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KAB rides data centre wave

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TECHNOLOGY

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THE decision taken in 2018 to venture into sustainable energy solutions has come in handy for Kinergy Advancement Bhd (KAB) amid the data-centre boom in Malaysia.

The group has revealed that it is in talks with several data-centre operators to provide off-grid clean-energy generation and district cooling systems, as well as engineering works.

One of the parties is a leading data centre tech park developer based in Johor.

In an exclusive interview with *StarBizWeek*, executive deputy chairman and group managing director Datuk Lai Keng Onn says that announcements will be made in the coming weeks, once the deals are finalised.

The potential data-centre projects have yet to be factored into KAB's internal earnings forecasts.

However, even without these projects, KAB is already expecting its core profit to double in its financial year ending Dec 31, 2024 (FY24) and again in FY25.

In FY23, the group's audited core profit was recorded at RM10.3mil, after stripping out one-off accounting profits and expenses.

Given the rosy earnings outlook, Lai expects KAB to resume its dividend payout by the end of 2024 or next year.

Lai owns a 28.77% stake in the company, both directly and indirectly.

It is also noteworthy that Societe Generale, France's third-biggest listed bank, has a stake of 2.61% in KAB, while the Retirement Fund Inc (KWAP) owns 1.69%, according to the company's latest annual report.

The recent data-centre rush in Malaysia has opened opportunities for local companies, but for most of them, it represents a one-time boom.

For example, property developers are disposing of their land for the development of data centres, while others are involved in constructing the facilities and supplying relevant components such as hardware, power cables and switchboards.

Many of these contracts are non-recur-

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Company also expanding rapidly into other sectors

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rent in nature. Also, data centres are not like residential units where there is a demand for bigger volume.

At some point, data-centre developments will plateau and with it the flow of non-recurring contracts will also slow down.

In this regard, KAB finds itself in a rather unique position, considering its longer-term offering for data centres and other commercial sectors.

As one of the few owners and operators of co-generation (co-gen) facilities in Malaysia, KAB typically strikes a deal of between eight to 10 years for the sale of power.

After this period, the asset will be transferred to the customer. Lai says KAB can achieve a break-even within 30% to 40% of the agreed period.

This means in a 10-year period, KAB's natural gas-powered co-gen assets can turn profitable after the third or fourth year.

The co-generation technology allows off-grid generation of clean energy, which means the electricity is generated closer to the site of a data centre or factory and does not need Tenaga Nasional Bhd's (TNB) grid to be connected to customers.

The waste heat released from the process will also be converted either into steam, hot water or chilled water. Crucially, the chilled water is vital for cooling the computer systems in data centres.

Lai says KAB is able to sell electricity at a

lower rate than TNB, at a minimum discount of 10%, thanks to the conversion of the waste heat into chilled water through absorption chillers.

“The chilled water is basically free, if you think about it. This enables us to lower our electricity price.”

“The discount depends on the negotiation with the customer and it can be more.”

KAB offers its solutions via two models, one of which is the zero-capital expenditure (capex) model, where KAB undertakes total investment for the co-gen facility.

The other model is outright purchase, where the customer pays for the plant.

“Under the zero-capex model, we do not produce 100% of a data centre's or factory's required electricity. For example, we may supply 40% to 50% of the demand and TNB will supply the rest.”

“This arrangement protects our interests in the event there is a drop in power needs from the customer,” says Lai.

Lai tells *StarBizWeek* that KAB is currently in talks with some data centre tech park developers to also introduce district-cooling systems.

“This centralised system allows us to offer chilled water at a lower price given the large volumes,” he says.

Beyond co-gen, KAB is also able to sell renewable energy (RE) generated from solar, mini-hydro and biogas plants to cus-

tomers such as data centres.

The Third Party Access (TPA) framework for energy distribution in the country, which is expected to be implemented by the government in September, will allow KAB to sell its RE directly to customers via the national grid.

“We are just waiting for the TPA regulations to be unveiled.”

“We already have already designated a piece of land to build a solar plant in northern Peninsular Malaysia and we have secured ready customers for the electricity.”

“The rates (for the purchase of solar energy) will be more attractive under the TPA as it allows direct negotiation between us and the buyer,” says Lai.

It is noteworthy that KAB is also involved in the business of solar photovoltaic systems, either on rooftops or on the ground.

Among the clients it has served so far in this segment are Park Regent Desa Park City, Inari Technologies Sdn Bhd, Mydin Mohamed Holdings Bhd and Nextgreen Pulp & Paper Sdn Bhd.

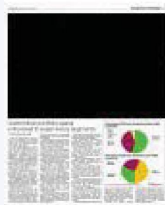
In addition, in 2023, the government selected a consortium of KAB and Salcon Bhd as one of the solar-power producers under the Corporate Green Power Programme.

The consortium secured an export-capacity allocation of seven megawatts of alternating current. Within the consortium, KAB also has the right of first refusal for engineering, procurement, construction, installation and commissioning (EPCC) services.

It is worth noting that KAB is an experienced EPCC contractor and it has managed to secure two EPCC contracts from PETRONAS Gas Bhd in 2023.

“The contracts from PETRONAS have lifted our profile. In fact, after the contracts, we have been invited by foreign oil and gas companies to participate in their projects for EPCC work,” says Lai.

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KAB expanding in Asean

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Beyond the energy-related businesses, KAB is also involved in the fairly new telecommunications-infrastructure space.

At present, it owns six telco towers, serving customers like CelcomDigi Bhd and TM Technology Services (formerly known as Webe Digital). The towers are in Penang, Kedah and Terengganu.

Three more towers are under construction, while KAB has received approvals for another tower.

Looking ahead, Lai says KAB remains hungry for expansion at home and abroad.

Currently, the group also has a footprint in Thailand, Indonesia and in the Philippines.

In Indonesia, Lai says that KAB will focus on expanding its solar and hydropower facilities.

In Thailand, the focus will be on solar-power generation and in providing chiller optimisation solutions, riding on a exclusive dealership from Chinese multinational home appliances and consumer electronics company Haier.

KAB made its venture into the Philippines this year, through a joint venture with the Philippines' LCS Holdings Inc to develop and operate a 20 megawatt-peak solar farm in Santa, Ilocos Sur.

"We are looking to buy quality assets. We are also looking at venturing into the construction business in the near term as it relates to the power plant business that we are involved in," says Lai.