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Power sector going through surge in demand

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ENERGY

PETALING JAYA: Listed power infrastructure players are set to gain from the strong electricity demand from energy-intensive industries such as data centres, according to Hong Leong Investment Bank (HLIB) Research.

In addition, the demand for power infrastructure is set to trend higher underpinned by Tenaga Nasional Bhd's (TNB) efforts to enhance grid resiliency and expansion of national power supply.

"Policy tailwinds, such as Malaysian Investment Development Authority's cable import restrictions and TNB's preference for local contractors, create barriers to entry for foreign competitors, further reinforcing the market position of domestic players," the research house noted in a report yesterday.

Given the robust project pipeline and rising infrastructure requirements, the sector has not yet reached its cyclical peak, according to the research house.

It noted that the power sector is experiencing a surge, with peak power demand reaching a record high of 21,049MW on May 28, 2025 – a robust 10.4% year-on-year (y-o-y) increase.

"This growth significantly outpaces TNB's gross domestic product-linked demand projection of 3.5% to 4.5% and surpasses the Energy Commission's 2020 long-term forecast, which projected peak demand of 19.3MW only by 2025," HLIB Research said.

The rise is driven by the combination of organic demand and load acceleration from data centres, with the latter's utilisation surging to 485MW in March 2025 – 3.2 times increase from 148MW a year earlier.

"In response, the Energy Commission has initiated tenders for new and existing gas-fired power capacity slated for commissioning over 2025 to 2029 to maintain a healthy reserve margin.

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Infrastructure players to gain from the multi-year cycle

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Hong Leong Investment Bank Research

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"At the same time, renewable energy (RE) deployment remains a key policy focus, with national targets set at 31% RE capacity by 2025 and 40% by 2035.

"Amid this backdrop of rising demand and a strong pipeline of new power supply, we see a compelling multi-year investment opportunity in the domestic power infrastructure space," HLIB Research said.

On TNB, the research house said investments in transmission and distribution (T&D) continued to form a significant portion of its capital expenditure (capex) to maintain grid resiliency amid

rising demand.

With 34% of its planned financial year 2025 (FY25) capex already utilised in the first quarter of 2025 (1Q25), TNB is expected to incur up to RM12bil capex this year for T&D-related initiatives.

"Over the Regulatory Period 4 (RP4) period, we estimate it will invest RM3bil to RM3.5bil annually from its base capex into grid infrastructure, translating into a RM6.7bil to RM7.8bil opportunity within the transmission substation business for mechanical and engineering players.

"Notably, this estimate excludes consumer-side substations, which are also required to complete connections to end users,"

HLIB Research said.

Looking ahead, the research house stated that TNB's RM90bil grid investment plan implied an additional RM47bil could be deployed under RP5 (2028 to 2030), exceeding RP4's RM42.8bil and pointing toward sustained momentum in power infrastructure rollout.

As of 1Q25, TNB had 2.9GW of electricity supply agreement (ESA) under construction, with an additional 0.7GW signed and is set for construction commencement.

"This is higher versus the 1.3GW ESA capacity delivered in 2024 alone, signaling a strong acceleration in infrastructure pipeline, which is likely to materialise over the next 12 months.

"Following our recent engagement with TNB, the group reaffirmed that ESA enquiries remain robust, with no cancellations to date," HLIB Research said.

It is "overweight" on the power infrastructure sector with top picks being MN Holdings Bhd with a "buy" call and target price (TP) of RM1.88 and Southern Cable Group Bhd at "buy" and TP: RM1.90, both of which will be key beneficiaries of grid expansion.

The research house also favoured SMRT Holdings Bhd ("buy", TP: RM2.19) for its strategic involvement in the digitalisation of Malaysia's distribution substation.