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Southern Cable a key proxy to Malaysia's grid upgrade cycle

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Rachel Lau

rachel.lau@theborneopost.com

KUCHING: Cable and wire manufacturer, Southern Cable Group Bhd (SCGB), is expected to benefit strongly from Malaysia's accelerating electricity grid upgrades, prompting analysts from Kenanga Investment Bank Bhd (Kenanga Research) to initiate coverage on the group with an 'outperform' rating and a target price (TP) of RM2.71.

In a coverage initiation report, the analyst noted that SCGB is a "key beneficiary" to the next wave of infrastructure demand driven by Tenaga Nasional Bhd's (TNB) Regulatory Period 4 (RP4).

The analyst noted that TNB's Green Lane Pathway which accelerates data centre (DC) grid connections from 36 to 48 months down to just 12 months has pulled forward cable procurement within the sector.

"This urgency is already reflected in recent variation orders (Vos) amounting to RM121 million, secured within a year.

"Under RP4, SCGB has secured RM404 million in contracts, a 21.7 per cent increase over the previous cycle, supported by a higher proportional mix of higher-margin medium-voltage (MV) cables," said the analyst.

Additionally, a circa 3GWac of Energy Supply Agreement (ESAs) has already been signed in the pipeline, while 80 to 85 per cent of TNB's contingent capital expenditure (Capex) is expected to be triggered during RP4.

Kenanga Research reckons that this tender cycle will begin rolling out by the end of 2026, further accelerating the procurement process and sustaining demand for power cables over the medium-term.

The analyst reiterated that SCGB will be one of the key players best positioned to benefit



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The capacity expansion exercise is expected to be completed by 2027 and could generate up to RM2.4 billion in annual revenue at full run rate, offering a clear earnings upside to the cable manufacturer.

Kenanga Research also highlighted that another key upcoming catalyst for SCGB will be the certification of its 132kV large-diameter cables (up to 1,800mm²) which is expected to materialise by the second half of 2026 (2H26).

Once approved, the company will be among a limited number of domestic manufacturers capable of supplying this higher-value cable segment.

Demand for these cables is expected to be driven by three structural trends, namely grid enhancement under TNB's RP4, utility-scale solar expansion, and the rapid growth of Tier 4 DC, all of which require higher-capacity and more reliable power infrastructure

"Given 132kV's higher margins, this represents structural earnings uplift the market has yet to price in," the analyst stressed.

But despite the bright outlook, Kenanga Research noted that there have been some recent concerns over rising polymer prices which may compress SCGB's earnings.

However, they guide that they are not overly concerned as their sensitive analysis suggests that SCGB's earnings will remain largely insulated as long as polymer prices stay below RMB9,500 per MT, given that the current RP4 contracts were tendered during 2H24 when polymer prices were already high.

"Current polymer prices stand at around RMB8,500 per MT, leaving circa 12 per cent headroom before impacting our base case," said Kenanga Research.

They added that overall risks also remain manageable as 70 per cent of SCGB's revenue is on a pass-through basis with new tenders reflecting spot prices, and the group has sufficient polymer inventory to cover production until 2H26.

Overall, Kenanga Research believes Southern Cable's integrated manufacturing capabilities, capacity expansion plans and exposure to major infrastructure themes position it well to capture Malaysia's next phase of power grid investment.