (kWh) for RP4, which spans 2025 to 2027. This represented a 14% increase from RP3's 39.95 sen/kWh.

However, consumer tariffs, including imbalance cost pass through surcharges, would remain unchanged in the first half of 2025, with any under-recoveries funded by the industry fund.

Maybank IB Research noted that "the increase in net electricity bills will likely be of a much smaller quantum than the 14% published increase, thus potentially alleviating public pressure".

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