AUTHOR: No author available SECTION: STARBIZ PAGE: 2 PRINTED SIZE: 314.00cm² REGION: KL
MARKET: Malaysia PHOTO: Full Color ASR: MYR 15,863.00 ITEM ID: MY0066056418

15 OCT, 2025
Utilities sector set to continue growing this year

The Star, Malaysia

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Increase in electricity demand, shift towards RE are positives

UTILITIES

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>
> RHB Research

PETALING JAYA: The demand for electricity and progress from the renewable sector is keeping utilities on a positive trajectory path.

In a report, RHB Research said electricity demand increased in the first half of financial year 2025 (1H25) from stronger commercial sector growth, which was fuelled by data centres, business services and retail consumption.

"Riding on a stronger 1H25, Tenaga Nasional Bhd (TNB) expects demand to grow by a robust 2.8% to 3.8% this year while its commitment to a higher spending capital expenditure presents a significant growth catalyst for companies involved in power infrastructure, renewable energy (RE) development and related technology and services," it said.

According to the research house, of the nine utility stocks under its coverage that reported earnings between April and June this year, one beat, five met, and three came below estimates.

Furthermore, RHB Research said should the carbon tax be passed through to end-consumers, it would likely lead to higher electricity bills and broader cost pressures across energy-intensive industries.

The shift towards RE could also be accelerated as a form of mitigating rising power costs.

"Despite the impending rollout, we expect the carbon tax to only take effect by late 2026, as there are still no details on the charging mechanism and the scope of emissions at this stage.

"We do not foresee it being a heavy tax, as the government's intention appears to be promoting sustainability among high emitters rather than generating fiscal revenue," it noted.

Another positive factor that will boost the utilities sector is the solar theme, evident by higher earnings for companies under RHB Research's coverage.

It said it was a year of growth for both Solarvest Holdings Bhd and Samaiden Group Bhd, driven by higher engineering, procurement, construction and commissioning (EPCC) contributions and the progressive ramp-up of recurring revenue from Corporate Green Power Programme assets.

In addition to that, Budget 2026 confirmed that large scale solar (LSS) project 6 will be implemented, with a total capacity of nearly two gigawatt, involving an estimated RM6bil in private investment.

"Collectively, LSS5, LSS5+, and LSS6 could bring over six gigawatts of solar capacity to the market, in our view, translating to about RM18bil worth of EPCC opportunities.

"This would provide a substantial pipeline for solar contractors and support earnings visibility through 2028."

Meanwhile, the research house said it remains "overweight" on the sector, with its top picks including YTL Power International Bhd, TNB and Solarvest.

"Overall, we remain optimistic on the sector's growth trajectory, which should be bolstered by a resilient and defensive earnings profile."