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Despite higher electricity costs, data centre boom in Malaysia will last, supporting builders - Kenanga

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KUALA LUMPUR (July 3): Despite higher electricity tariffs, data centre operators will charge ahead with their projects in Malaysia, supporting the country's construction sector, said Kenanga Investment Bank.

After a sluggish start amid concerns over US policy, data centre investments have picked up, and the upcycle may extend into the second half of the year, the research house said in a note on the construction sector on Thursday.

"We believe the data centre boom will continue over at least the next two years," Kenanga said and kept the sector on an 'overweight' call.

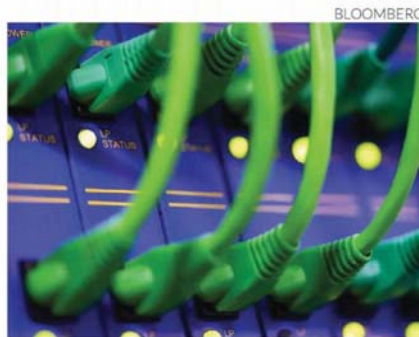
Malaysia has recently announced a slew of changes that shift the burden to heavier consumers to be more efficient with their power usage. Energy-guzzling data centres may see their electricity bills rise by up to 15% due to higher peak and off-peak charges from their round-the-clock operations.

In the first three months of the year alone, national electric utility Tenaga Nasional Bhd (KL:TENAGA) has signed five data centre projects totalling 700 megawatts, bringing the total to 43 projects with 6,400 megawatts capacity.

Kenanga expects data centre projects

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worth 700 megawatts to be awarded annually, translating into construction contracts worth RM21 billion in 2025 alone.

Further, public infrastructure and private sector developments would also support the construction sector's outlook, Kenanga said and assumed average annual contract awards of RM180 billion for 2024–2026.

As of end-May, the industry has already seen RM75.5 billion in main contractor construction contracts awarded, according to the Construction Industry Development Board.

For strategy, Kenanga has five of six stocks under coverage on 'outperform' calls, including Gamuda Bhd (KL:GAMUDA) and IJM Corporation Bhd (KL:IJM). Sunway Construction Group Bhd (KL:SUNCON) is the house's sole 'market perform' following a recent surge in share prices.

Shares of the country's top builders have rebounded 12%-36% between April and June after a selloff sparked by US technology restrictions.



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