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Utility firms cushioned from Mideast war risks

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Higher fuel costs likely to be passed to consumers

CORPORATE

PETALING JAYA: The implication of the US-Iran war on the local utilities sector will mainly be in the form of higher fuel costs for power generation that ultimately will be passed on to end-consumers, given the regulated structure of Malaysia's electricity supply industry.

TA Research noted in a report that the existence of cost pass-through elements to a large extent insulates industry players from the impact of higher fuel prices.

In fact, operators of coal power plants such as Malakoff Corp Bhd and Tenaga Nasional Bhd (TNB) might benefit from positive fuel margins.

YTL Power International Bhd, which operates in Singapore's merchant electricity market, could also gain from rising spot rates and more favourable retail contracts, while renewable energy (RE) players could benefit from improved RE economics against rising grid power costs.

In contrast, Ranhill Utilities Bhd could be hit by elevated electricity costs if higher fuel costs eventually translate into increased Automatic Fuel Adjustment charges.

Nevertheless, the ongoing war highlights the structural risk of fuel concentration in a country's electricity supply system, TA Research pointed out.

Gas-based generation capacity buildout is accelerating with the latest NewGen26 tender, in line with the National Energy Transition Roadmap.

"We expect Malakoff, YTL Power and PETRONAS Gas Bhd (PetGas) to be among the key frontrunners for the NewGen26 tender, besides Edra Power Holdings Sdn Bhd.

"Assuming capital expenditure (capex) of RM5mil per MW and project internal rate of return of 6% to 7%, we estimate that

The key risks to players include unfavourable changes to current policies favouring RE and the energy transition, delays in project rollouts, a spike in supply chain costs and unscheduled plant outages.

every 1GW (1,000 MW) combined cycle gas turbine capacity win could enhance annual profit after tax higher by 27% for Malakoff, 3.7% for YTL Power and 4.2% for PetGas," the research house said.

Meanwhile, nuclear power is being actively explored to complement gas and RE, especially given the sizeable expiry of coal power purchase agreements from 2029 onwards.

From a regional standpoint, the Asean Power Grid could become increasingly important in maintaining electricity access stability.

More importantly, during an energy crisis, the sharing of generation resources – including conventional resources – could help stabilise electricity access, preventing economic fallout and social unrest associated with energy shortages.

An analyst with a local research house said: "From the US-Iran war standpoint, we believe domestic power sector players are largely insulated from fuel price volatility given the regulated nature of the industry."

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TA Research maintained an "overweight"

stance on the utilities sector premised on the new generation capacity buildout, grid capex to accommodate demand and RE integration, record RE rollouts and the expansion of gas supply infrastructure.

Its top "buy" picks include TNB with a target price (TP) of RM18 and Malakoff at RM1.29, given their exposure to grid capex and the buildout of new gas-based generation capacity.

The research house also likes PetGas at a TP of RM20.32 (as a proxy for the potential expansion of domestic gas supply infrastructure), Ranhill at RM2.36 (as a play on Johor's data centre buildout and the Johor-Singapore Special Economic Zone development), as well as Samaiden Group Bhd at RM1.96 (as a play on the record RE rollouts over the next five years).

TA Research upgraded YTL Power to a "buy" from "hold" after its sharp share price deterioration in the past six months, while retaining its TP of RM3.21 for now.

"Among the stocks under our utilities sector coverage, YTL Power could be one of the earliest beneficiaries of rising electricity prices as it operates in Singapore's merchant electricity market (through YTL PowerSeraya Pte Ltd), which is far more reactive to movements in global fuel prices, leading to better spark spreads and retail contract rates," it said.