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Malaysia seen as data centre winner as geopolitical risks

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KUCHING: Malaysia is emerging as a key beneficiary of shifting global data centre (DC) investments as geopolitical tensions and security concerns prompt hyperscalers to rethink their exposure to the Middle East, say analysts from RHB Investment Bank Bhd (RHB Research).

In a recent thematic report, RHB Research said investment appetite for DCs remains resilient despite the ongoing conflict, with "minimal changes" to planned expansion by major cloud players.

The research arm notes that capital expenditure (capex) from the "Magnificent 7" – Apple, Microsoft, Alphabet, Amazon, Meta, Tesla and Nvidia – is set to rise above US$700 billion in 2026, representing a 11 per cent growth year on year (y-o-y) increase

The analyst said that the aggressive spending cycle underscores the urgency among tech giants to lead the next wave of innovation, especially in artificial intelligence (AI) workloads, which is expected to sustain investment momentum even as supply chains face disruptions from the ongoing conflict.

Instead, rising geopolitical risks, including direct attacks on DC infrastructure, are accelerating a rebalancing of DC portfolios towards safer and more stable regions such as Southeast Asia (SEA).

"Concerns over the security risks of DC infrastructure assets and supply chain disruptions may see the rebalancing of DC portfolios from the Middle East to South-East Asia as part of geopolitical diversification," the research arm said.

And Malaysia, stands out as a natural beneficiary to this development given that it remains a favoured destination for DCs due to its competitive cost structure, policy support and growing presence of global hyperscalers.

According to RHB Research, electricity tariffs, even under higher fuel cost assumptions, are estimated to average around US$0.17 per kWh, lower than markets such as Singapore and the Philippines.

Combined with competitive land and construction costs and supportive government policies, this continues to underpin Malaysia's attractiveness as a DC destination.

RHB Research adds that Johor will remain the dominant DC hub, with its capacity expected to reach 5.1GW by 2030, supported by initiatives such as the Johor-Singapore Special Economic Zone (JS-SEZ), which is set to reinforce its position as the country's primary data centre hotspot.

The analyst notes the state plans to increase their water supply capacity to about 3,000 million litres per day (MLD) by 2030 from 2,352 MLD currently. This is. More than sufficient to support the upcoming DC capacity within the state.

The sustained DC boom is expected generate broad-based benefits across the economy, particularly for construction, energy and telecommunications (telco) players.

Contractors are expected to benefit from a sizeable project pipeline, with RHB Research estimating that more than 3GW of DC capacity is in the pipeline through 2030, translating into circa RM90 billion in potential construction value.

The research arm's top picks within the sector are Gamuda Bhd (Gamuda) and Sunway Construction Bhd (Suncon), supported by their strong DC construction order books of about RM5 billion each.

DCs are also expected to drive a surge in electricity demand, with RHB Research estimates that DCs will account for 21 per cent of total electricity demand by 2030.

This is projected to lift overall demand growth to an average of 4.7 per cent between 2025 and 2030, significantly higher than the 1.6 per cent average recorded from 2010 to 2021.

Tenaga Nasional Bhd (TNB), the national power utility, is the top pick within the sector as rising electricity demand is expected to support its capex investments and regulated earnings growth.

Telecommunications firms, meanwhile, are positioned to benefit from rising demand for connectivity, cloud services and data centre-to-DC infrastructure.

RHB Research hailed Telekom Malaysia Bhd (TM) as a "DC kingpin", noting that its position as a core telco DC play is underpinned by its ownership of five DC assets in the country, extensive submarine fibre connectivity via 39 international cables, and more than 400,000km of terrestrial fibre network nationwide.

The analyst noted that the capacity of TM's flagship Cyberjaya DC campus (Klang Valley DC, KVDC) has doubled to 20MW following the construction of a second block in 2025. Its twin-core site — the Iskandar Puteri DC (IPDC) in Johor's Nusajaya Technology Park — has also seen a doubling of capacity, catering to rising colocation and AI-driven demand, with spillover from Singapore.

TM's management indicated that over 50 per cent of IPDC's expanded capacity has been taken up since the facility became operational in the third quarter of 2025, while utilisation at KVDC Block 2 is also ramping up

Additionally, RHB Research expects TM's DC-related revenue to double by 2027.

Overall, RHB Research remains optimistic on Malaysia's DC boom but cautioned that risks remain, including potential restrictions on access to high-end chips, tighter regulatory controls and uncertainties over long-term returns on large-scale capital expenditure.

Nonetheless, the outlook for Malaysia's data centre sector remains positive, underpinned by structural demand from AI and a shifting geopolitical landscape that increasingly favours stable, cost-efficient locations.