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Malaysia's data centre build-out moving into real activity

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Johor offers cheaper land and supporting infrastructure while remaining close to Singapore's customers and submarine-cable network

by IFAST RESEARCH TEAM

CLOUD services and generative artificial intelligence (AI) have driven a new wave of Asian data centre investment. Malaysia has emerged as a beneficiary, with approved investments exceeding RM178 billion since 2021, concentrated in Johor, now a fast-growing regional hyperscale location.

Johor's early development was linked to Singapore, where space and power constraints limited new projects. Johor offered cheaper land and supporting infrastructure while remaining close to Singapore's customers and submarine-cable network.

However, Johor has evolved beyond being an overflow location.

Hyperscalers are developing multi-building campuses, while global operators have committed to Malaysian cloud regions. Live IT capacity has exceeded one gigawatt (GW), while colocation vacancy stands at just 0.7%, compared to 4.9% in Singapore.

In our view, this shows that Johor's growth is no longer driven by investment commitments alone, as new capacity is absorbed as it comes online. This should give operators confidence to keep expanding.

Malaysia Has the Infrastructure to Support Further Growth

At around US$9.6 million (RM39.2 million) per megawatt (MW), construction costs remain below Singapore, Japan and South Korea, while large sites and engineering expertise support campus-scale development.

Under the Johor-Singapore Special Economic Zone (JSSEZ), qualifying activities in designated zones can benefit from a 5% corporate tax rate for up to 15 years.

The Green Lane Pathway can cut power-connection timelines to around 12 months from 36-48 months. We believe this materially improves project certainty and should support faster conversion of committed investment into construction and energisation.

Water capacity is also being expanded with roughly 3,800 megalitres per day (MLD) planned across the main data-centre states. We believe the next leg should be more geographically diverse, with Serendah, Selangor, and Port Dickson, Negri Sembilan, showing that capacity can follow available power, water and infrastructure-ready land.

The Pipeline is Converting into Real Demand

As at March 2026, Tenaga Nasional Bhd (TNB) had secured 59 projects with a maximum demand of 8.3GW, of which 36 projects representing 4.5GW were completed and connected. A sizeable portion of the pipeline has therefore progressed beyond initial commitments.

Actual load reached 1,054MW in March 2026, more than double a year earlier, implying utilisation of around 23% versus 17% in March 2025. Encouragingly, actual demand has grown faster than connected capacity despite 15 additional projects entering the system. We believe this reflects the gradual ramp-up of newly energised facilities as more server halls and workloads come online, leaving further room for utilisation to rise.

With another 3.8GW under construction or at the electricity supply agreement stage, demand should keep rising. The key indicator is whether actual load grows alongside connected capacity, not how quickly it converges with the full 8.3GW pipeline.

Main-contractor awards reached RM6.5 billion in first half of 2026 (1H26), around 70% of the financial year in 2025 (FY25) total, while average award size rose from RM628 million in 2024 to RM1.15 billion in early 2026.

We remain constructive on upstream construction activity. Larger contracts show the shift towards multi-building hyperscale campuses, while actual electricity demand should rise meaningfully as recently energised campuses install more servers. Although utilisation may remain moderate as new capacity is connected, existing facilities' ramp-up should provide a multi-year driver of recurring power demand.

Construction, Engineering Capture Broader Earnings Pool

As spending moves beyond core-and-shell construction, we believe the earnings opportunity should broaden across construction and engineering. Hyperscale campuses require cooling systems, electrical infrastructure, substations, cabling, fire protection, water facilities and commissioning. Each development can generate several rounds of awards, with earnings moving towards specialist engineering and infrastructure players.

We believe the largest packages should remain concentrated among contractors with the balance-sheet strength, procurement capacity and execution record to deliver projects of this scale. Near-term earnings sensitivity depends on embedded data centrework, while broader participation depends on exposure to mechanical, electrical and plumbing (MEP) as well as water and enabling infrastructure.

Bloomberg

Construction remains the clearest near-term beneficiary, while MEP and water infrastructure should broaden the earnings contribution

Sunway Construction Group Bhd remains the clearest direct beneficiary, with data centre projects accounting for 64% of its outstanding orderbook, followed by IJM Corp Bhd and Gamuda Bhd. Although Gamuda's Malaysia data centre exposure appears lower at 8%, this understates its wider participation across campus construction, water and supporting infrastructure.

Once the main structures are in place, spending shifts towards MEP fit-out and external power infrastructure. Electrical systems represent around 40%-45% of hyperscale construction costs, while mechanical, cooling and specialised fit-out contribute another 35%-45%.

In our view, the earnings pool is broader than headline awards suggest, and investors should not overlook subcontractors and MEP players. Higher rack densities will increase requirements for substations, cabling, switchgear, backup power, cooling and fire protection. The higher qualification threshold should keep the market concentrated and favour established specialists.

Water infrastructure is another opportunity. Among construction players, Gamuda is the clearest beneficiary through its exposure to campus construction and supporting water assets. Its Bulk Water Supply Scheme, Rasau Stage 1 and dedicated Port Dickson water facility reinforce our view that Gamuda offers the broadest exposure to the supporting infrastructure build-out.

Utilities Provide a Longer-duration Earnings Stream

As projects move into energisation, utilities should benefit through regulated grid returns and recurring power sales. TNB is the clearest beneficiary of this longer-duration phase, earning on transmission, distribution, substations and connection infrastructure before campuses reach full power requirements.

Of TNB's RM18 billion FY26 capital expenditure (capex) plan, RM13 billion is allocated to the regulated business. With much of the 8.3GW pipeline still under construction or awaiting connection, we expect data centres to remain an important driver of regulated capex.

However, we believe the larger earnings upside could come from increasing facility utilisation and electricity usage. Actual load remains well below connected capacity and the broader pipeline; recurring power sales should therefore become more meaningful as server halls and workloads come online.

Renewable energy (RE) provides another earnings avenue as hyperscalers seek to match rising electricity consumption with decarbonisation commitments. Nevertheless, much of the near-term optimism appears reflected in valuations. Therefore, while we remain constructive on utilities, investors should be selective rather than chase the sector after its recent run.

Property, Telecommunications Remain Selective Opportunities

For property developers, value lies less in land ownership than in delivering sites with power, water and fibre within hyperscaler timelines. Although land sales can generate large one-off gains, we see build-and-lease models as more attractive because they provide a longer earnings tail while retaining exposure to the surrounding cluster.

Telecommunications offers a narrower but more recurring exposure. Telekom Malaysia Bhd (TM) is one beneficiary through its fibre-network, international connectivity and participation in Nxera. As utilisation rises, demand for backhaul, interconnection and managed services should increase.

Execution Will Decide the Pace

While we remain constructive, execution remains the key risk, particularly the pace at which secured capacity moves into construction and utilisation. Delays in substations, grid connections or water infrastructure could push back timelines and progress billings.

For projects that have secured power and entered construction, cancellation risk appears manageable. Around 72% of TNB's secured capacity comes from US and Singapore hyperscalers, while 80% is concentrated in Johor, where the ecosystem is established.

Given the capital committed at this stage, we believe large campuses are less likely to be abandoned, with greater risk in earlier-stage commitments from smaller operators. Slower hyperscaler capex, equipment shortages and higher construction costs could still delay awards and pressure margins. For now, new awards, progress billings, actual electricity utilisation and advanced-stage cancellations remain the key indicators to watch.

Entering 2H26, we remain constructive on Malaysia's data centre build-out. The cycle is moving beyond investment approvals, with sustained construction awards, rising connected capacity and higher utilisation showing that projects are progressing into real activity.

Construction remains the clearest near-term beneficiary, while MEP and water infrastructure should broaden the earnings contribution. Regulated grid investment and recurring power demand should benefit utilities, although current valuations appear to price in much of the optimism. We see greater opportunities in RE and telecommunications, while property remains selective and dependent on project economics and infrastructure readiness.

The views expressed are of the research team and do not necessarily reflect the stand of the newspaper's owners and editorial board.