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Energy transition to bolster debt issuance

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New finance guidelines spur transparency, credibility

ENERGY

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> RAM Ratings

PETALING JAYA: The country's energy transition is set to fuel a fresh wave of long-term financing demand, with billions of ringgit expected to flow into renewable energy (RE), grid upgrades and battery storage projects over the coming decade.

As investment momentum builds, RAM Ratings senior vice-president of infrastructure and utilities ratings Chong Van Nee sees the local bond and sukuk market increasingly emerging as a key funding avenue, complementing traditional bank financing.

"Approximately 20 gigawatts (GW) of new power generation capacity is scheduled for commissioning nationwide by 2030.

"This more than doubles the planned capacity retirements (approximately eight GW of thermal capacity), driving robust demand for debt financing," Chong told *StarBiz* ahead of the release of RAM Ratings' upcoming report, *Power Insight: Advancing Sustainable Energy Transition.*

As at end-December 2025, RE accounted for 12GW, or 31% of total installed capacity, which Chong said keeps Malaysia broadly on track to meet its RE capacity targets of 40% by 2035 and 70% by 2050.

This is expected to sustain strong issuance of power bonds and sukuk, with most proceeds likely to be channelled into RE projects.

However, timely execution and effective risk management will be critical to realising the targets. she added.

Globally, the power sector continues to attract a significant share of sustainable financing, accounting for 16.42% of total issuance value in 2025, slightly lower than 17.45% in 2024.

In Malaysia, 87% of issuers now include RE projects within their green or sustainable finance frameworks.

"Bonds and sukuk offer scale, flexibility and long-tenure fixed-rate funding, making them well suited for financing infrastructure and capital-intensive assets in the power sector," Chong added.

According to her, the attention is also gradually turning towards transition finance, although the market remains nascent in Malaysia.

Notably, transition finance refers to funding for high-emitting sectors transitioning towards lower emissions.

Chong said transition bonds have been gaining traction in the Asean Plus Three markets, but Malaysia has yet to see its first issuance.

"However, the introduction of transition finance frameworks by Tenaga Nasional Bhd (TNB) and Wasco Bhd in 2024 signals growing issuer readiness to adopt transition-oriented financing structures for hard-to-abate sectors, including natural gas and hydrogen."

She said new transition finance guidelines and taxonomies are helping to make sustainable finance more transparent and credible by setting clearer criteria and disclosure requirements.

However, the pace of market development will hinge on further regulatory clarity, investor appetite and the bankability of transition-aligned projects, Chong said.

In its report, RAM Ratings pointed out that in Peninsular Malaysia, peak demand reached a record 21,049 megawatts or MW in 2025, surpassing the Energy Commission's projection of 19,365MW, driven by higher commercial consumption and rapid growth in energy-intensive data centres.

Citing official estimates, it said electricity demand from this segment could exceed 12.9GW by 2030, rising to 21GW by 2045.

"Crucially, the combination of rising peak demand and a narrowing – though still adequate – reserve margin highlights the need for timely power capacity additions of firm capacity, and grid reinforcements," the agency said.

Coming to RAM Ratings' power portfolio, it comprised 31 active outstanding bonds and sukuk totalling RM58.59bil as at early May 2026, up from 29 issues worth RM54.49bil in the same period a year ago.

TNB and its Sarawak counterpart, Sarawak Energy Bhd, remained the largest issuers, together contributing for roughly half of the total issuance.

This reflects the sizeable capital expenditure and working capital requirements in their role as power utilities.

"The RE-related issuances accounted for 52% of the portfolio by volume and 12% by value.

"While these transactions are typically smaller in value, participation in the capital market from this segment is positioned for strong growth as utility-scale projects expand significantly."

For newer schemes like the Corporate Renewable Energy Supply Scheme or Cress where the transactions will be exposed to counterparty risks from non-utility corporate offtakers, it said investors will need to consider these risks.

Meanwhile, the risk profile of the battery energy storage system remains to be tested, given limited information on power purchase agreement (PPA) terms and performance dependent on despatch arrangements, resource availability, and evolving market dynamics.

"The RE portfolio continues to demonstrate broadly strong project economics, notwithstanding a few transactions affected by construction challenges and weather-related volatility.

"Operating performance across all rated solar plants has been healthy over the past two years, with electricity output comfortably exceeding the PPAs' minimum declared annual quantity threshold," the agency said.

On the whole, RAM Ratings maintains a positive outlook on Malaysia's power sector. It added that near-term exposure to heightened geopolitical risks in the Middle East is limited, underpinned by diversified fuel sourcing and robust tariff pass-through mechanisms.