Kenanga Investors

Date: 29 August 2026

Energising Malaysia

StarBiz7

Oil has been the barometer of fear this year.

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When the Strait of Hormuz, the waterway that carries roughly a fifth of the world's oil, was effectively closed in late February 2026, Brent crude spiked sharply. However, as talks between the United States and Iran advanced, oil eased back to around US$73 a barrel in June 2026. While the price of oil rises and falls depending on the state of negotiations, prices could stay elevated over the medium term, that is above US$70 a barrel.

What remains concerning is the persistence of these disruptions, which feeds into inflation and the cost of doing business.

Ultimately, this impacts corporate earnings, overall economic growth and asset prices. For Malaysia, the impact of higher oil prices is more nuanced. While Malaysia is a net oil importer, the country is a net liquefied natural gas (LNG) exporter, with some statistics placing Malaysia as the fifth-largest LNG exporter globally.

The impact on the budget is also mixed, with higher oil and gas (O&G) prices increasing government revenue via taxes, royalties and dividends, but also raising expenditure via a higher subsidy bill.

Nonetheless, firmer O&G prices improve project economics and support stronger Petroliam Nasional Bhd or PETRONAS capital expenditure (capex), and this could provid a boost to the domestic supply chain in the short term. While oil and geopolitics increase volatility, the key driver of markets remain artificial intelligence (AI) and the data centres (DCs) that power it.

The enthusiasm is well founded. Globally, the AI theme remains supported by rising AI adoption and capital spending by US tech companies. Post the recent results season, US hyperscalers (Amazon, Microsoft, Alphabet, Oracle and Meta) are expected to spend more than US$800bil in capex for 2026.

Some analysts forecast this to reach more than US$1.1 trillion in 2027. This massive wave of spending then flows throughout the entire AI ecosystem.

Malaysia is a key part of this trend and has drawn over RM144bil in approved DC and cloud investment in the last few years. Domestic DC load reached about 1,054MW by March 2026, and completed projects plus future pipeline could reach up to 8.3GW.

As a gauge, 1GW is enough to power a decently sized city! In Johor alone, DCs could account for close to 40% of the state's electricity demand by 2035, up from about 24% today, according to research by Wood Mackenzie.

The rising electricity demand from DCs, together with the need for energy security, diversification and also environmental concerns, lead to the need for energy transition. The supply side needs to improve, and areas of investment include renewable energy (RE) generation, transmission networks, battery storage and carbon reduction technologies.

Under the National Energy Transition Roadmap, the country aims to raise RE capacity to 70% by 2050, driving significant investment across power generation, grid infrastructure and decarbonisation technology.

As such, this should support a sustained investment cycle for utilities, engineering, construction and selected industrial companies, creating opportunities for investors well beyond the traditional energy such as O&G. The political calendar in Malaysia also warrants a word. A general election is not constitutionally due until early 2028, but recent state polls have revived speculation that it could come sooner, and the timing remains uncertain.

We would not overstate the market implications. History suggests the local market tends to trade cautiously in the weeks before a national vote and to recover once the result removes the uncertainty.

The muted reaction to the recent state elections is consistent with much of this. More importantly, the major themes discussed here, from energy transition to AI infrastructure, should continue to power growth as these policies remains supported by major parties.

With foreign ownership of local equities near multi-year lows at about 18%, the scope for a heavy election-driven outflow also looks more contained than in previous cycles.

We would treat any pre-election volatility as a chance to add to quality names rather than a reason to retreat from them. The broader growth backdrop for Malaysia remains encouraging.

Exports rose more than 45% year-on-year in May, led by electrical and electronics shipments, and consensus expects corporate earnings to grow around 7% this year. Valuations offer further comfort.

At about 1,693 points in July 2026, the FBM KLCI traded at 14.9 times forward earnings, below its seven-year average of 15.3 times, which we think offers a reasonable margin of safety for patient investors. In this environment we favour a slightly defensive stance, with a bottom-up focus on quality names.

Overall, what we are saying is to continue to focus on the fundamentals. Oil, geopolitics and elections may create noise, but don't mistake noise for signal. Our approach is to stay invested but selective, favouring companies where growth is built upon the rock of solid fundamentals. Additionally, the discipline to act when sentiment overshoots either way is also key.

Disclaimer: *This material is solely for general information. The material has not been reviewed by the Securities Commission. The information contained herein does not constitute any investment advice. Past performance is not indicative of future performance.*

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Source:

The Star (29 August 2026)

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LEE SOOK YEE
Kenanga Investors Bhd
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- The key driver of markets remain AI and data centres
- In Johor alone, data centres could account for 40% of electricity demand by 2035
- The scope for a heavy election-driven outflow looks more contained

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