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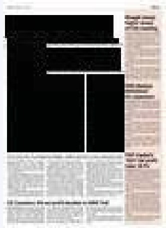

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AI data centres set for sustainable growth

The Star, Malaysia

AI data centres set for sustainable growth

Aggregate hyperscaler capex to exceed US$1 trillion

CORPORATE

PETALING JAYA: Malaysia could sustainably benefit from the artificial intelligence (AI)-supercharged data centre (DC) rollout, or a second wave, given the still steady demand for DCs, says Kenanga Research.

In light of a strong DC pipeline, the research house recently held an Energy Day. Discussions delved into energy security, overcoming bottleneck and resource constraints via new sustainable technologies – such as co-located energy hubs to tackle water challenges – and even nuclear power to solve the energy trilemma.

The evolving energy turmoil caused by the Strait of Hormuz disruptions added another layer to the discussions on energy security.

Amid Google's recent guidance uplift in capital expenditure (capex), Kenanga Research said: "We foresee that the aggregate hyperscaler capex would grow to exceed US$1 trillion in 2028."

"Investors will continue to gauge cloud services and revenue by hyperscalers, but this capex trend cements a multi-year build-out and is favourable for Malaysian beneficiaries, especially those where longer-term demand visibility is important," the research house further stated in a report yesterday.

These include DC developers such as YTL Power International Bhd and property names currently leveraged to DC assets such as Sime Darby Property Bhd, via a build-and-lease model.

Both names harbour potential for unlocking asset value through future listing exercises, added Kenanga Research.

It noted that hyperscalers could potentially consider hedging the risks of operating out of the Middle East, which could be a bonus to the region.

While Asean countries have hub ambitions, the research house says Malaysia still stands out given its green lane policies and grid stability – which are key for long-term capex – but it cannot rest on its laurels in the second wave of the rollout.

> **"Tenaga Nasional Bhd provides the solid long-term demand story, but we will watch YTL Power closely for value unlocking amid a few DC players reportedly lining up for initial public offering plans."**
>
> Kenanga Research

Moreover, hyperscalers may look to set up in several countries, and low-cost power is generally a narrowing advantage.

Hence, Kenanga Research said that if well executed, providing low-carbon energy could offer a competitive regional edge, helping the country stay ahead of the curve and anticipate favourable developments in Malaysia's Corporate Renewable Energy Supply Scheme (CRESS) programme.

Regionally, regulations are evolving. A push towards more local content requirements, if materialised, will also benefit equipment suppliers.

In the meantime, Kenanga Research sees opportunities across its coverage.

One area where bottlenecks must be overcome includes mechanical and electrical players, where the research house said it likes Kee Ming Group Bhd.

Likewise in infrastructure, the research house sees an increased focus on fibre build-out, namely through OCK Group Bhd, aside from bread-and-butter core-and-shell plays such as Gamuda Bhd in construction.

Meanwhile, policy improvements in solar via the CRESS programme will directly accrue benefits to Solarvest Holdings Bhd.

"Tenaga Nasional Bhd (TNB) provides the solid long-term demand story, but we will watch YTL Power closely for value unlocking amid a few DC players reportedly lining up for initial public offering plans," the research house added.

At the forum, credit was also given to the DC Task Force, which was established to ensure that resources are used more sustainably.

The task force handles approvals even before the signing of an electricity supply agreement with TNB, which ensures a more sustainable rollout.

The electricity supply agreement requires visibility of offtake potential with five-year forecasts as well.

Kenanga Research said that the rollout of the existing full DC pipeline could strain the reserve margin, assuming a slow rollout of new power plants.

In addition, the forum shed light on the responsibilities of DCs to fulfil commitments.

These include meeting energisation timelines and ongoing penalties if utilisation falls below 75% of committed thresholds.

This inspires confidence in TNB, Kenanga Research noted.

Amid a strong DC build-out, the research house believes that electrification players remain undersupplied relative to demand, with Kee Ming serving as a proxy play.

According to the research house, the usual suspects for core-and-shell construction include Gamuda and Sunway Construction Group Bhd.

Under the debottlenecking theme, Kenanga Research believes that more opportunities lie in connecting individual DCs through fibre networks.