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Higher grid spending augurs well for utilities

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Sustained renewable energy development added edge

ENERGY

PETALING JAYA: The utilities sector is expected to remain well supported in the second half of 2026, underpinned by the expansion of gas-fired power generation, investment in grid infrastructure and continued renewable energy development.

Additionally, investors are now closely watching the outcome of the NewGen26 tender, which is expected to shape the next phase of the country's power generation expansion.

According to TA Research, the award of the NewGen26 tender, which seeks new gas-based generation capacity scheduled to commence operations between 2029 and 2031, is likely to be announced towards the end of this year or in early 2027 following the close of bid submissions on July 1.

The brokerage expects companies with secured access to gas turbines to hold a competitive edge amid the ongoing global shortage of turbine supply.

It noted that Malakoff Corp Bhd has reserved up to 2.8GW of turbine capacity with Mitsubishi Power Ltd, while YTL Power International Bhd has secured 1.4GW and Tenaga Nasional Bhd (TNB) recently signed reservation agreements for six gas turbines with a combined capacity of 4.2GW.

The brokerage believes the three companies are frontrunners for the tender, although Malakoff offers the greatest earnings leverage. It estimates that every 1GW of new capacity secured could lift Malakoff's annual earnings by 33.5%, compared with 4.3% for YTL Power and 1.7% for TNB.

It also believes additional long-term generation capacity will be needed despite the conclusion of the earlier NewGen25 exercise.

"The recent NewGen25 tender only serves to temporarily lift Peninsular Malaysia's reserve margins considering that 78% of the 6.3GW capacity awarded are for short-term extensions with only one award (1.4GW) for long-term capacity," it said.

"As electricity demand rises alongside industrial expansion and digital infrastructure investments, companies with regulated earnings and clear capital expenditure pipelines are likely to remain well positioned."

An analyst

"As such, reserve margins are expected to be temporarily inflated before a sharp drop in 2029-30 once these power purchase agreement extensions expire, suggesting more long-term capacity needs to come on-stream to meet rising underlying demand," it added.

TA Research also expects the expansion of gas-fired generation to drive higher domestic natural gas consumption, creating opportunities for supporting infrastructure such as regasification terminals and gas transmission pipelines.

It noted that PETRONAS Gas Bhd (PetGas) projects domestic gas demand to rise by between 30% and 70% over the next decade, supported by the retirement of around 7GW of coal-fired generation capacity between 2029 and 2033 and growing electricity demand from data centres.

Looking further ahead, the National Energy Transition Roadmap envisages gas-based generation capacity more than doubling to 28GW by 2050 from its 2020 base.

Based on that outlook, TA Research estimates natural gas consumption could exceed 3,000 million standard cubic ft per day by 2050, up from about 1,000 million standard cu ft per day in 2020.

With the existing regasification terminals in Sungai Udang and Pengerang already fully booked by gas shippers, the brokerage said further expansion of regasification capacity and gas transportation infrastructure could become a key

growth catalyst.

It identified PetGas as the main beneficiary, given its position as the largest owner and operator of gas supply infrastructure in Peninsular Malaysia, maintaining a "buy" call with a target price of RM19.42.

Overall, TA Research said it is maintaining an "overweight" stance on the power and utilities sector heading into the second half of 2026.

"Our view remains anchored on several key sectoral themes, namely, the build-out of new gas-based power generation capacity and supporting gas supply infrastructure, as well as grid capital expenditure expansion to accommodate the energy transition," it explained.

It added that the Iran conflict has reinforced the need to diversify Malaysia's electricity fuel mix, accelerate renewable energy deployment and renew focus on the Asean Power Grid, while potential diversion of Middle Eastern data centre investments could provide an additional source of electricity demand.

Meanwhile, one analyst told *StarBiz* that he sees Malaysia's utilities sector as continuing to benefit from structural rather than cyclical growth drivers.

"As electricity demand rises alongside industrial expansion and digital infrastructure investments, companies with regulated earnings and clear capital expenditure pipelines are likely to remain well positioned," he highlighted.