HLIB Research
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Jeremy Goh, CFA
pwgoh@hlib.hongleong.com.my
(603) 2083 1716

Edwin Woo, CFA
ckwoo@hlib.hongleong.com.my
(603) 2083 1718

Daniel Wong
kkwong@hlib.hongleong.com.my
(603) 2083 1720

Sam Jun Kit
jksam@hlib.hongleong.com.my
+603-2083 1723

FBMKLCI Target:	**1,740**
Current Level:	**1,580**

FBMKLCI

Implicated DC stocks

Stock	Rating	Price	Target
GAMUDA	BUY	4.38	5.50
SUNCON	BUY	3.69	4.32
IJM	BUY	2.77	3.54
MNH	BUY	1.13	1.60
YTLP	BUY	4.02	7.00.
TENAGA	BUY	13.68	16.20

Strategy

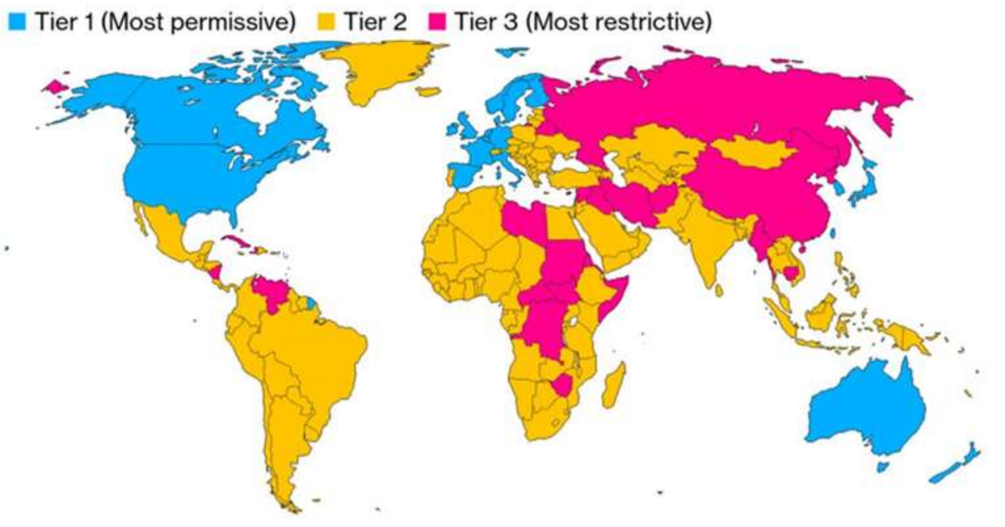
DC dent

While the recent Framework for AI Diffusion presents a dent to Malaysia's booming DC space, we find solace from several fronts: (i) 91% of the USD23bn major investments announced over the past year were from US based tech giants – likely enabling them to obtain a UVEU status, (ii) with ASEAN countries on the same tier boat (i.e. none are Tier 1), Malaysia's supportive DC policies (e.g. Green Lane Pathway) will continue to give it a relative advantage, (iii) traditional DC pipeline being intact, and (iv) possibility that newly minted President Trump could soften these restrictions – amid backlash from various quarters – during the 120 day consultation period. With share prices of DC plays having taken a dive, we keep most of our BUY ratings, though TPs for selected construction names are lowered.

AI diffusion controls. Last week, the now exited Biden administration proposed the Framework for Artificial Intelligence Diffusion – essentially putting restrictions on the export of advanced chips used to develop AI. The crux of this move is to prevent China from accessing AI compute to build frontier models, and for US to maintain its purported 6-18 month advantage over the former. Under the said framework, countries will be categorised into three tiers:

- **Tier 1:** US and its 18 major allies and security partners. GPUs may be shipped into these countries but the entity purchasing it must be headquartered or have its ultimate parent from a Tier 1 country.
- **Tier 2:** Remaining countries (including Malaysia) that are neither classified as Tier 1 or 3. Imports of AI chips to these countries are allowed but will be subjected to quotas and certain rules. Tier 2 countries will have an Individual Country Allocation of 50k H100 equivalent chips from 2025 until 2027 (i.e. over two years). Governments of Tier 2 countries can also ink G2G agreements with the US to double this cap to 100k H100 equivalents.
- **Tier 3:** Countries that are in the list of US Arms Embargoes, plus Macau. This comprises 23 nations, including the likes of China, Russia, Syria and North Korea. Exports of controlled chips to these countries are banned.

Figure #1 Country tiers under the Framework for Artificial Intelligence Diffusion



Bloomberg

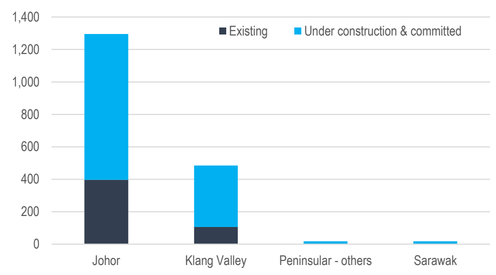
Purchases by VEUs. Apart from the broader country tiers, companies wanting to purchase GPUs can apply to become a Validated End User (VEU), which has two classes. Note that GPU purchases by VEUs do not reduce the Individual Country Allocation.

- **Universal VEU (UVEU):** To be recognised as an UVEU, a company must have their headquarters or ultimate parent in a Tier 1 country, alongside meeting various security and compliance standards. Companies such as Microsoft, Amazon and Google, amongst others, are likely to qualify for this. UVEUs will be able to import GPUs into Tier 2 countries subject to the following requirements: (i) 75% of their controlled compute must be in Tier 1 countries, (ii) not more than 7% controlled compute in any single Tier 2 country, and (iii) if the UVEU is from the US, it must have 50% of its total AI computing power there.

- **National VEU (NVEU):** This category will mostly likely apply to national AI companies headquartered in a Tier 2 country that wants to build AI clusters in their home country (or another destination country that is not Tier 3). This authorisation allows the NVEU to import up to 320k H100 equivalents for use in a destination country over two years. To obtain the NVEU status, it is likely that the destination country must have a G2G agreement with the US beforehand.

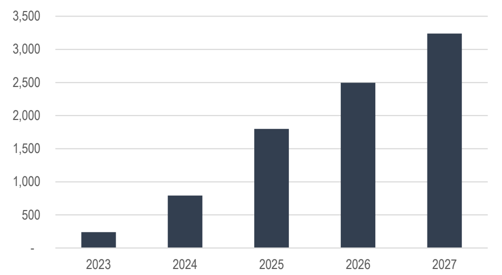
Dent to Malaysia's DC boom... According to Knight Frank, Malaysia's existing data centre (DC) IT capacity stands at 505MW as of Dec-24, with future supply (under construction and committed) at 1,313MW – implying an eventual increase of +260% from current levels. Separately, based on estimates by SemiAnalysis, Malaysia's critical IT capacity stood at 792MW in 2024, and is projected to hit 3,240MW by 2027 – translating to a CAGR of 92%. SemiAnalysis reckons that the only use case for such an enormous sum of DC capacity is for AI. At the onset, this insinuates that Malaysia could be one of the key risk countries from the new AI chips restriction rules. Deputy MITI minister Liew Chin Tiong recently said that the recent export limitations on AI chips is not expected to impact the operations of existing DCs in Malaysia – though staying conspicuously silent on its implications to the pipeline of new AI-DCs.

Figure #2 Malaysia's existing and incoming DC IT capacity (MW)



Knight Frank

Figure #3 Estimated trajectory of Malaysia's critical IT capacity (MW)



SemiAnalysis

...but there are avenues for solace. Despite the recent AI chips restrictions denting the prospects of Malaysia's DC market, we take solace from the fact that 91% of the USD23.3bn major investments announced over the past year came from global tech giants that are headquartered in the US (Figure #4). This could likely enable them to obtain a UVEU status, allowing them to import GPUs for their Malaysia based AI-DCs.

Figure #4 Tech giants investments into Malaysia (Dec-23 to Oct-24)

Knight Frank

Supportive policies provide a competitive advantage. Malaysia's competitive advantage over its regional peers in the DC space stems in part from Tenaga's Green Lane Pathway (introduced Aug-23) – which expedites electricity supply for DCs, reducing implementation timelines from 36-48 months to a mere 12 months. As DCs are electricity guzzlers, the launch of CRESS (Sep-24) provides an avenue for large corporate consumers (including DC owners) to purchase renewable energy (RE) directly from IPPs – this should appeal to DC investors that are members of RE100 (e.g. Bridge Data Centres, Microsoft, Google, EdgeConneX, Amazon, etc.). With ASEAN countries mostly on the same tier boat – i.e. none are Tier 1, most are Tier 2, while some are Tier 3 – we reckon that Malaysia's supportive DC policies will continue to accord it a relative advantage in the region.

Fingers crossed under Trump 2.0. With the recent framework being proposed during the final days of the Biden administration, and with Trump now helming the presidency, we believe that (perhaps optimistically) there is potential for this to be re-jigged over the 120 comment period – hopefully with softer restrictions. To recap, the framework has drawn criticism from the likes of Nvidia and the Semiconductor Industry Association (SIA), as well as EU nations where 17 of its 27 member countries will face restrictions. Although not directly related to the framework on AI chip curbs, we note that the newly minted president has deviated from some of Biden's policies, namely (i) delaying the ban on TikTok and (ii) revoking the executive order on regulating AI.

Sector & stock implications

Construction. We reckon that the recent AI chips restrictions introduces uncertainties to hyperscalers' AI-DC rollout timeline in Malaysia, presenting downside risks to our earlier expectation of sustained strong job flows in 2025 (2024: RM44.2bn). Delays to the AI-DC pipeline could potentially stem from: (i) 120 day consultation period prior to implementation on 15 May-25 and (ii) potential VEU processing bottleneck – e.g. 19 separate certifications and policy requirements, alongside approvals from four different agencies (Department of Commerce, State, Defence, and Energy). We gather that considerable DC project tenders in Johor involve AI-enabled DCs and these restrictions could potentially delay or complicate plans. Nevertheless, we reckon that Malaysia's DC construction pipeline has not vanished overnight due to: (i) traditional DC pipeline is intact, (ii) massive DC investments from companies eligible for NVEU & UVEU status and (iii) TAM decline from affected Chinese DCs are low probability jobs to locals. Furthermore, competitive spill-overs to other segments (building & infra) is mitigated by broadly positive private sector sentiment (Johor & Penang), not to mention various infra rollouts which should keep the tap flowing. Following the sharp fall in the KLCON Index of -16%, sector P/E multiple has de-rated from 22x to ~15x consistent with mid-cycle type valuation as the market erased DC segment job prospects from valuations (previously, multiple expanded from 14x to 22x driven by DC, JB-SG SEZ and infra expectations). We think the steep sell-off has more than accounted for slower DC job flows, and as such, we keep our OVERWEIGHT sector rating.

Gamuda (BUY, TP: RM5.50). We maintain our BUY call with unchanged TP of RM5.50 derived based on 10% discount to SOP value of RM6.21. Gamuda is largely insulated by recent developments due to its diversified project sources as well as good prospects from property segment. Our numbers have not baked-in potential contract wins from its 1GW DC development. DC projects currently form a small portion of unbilled orderbook at 7% mainly contracted to US headquartered developers (potential NVEUs & UVEUs) – cancellation and non-payment risks are minimal. Management's 5-year business plan to double revenue to RM30bn in FY28 (domestic construction revenue forecasts between RM3.9-4.6bn) is independent of DC pipeline in Malaysia and its RM40-45bn orderbook target by end CY25 remains achievable. Gamuda's leverage onto structural growth trends in Australia RE and infrastructure rollout in Taiwan remains encouraging. FY26/27 P/E multiple of 18.7x/15.4x implies the stock has been bashed down to around its average multiple of 15-16x – a mid-cycle level despite it still being in an orderbook and earnings upcycle.

SunCon (BUY, TP: RM4.32). We maintain our BUY call with a lower TP of RM4.32 (from RM5.60) derived based on lower target P/E multiple of 18.6x, around +0.5SD (from previously +1SD at 24.8x). In our view, this sufficiently takes into account DC uncertainties given its orderbook exposure at 54%. Our FY25/26 replenishment assumption of RM3.0/3.5bn provides adequate buffer amidst current uncertainties – SunCon has consistently delivered RM2-3bn prior to the DC boom. On top of this, management is maintaining FY25 wins target of RM4-5bn, remaining positive despite the latest developments. Post-announcement of AI chips restrictions, SunCon's clients have held on to a generally positive outlook in their Malaysian operations.

IJM (BUY, TP: RM3.54). We maintain our BUY call with lower TP of RM3.54 (from RM3.64) post adjusting our FY26/27 earnings lower by -0.2%/-1.2% and de-rating construction multiple to 18x (10% premium to sector). This is after lowering FY25/26 orderbook replenishment to RM4.5bn/RM3.5bn, resulting from lagging FY25 replenishment rate (42% achieved with one quarter remaining) and potentially weaker DC flows in FY26. DC segment only forms 5% of its orderbook while construction segment contributed 4% of group PBT in FY24. Post sell down, P/E multiples have contracted back down to FY26/27 of 17.6/15.6x, around its 5-year average. Foreign ownership has also declined from 20% in June-24 to 17% by Nov-24.

MNH (BUY, TP: RM1.60). The US export restrictions on AI chips are expected to dampen the expansion plans of China-based DC operators. Consequently, off-takers are likely to adopt a more selective approach, prioritizing Tier 1 based DC operators, while steering clear of Tier 3 related operators (e.g. China and Russia). Nevertheless, any potential delays in project rollouts from Customer A are expected to be mitigated by steady project flows from Tenaga and emerging opportunities with US-aligned DC operators. To note, MNH's strong tender-book of c.RM1.2bn comprises largely (70%) of jobs from Tenaga and the Sarawak market. Also, we gather that MNH's active tenders and negotiations for DC projects are primarily concentrated among US friendly DC operators. Beyond the DC space, we also see promising order prospects in the solar segment (e.g., CGPP and LSS5) and the water sector. Nevertheless, in light of the recent developments, we adopt a more conservative approach to our P/E valuation, by lowering it to 22x (from 25x) – largely in line with the current solar EPCC industry average of 23x – pegged to partially diluted mid-FY26 EPS. Consequently, our TP is lowered from RM1.82 to RM1.60 but our BUY rating is kept.

YTLP (BUY, TP: RM7.00). YTLP has a planned total 100MW AI infrastructure (under DC2), translating to c.55k GB200 GPUs (equivalent to 140k H100 GPUs), which will be rolled out over the next few years. As one of the leading national AI infrastructure and DC developers in Malaysia, we believe that YTLP can apply for the NVEU status (enabling it to purchase up to 320k H100 equivalents over two years) to satisfy its requirements. Our view is inline with some of the market analysis and media statement by the MD of YTLP, Dato Yeoh Sook Hong. YTLP remains on track to commence its first 20MW AI infrastructure in 2QCY25 (or 4QFY25), while its DC1 (Shopee) and DC4 progress rollout will not be affected by the new rulings. In fact, given YTLP's potential access to GB200 GPUs amid scarcity from tightened restrictions, this could shore up interest from Tier 1 affiliated DC operators for the former's capacity. Maintain BUY on YTLP with unchanged TP of RM7.00 based on 10% discount to FD SOP.

Tenaga (BUY, TP: RM16.20). Tenaga has signed Energy Supply Agreements (ESAs) with DCs totalling 4.7GW as of end-3Q24, with another c.6GW under negotiation. We take the view that most of the signed ESAs will eventually come to fruition via increased power demand given (i) bulk (91%) of the major investments announced by tech giants over the past year were US-based (refer back to Figure #4), likely allowing them to get the UVEU status and (ii) not all of the inked ESAs are earmarked for AI-DCs.

Disclaimer

1. As of 22 January 2025, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:
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Hong Leong Investment Bank Berhad (10209-W)
Level 28, Menara Hong Leong,
No. 6, Jalan Damanlela,
Bukit Damansara,
50490 Kuala Lumpur
Tel: (603) 2083 1800
Fax: (603) 2083 1766

Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

The stock rating guide as stipulated above serves as a guiding principle to stock ratings. However, apart from the abovementioned quantitative definitions, other qualitative measures and situational aspects will also be considered when arriving at the final stock rating. Stock rating may also be affected by the market capitalisation of the individual stock under review.