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KUCHING: Malaysia's utilities sector is heading into 2026 on a "clean slate" following a challenging 2025 that was marked by regulatory, operational and earnings setbacks across major players, says analysts from Maybank Investment Bank (Maybank Research).

In a sector report on Jan 14, the analyst said that the utilities sector had endured a challenging 2025 due to disputed tax ruling affecting Tenaga Nasional Bhd (TNB), outages at Malakoff Corporation Bhd's (Malakoff) Tanjung Bin Energy (TBE) plant, tapering earnings at YTL Power International Bhd's (YTL Power) Singaporean operations, and Petronas Gas Bhd's (PetGas) major pipeline fire incident.

For 2026, Maybank Research guides that sector-wide net

profit is projected to return to growth, rising four per cent year on year (y-o-y) after a 13 per cent y-o-y contract in 2025.

"Our four per cent y-o-y sectorial net profit growth is driven by TNB's uptick in earnings from deployment of contingent capex, Malakoff's normalisation of TBE operations, and Ranhill Utilities Bhd's (Ranhill) full-year impact of tariff hikes," said the analyst.

They added that YTL Power's Singaporean earnings are still expected to taper further but should be partially offset by recovery of earnings from its UK's Wessex Water unit.

While the sector is expected to see elevated electricity demand growth of three to four per cent annually from increased industrial demand, Maybank Research cautioned that regulatory structures will continue to limit earnings leverage for players.

"However, we think the market is now more cognisant of the

regulatory intricacies such as power sector being insulated from demand risk and regulatory capping of the water sector margins," they add.

At the same time, 2026 marks the start of a new three-year regulatory cycle for gas utilities. Unexpected base tariff hikes for pipeline operators under Regulatory Period 3 surprised the market, but the lack of detailed disclosures leaves uncertainty over whether the increases are earnings-accretive or merely offset higher operating costs.

While Maybank Research is largely optimistic on the utilities sector, they maintain a 'neutral' stance on the sector as they note that valuations are currently not compelling.

Their top picks remain TNB due to potential earnings enhancement from contingent capex deployment and also Mega First Corporation Bhd (Mega First) due to their balance sheet headroom for new growth projects.