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Data centre development remains favourable

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Latest US policy reversal can elevate industry's prospects

TECHNOLOGY

PETALING JAYA: Malaysia's data centre (DC) story remains intact, with the latest US policy reversal on artificial intelligence (AI) chip export restrictions set to bolster investor confidence and sustain momentum in one of the country's most promising sectors.

Improved clarity around access to advanced chips is expected to revive project flows and benefit a wide swathe of industries linked to the DC value chain.

In its recent report, RHB Research said: "We believe the DC story still has legs, with consistent positive investment news flow seen through the past months despite the United States AI diffusion overhang."

The brokerage noted that the local environment for DC development remains favourable, particularly with the United States dropping earlier plans to restrict exports of graphics processing units (GPUs) to countries like Malaysia.

The US Department of Commerce is now set to adopt a bilateral negotiation framework, replacing the previously proposed AI diffusion rules under the Biden administration.

This move removes the blanket cap on AI chip exports and gives countries the chance to offer assurances against technology diversion to China.

"Proposed DC builds in Malaysia will no longer be subject to GPU cap restrictions, which would have stifled DC related investments," RHB Research said.

"This policy change will alleviate concerns impacting the entire DC value chain including construction, property, energy, telecommunications and technology," it added.

Investor sentiment is likely to rebound in key areas such as Johor and Cyberjaya, with the bilateral approach viewed as more constructive.

"Greater policy clarity would be a positive for the tech sector," RHB Research said, noting that countries like Malaysia, previously categorised under Tier-2, stand to benefit from the change, unlike Tier-3 nations which were already restricted under US chip export rules.

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> RHB Research

In the construction sector, DC developments are seen as a catalyst for job flows and earnings visibility.

RHB Research said, "Trends of DC investments likely remaining intact in Malaysia following this latest development could sustain job replenishment trends in the next few years for contractors, translating into commendable earnings visibility."

The brokerage noted that Johor's planned 822-megawatt of DC capacity could generate up to RM16bil in job opportunities.

"The move by US President Donald Trump's administration to rescind the curbs on chips exports is an overall positive for builders involved in the DC space," it added.

Nevertheless, RHB Research cautioned that a risk remains if Malaysia is implicated in any diversion of chips to China, with Trump's proposed return potentially bringing new scrutiny.

On the property front, "The policy shift will ease investors' concern over the potential delay in or cancellation of the major DC projects signed with the landowners, developers, and contractors in Malaysia," RHB Research said.

It maintains an "overweight" rating on the property sector, citing improved valuations and macro support from continued investment and a recovery in foreign property interest.

As for utilities, DC growth will fuel rising demand for electricity and water infrastructure.

"With easier access to advanced AI chips, global tech giants are likely to expand their DC operations in Malaysia, which eventually translates to higher electricity demand," RHB Research said.

As such, it maintains its "overweight" stance on the utilities sector. It also has an "overweight" rating on the construction sector.

RHB Research's top DC-related plays include Tenaga Nasional Bhd, Gamuda Bhd, YTL Power International Bhd, Sime Darby Property Bhd and Sunway Construction Group Bhd.

"We continue to lean into a defensive stance, sell-into-strength and buy-on-weakness investment strategy," it said.