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# Sarawak Visit Study Note

## Ramping Up its Growth Engine: Sarawak's Integrated Growth Blueprint

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We recently visited Kuching, Sarawak, where we met with various government agencies and Sarawak-based companies to gain deeper insights into the state's medium- to long-term development plans. Beyond the well-publicised initiatives such as hydrogen development and KUTS, discussions also centred on the proposed deepsea port and a new airport in Kuching. The proposed deepsea port is expected to be capital-intensive, with its long-term viability highly dependent on PETROS' upstream and gas commercialisation plans over the coming years, in our view, as well as hinging on the successful execution of the Kuching Low-Carbon Gas Hub to drive throughput in the port.

Meanwhile, the new airport is an ambitious proposal that could significantly enhance airspace flexibility for the state, given that the current airport's airspace is constrained by its proximity to West Kalimantan, Indonesia. We also learnt that Sarawak is intensifying its push into the semiconductor space, including existing investments via X-Fab and potential new initiatives. The focus appears to be on gallium nitride (GaN) transistors as well as chip design, with a particular emphasis on the automotive segment. Separately, water coverage improvement projects remain ongoing across the state, with increased budget allocations targeted at enhancing access—particularly in rural areas, after consolidation of water regulator in August 2025.

Energy champion, Sarawak Energy, is also undergoing corporate restructuring, with its generation and transmission & distribution (T&D) businesses being carved out, which ties into an IPO being mulled for the generation assets (with PAT c. 30% of TENAGA). At the state level, Sarawak continues to consolidate control over key strategic entities, strengthening its policy levers across major economic sectors. We see this as positive for decision-making efficiency and operational execution over the longer term. Overall, we believe Sarawak is continuing to press ahead with its development agenda, with a visible pivot from basic infrastructure development to higher value-added projects.

From an investment perspective, exposure continues to lie primarily with EPCC-driven players, such as PANSAR (NOT RATED), IBRACO (NOT RATED), and IAB (NOT RATED), as well as cement player CMS (NOT RATED), although this will ultimately depend on the pacing and sequencing of major state projects. Execution risks remain. Many of these flagship initiatives hinge on PETROS securing sufficient natural gas allocation, with the state targeting up to 30% of total gas production over time. A definitive outcome may only emerge following a Federal Court decision in late 2026 or 2027, which remains a key overhang to the broader investment thesis.

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We were recently in Kuching, Sarawak, for a 3-day visit which encompassed government agencies (Meesty, SEDC, Sarawak Metro, Economic Planning and Development and Invest Sarawak) and Sarawakian companies (REACHTEN, IAB, PANSAR & CMS). Many helpful insights were gathered which helped us to better understand the state's future plans and its progress on its large goals. Sarawak has huge ambitions which are listed clearly in its Post COVID-19 Development Strategy (PCDS) as well as the multiple blueprints released for Sustainability, Digital Economy, hydrogen and semiconductor. During the visit we gained more insights on how the state planned to achieve its ambitious goals by 2030. During our visit, we have identified a few key themes anchoring the state's long-term future: -

- 1) **Proposed upcoming mega projects – deep seaport and new airport**
- 2) **The state's semiconductor push**
- 3) **Improving water coverage for the state**
- 4) **Energy restructuring (Sarawak Energy)**
- 5) **State-linked entities' streamlining of ownership structure**
- 6) **Green initiatives powering on in the state**

## Proposed Upcoming Mega Projects

**Proposed new airport and seaport: Tanjung Embang.** We have already been aware of ongoing highway projects which are still progressing, with 10 bridges expected to be completed this year and the state is now focusing more on the Sabah-Sarawak Link Road. However, we were more excited to hear from various parties that a new airport and deep seaport are being proposed which might be located at Tanjung Embang. A quiet coastal edge just outside Kuching, Tanjung Embang is all open skies, flat land and mangrove-lined shores. For now, we believe that this place remains rural and slow-paced as historically it is a agriculture and fishing village. In contrast, this place is being talked about as the Sarawak's next major growth mode, in which the state has earmarked for big ticket infrastructure – future airport, port and new townships, implying that the place will not stay quiet for too long.

**Why here?** Whenever a new site is proposed for mega projects like airport and deep seaport, a question that inevitably comes to mind is why the location was chosen. One of the key reasons we believe is due to the location of Tanjung Embang further to the West of Kuching, which allows for more runway orientation flexibility and cleaner, sovereign airspace for Malaysia. For background, the operations of the current Kuching airport have to contend with its proximity to the Indonesian airspace (West Kalimantan), hence, bringing some level of coordination friction and flexibility in runway usage during certain wind conditions for flights. By bringing the new airport more westward and closer to the coastline, the planners have a cleaner, more sovereign airspace for Malaysia and better room for parallel runway and independent approaches, which allows for higher long-term capacity for airports near Kuching area and better ease of operation of flights due to more air space buffer.

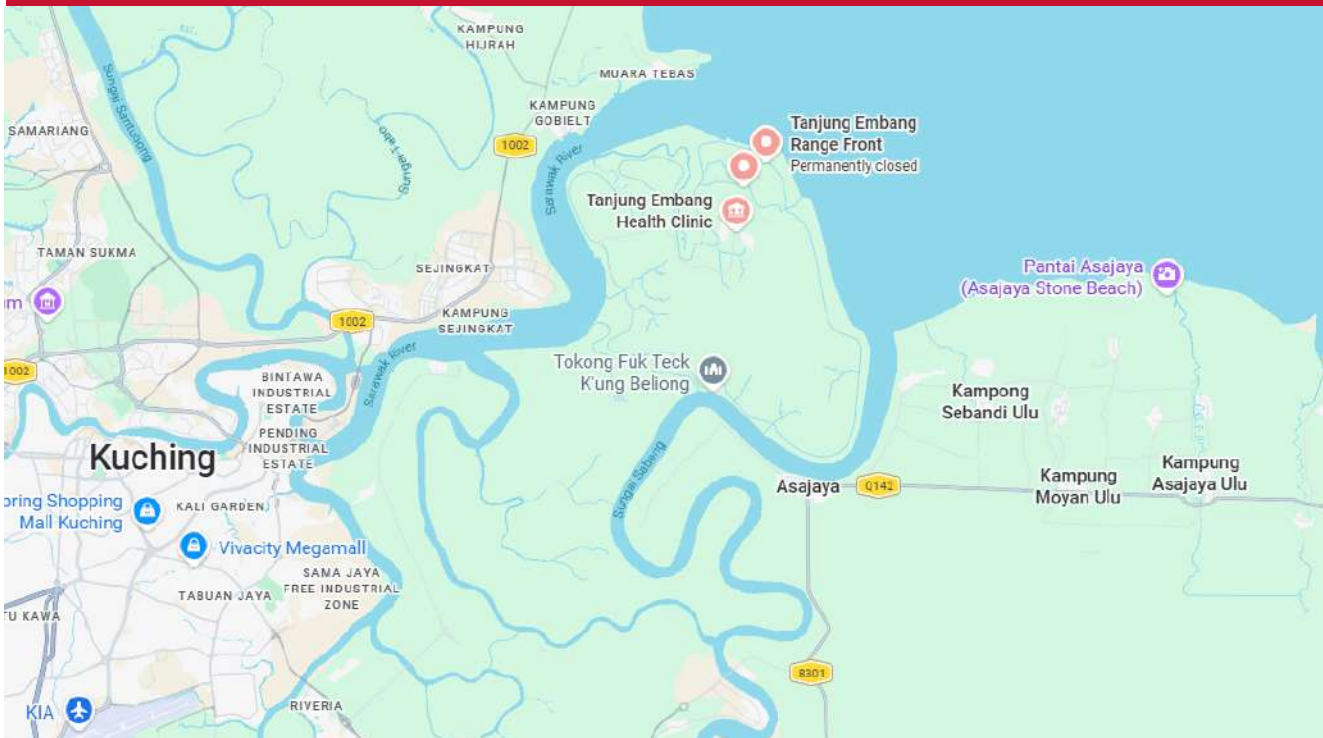
**Geographical challenges and benefits.** Based on our study and channel checks, Tanjung Embang consists of mainly flat coastal terrain, which is suitable for long runways, and this might result in lower earthworks costs versus hilly sites. The place also has large contiguous land parcels with a relatively low built-up density, which makes it easier for the airport to secure safety buffers (protection zones and noise corridors vs expanding the current Kuching airport). That aside, the coastal siting Tanjung Embang location also allows aircrafts to approach over water, reducing noise impact on denser residential areas.

Nevertheless, there are several geographical challenges, the soil at Tanjung Embang is likely peat or marine clay which requires ground improvement during the airport construction stage (preloading, vertical drains and piling). In addition, the low-lying coastal zones might also require elevated platform design to reduce flooding risks. Nevertheless, all these engineering challenges be managed but with potentially higher capex cost. Therefore, getting a gauge on the long-term air traffic growth in the Kuching area is key to justify spending on a new Kuching airport.

**Why does Kuching need a new airport?** Kuching International Airport handled 5.4m passengers in 2024, exceeding its designated terminal capacity of 5m passengers per annum. Importantly, the airport's current constraint lies not in its single-runway configuration, but in the terminal's original design capacity, which can be expanded through additional renovations—such as enlarging floor areas, increasing processing lanes, and adding contact gates and remote stands. The existing runway remains capable of supporting significantly higher traffic volumes, provided the terminals are upgraded accordingly. It is long enough to accommodate widebody aircraft and long-haul operations, indicating that further expansion of terminal facilities and ground operations could adequately support traffic growth over the next 10–15 years. However, over the longer term, the single-runway configuration will become a structural bottleneck for the state. In addition, airspace limitations around the existing airport may also be a contributing factor behind the proposal for a second airport, as they could constrain future growth and operational flexibility.

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Exhibit 1: Tanjung Embang map



Source: Kenanga Research

**How much will it cost?** While the timeline of the new airport is still uncertain, we could make reasonable assumptions or estimates of the potential capex for the new proposed airport based on the geography and Sarawak's potential needs. InvestSarawak has mentioned on June 2024 that the new Kuching International Airport will be modelled on the Hamad International airport in Doha, Qatar and is already engaging with consultants whom may be involved in the airport construction of Doha. That aside, InvestSarawak also stated that the state wants Kuching to become a hub with the airport that is capable of handling 15m arrivals annually. According to ACI Asia-Pacific regional benchmark, greenfield investment for airports averages at USD185 per annual passenger of capacity, which works out to be roughly USD2.8b for the proposed new Kuching Airport. Given that Tanjung Embang is coastal/low-lying, there might be premiums on ground improvement works (soft soils, flood and etc) and potentially longer access links or corridors. Hence, assuming a 25% premium to the expected total cost could mean a rough estimate for the new Kuching Airport might be USD3b-USD3.5b in total, by our calculation. The funding and ownership structure for the airport is unknown for now but we believe that a joint partnership between Sarawak State Government and Malaysia Airports are in the cards.

**A new deep seaport as well?** According to the Borneo Post, Abang Johari announced that the proposed deep seaport is expected to be situated 8km off the coast (potentially an artificial island), in waters 15 to 20 metres deep, and it would also serve as the site for Petroleum Sarawak Bhd's (PETROS) gas terminal. Together with a new Kuching International Airport, the new deep seaport together with the airport is estimated to cost RM100b (MIDA). The port is envisioned to serve as an integrated port city and logistics hub and gateway for the hinterland of Borneo, benefiting townships like Kuching, Samarahan, Serian, Gedong and Sri Aman. It is also set to become a major maritime gateway for the oil and gas industry in the Southern region of Sarawak, and the port could anchor PETROS' Kuching Low-Carbon Gas Hub and support carbon capture and storage (CCS) infrastructure. In our view, a pure generic container port in Kuching would be likely insufficient to justify a new deep seaport development as the current Kuching port (Senari port) appears to be sufficient to handle import export needs of the state.

**PETROS holds to key to the new port's success.** We believe that the potential economic success of a potential new port in Tanjung Embang hinges on the Kuching Low-Carbon Gas Hub (KLCH) and this also ties into the big picture of the Sarawak Gas Roadmap (SGR) (which is developed by PETROS). The SGR uses a 'Hub-and-Spoke' delivery model with four major hubs in Kuching, Bintulu, Samalaju and Miri designed to connect all parts of Sarawak. Kuching (KLCH) is the flagship and latest ambitious plan by the state as it is a greenfield project compared to the rest (which could be built on existing infrastructure).

**KLCH.** Based on Borneo Post, the development of KLCH will take place in three waves: -

**(i) Phase 1: LNG-to-Power as the Bridging Solution**

The first development wave will involve the commencement of the LNG-to-power project. In this phase, LNG will be supplied via a floating storage and regasification unit (FSRU) and a subsea pipeline, feeding gas into a new combined-cycle power plant (CCPP).

We view this as a bridging solution that enables the state to import energy in the form of LNG while it undertakes the multi-year process of developing the Western Sarawak gas resources. Until gas production from Western Sarawak achieves sufficient scale, the port is unlikely to serve as a hub for transporting piped gas as originally envisaged. Instead, LNG imports will continue to underpin the interim power supply strategy.

**(ii) Phase 2: Establishing a Low-Carbon Industrial Park**

The second wave builds on the initial infrastructure by developing a low-carbon industrial park aimed at attracting high-value industries. These include low-carbon petrochemicals (hydrogen, ammonia, and methanol), hydrogen clusters, as well as digital and technology sectors.

According to reporting by the Sarawak Tribune, the Kuching Low-Carbon Hub (KLCH) will be jointly developed by PETROS and the China Jiangsu International Economic Technology Cooperation Group Ltd (CJI). In addition to petrochemicals, KLCH is also expected to position itself as a hub for AI-related technologies, further broadening the economic base of the development.

**(iii) Phase 3: Transitioning KLCH into a Global Investment Destination**

The final phase envisions KLCH evolving into a global destination for downstream investments, focusing on high-value, low-carbon projects. These include low-carbon hydrogen for steel manufacturing, low-carbon ammonia, and other specialty chemicals.

We believe that the success of the port is closely intertwined with the execution and progress of KLCH, as the industrial ecosystem will dictate long-term throughput, energy demand, and investment viability. This phase could also mark the point at which carbon capture, utilisation, and storage (CCUS) technology is implemented at scale, with KLCH potentially serving as a CCUS hub for Sarawak.

**How viable is it to build a port at Tanjung Embang?** Developing a deepsea port at Tanjung Embang presents significant engineering and operational challenges, primarily due to the area's shallow waters and high sedimentation levels. The Sarawak coastline near the Sarawak River mouth is characterised by soft alluvial and marine sediments, which pose substantial consolidation and settlement risks when constructing large artificial structures. Building an artificial island of considerable scale on such soft seabed conditions in an open-sea environment heightens these geotechnical complexities.

**Exposed to weather patterns.** Tanjung Embang is exposed to the South China Sea, where port infrastructure must withstand monsoon swells, strong tidal currents, and occasional tropical storms. As a result, an artificial island situated approximately 8 km offshore would require extensive breakwater systems to ensure operational safety and protect harbour infrastructure—significantly increasing both upfront capital expenditure and long-term maintenance costs.

In addition, the port would require regular dredging to maintain sufficient depth for the berthing of large vessels. Given the natural tendency for sedimentation in the area, dredging would be an ongoing operational requirement, further adding to the overall operating expenditure. Therefore, we believe that the proposed deepsea port at Tanjung Embang will inevitably incur higher capex and opex compared with natural deepwater ports, given the demanding geotechnical conditions, exposure to harsh marine environments, and the recurring need for dredging and coastal protection infrastructure.

**Project status.** Overall, the project remains at the feasibility study stage, with master planning currently underway under PETROS. Separately, all ports in Sarawak are now consolidated under the Sarawak Ports Authority, which functions as a single governing body to streamline processes and decision-making. As such, we do not discount the possibility that the proposed deepsea port may eventually be placed under the Sarawak Ports Authority's jurisdiction.

According to New Straits Times, the new deepsea port is targeted to be operational by 2030 and will be developed in partnership with PETROS to serve as a gateway for energy imports and exports. The project is also expected to align closely with the Sarawak Gas Roadmap, supporting initiatives such as green hydrogen bunkering, LNG exports, and other energy-related activities.

**Tying the port into the big picture of the Sarawak Gas Roadmap.** To recap, the Sarawak Gas Roadmap—announced in 2024—is a 10-year strategic plan aimed at leveraging the state's natural gas resources to drive economic growth. Key objectives include increasing domestic gas utilisation to 30% by 2033 (from roughly 6% currently) and catalyzing value-added industries across multiple hubs, including Bintulu, Miri, Samalaju, and Kuching. The overarching goal is to shift Sarawak away from being primarily a raw gas or LNG exporter and instead move it up the value chain by expanding into downstream activities such as gas-powered processing plants, hydrogen bunkering, CCUS, and other high-value industrial segments.

**Beneficiaries.** At this stage, the earliest beneficiary for the two upcoming mega projects (new airport and new deepsea port) we can think of would be the construction or EPCC players (PANSAR, IBRACO) given that the contracting or subcontracting jobs would be awarded to local construction players (potentially JV with Chinese EPCC players or other major players) upon the final investment decision being made by the state government. That side, the cement producer CMS in the state will also benefit due to the higher demand for cement by this mega project and proximity to the site matters for cement logistics costs hence local players will always possess an advantage over imports. Nevertheless, the positive impact will only be significant if the state officially sanctions the project for development and work done hinges on the project funding as well (which ultimately links to the state's funding capacity).

## Sarawak's semiconductor push

**Building up IC capabilities.** Sarawak's entry into the semiconductor industry is relatively recent but moving fast. The state's flagship player is SMD Semiconductor, created in November 2022 in Kuching, which serves as the anchor for the broader ecosystem. SMD entered a Framework Service Agreement with Melexis NV of Belgium to undertake design services for high-demand chips and has since signed MOUs with partners including X-FAB (Germany) and Synopsys (US) to build up local IC design capability. The state government's ambition is captured in Premier Abang Johari's phrase "Silicon Nerve of Asia" — a bold positioning of Sarawak not just as a resource exporter but as a knowledge economy player in one of the world's most strategically important industries.

The strategic blueprint guiding all of this is the Sarawak Semiconductor Roadmap 2030, which charts a path to accelerate innovation, build deep local capabilities, and position Sarawak as a competitive and future-ready player in the global semiconductor ecosystem. ([EE Times](#)) The roadmap targets RM30b in contribution to Sarawak's GDP by 2030, which would contribute slightly over 10% of Sarawak's 2030 GDP target, create of 3,000 high-skilled jobs, and RM2b in semiconductor-related investments. ([Borneo Post](#))

The framework is structured around 14 strategies and 34 projects spanning IC design, critical infrastructure, talent development, and frontier technologies including compound semiconductors and AI-driven solutions.

**Energy is the state's advantage.** Internationally, Sarawak has been punching above its weight. In April 2025, the Premier led a high-level mission to the UK, visiting the Compound Semiconductor Applications (CSA) Catapult Innovation Centre, where SMD opened an R&D Innovation Hub. ([EE Times](#)) Key projects signed include the development of a Gallium Nitride High Electron Mobility Transistor (GaN HEMT) with Cambridge Microelectronics and XFAB Dresden Foundry, as well as the development of an AI-enabled power converter in collaboration with Sarawak Energy Berhad. This last point is significant — it directly links the semiconductor push with Sarawak's energy ambitions, with chips being designed to improve grid energy management and data centre efficiency.

One of Sarawak's key competitive advantages in attracting semiconductor investment is its abundant and cheap renewable energy. By combining the highly innovative ecosystems of global partners with Sarawak's cost competitiveness, abundant renewable energy supply, and skilled workforce, Sarawak aims to establish a resilient second source of supply for the global semiconductor industry — a pitch that resonates strongly given the global push to diversify chip supply chains away from Taiwan and China. Sarawak is also exploring semiconductor investment collaboration with Indonesia, given Malaysia's more advanced position in the industry (Indonesia Business Post), signalling broader regional ambitions beyond the state's own borders.

**Not trying to be second Taiwan or Korea.** While ambitious, the state is not targeting the full semiconductor value chain like Taiwan or South Korea. It is instead focusing on selected segments where its cost structure (cheap hydropower, industrial and smaller ecosystem) is competitive. In the high value/upstream layer, the state is focused on chip design, power semiconductor design (GaN devices), automotive IC design and AI accelerator integration as this is more talent heavy as opposed to capex heavy business for higher end fabs in Taiwan and Korea. In the midstream layer, Sarawak is targeting specialty analogue and mixed-signal wafer fabs (not 3-5nm advanced nodes) with applications in automotive sensors, industrial ICs, medical electronics and power device. X-Fab is the current anchor for this initiative. That aside, GaN electronics focuses on EV and charging technologies. Within the upstream supply chain, the state is also focusing on semiconductor materials i.e. polysilicon, specialty materials and semiconductor materials with partnering from OCI Tokuyama Semiconductor Materials due to its advantage in energy costs.

Exhibit 2: Sarawak Semiconductor Overview

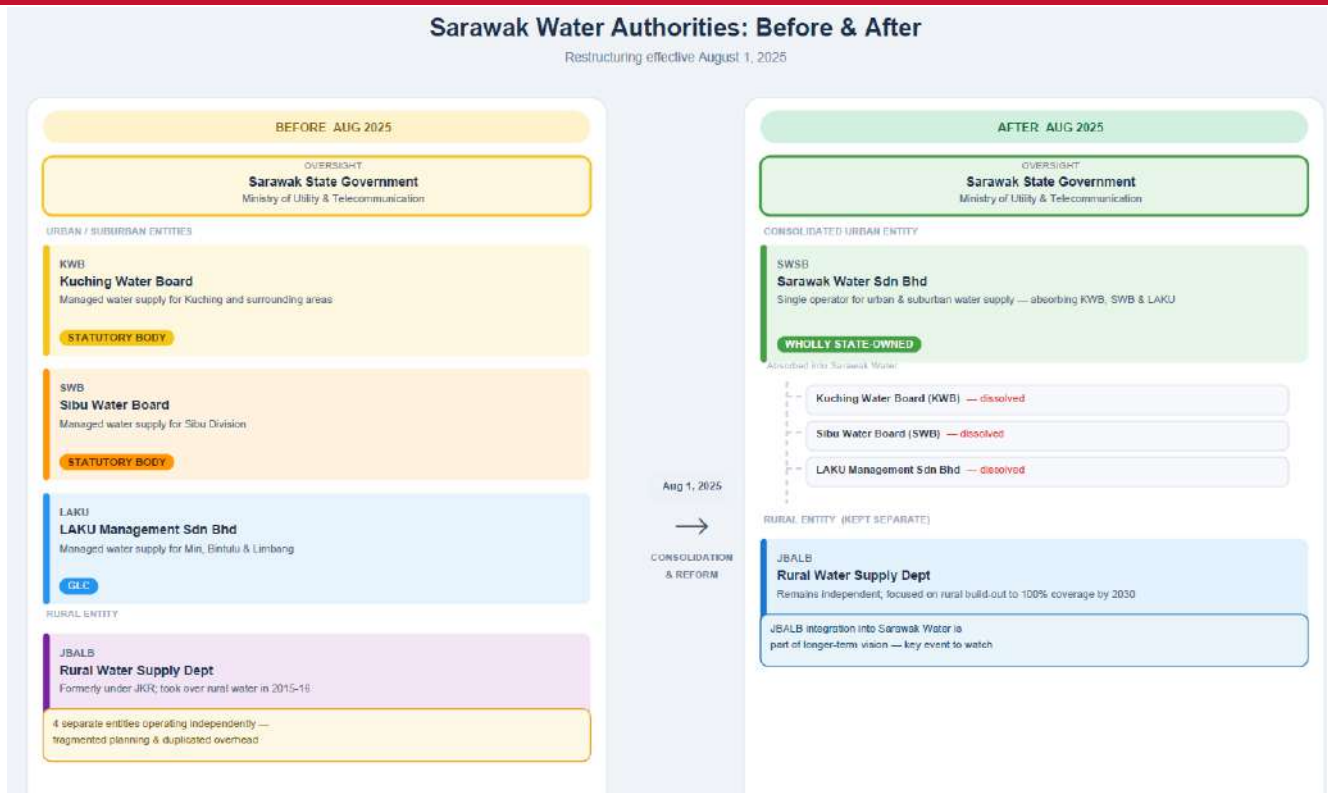


Source: Company

Improving water coverage for the state

**Water asset and regulator consolidation.** Sarawak Water Sdn Bhd was formally launched in August 2025 as the Sarawak government's consolidated water utility, backed by more than RM7b already invested in treatment plants and pipe upgrades. The merger officially took effect on August 1, 2025, consolidating the Kuching Water Board, Sibu Water Board, and LAKU Management Sdn Bhd into a single operator. Consolidation of fragmented utilities typically unlocks meaningful cost synergies, eliminates duplicated overhead, and creates a more bankable balance sheet. For a government-linked entity on a potential IPO or privatisation path, this rationalisation is a necessary precondition. That aside, we believe that water-related jobs could also be awarded more efficiently and at a faster pace to contractors' post-merger due to reducing layers of decision making, which implies that the state could fast track its Sarawak Water Master plan more efficiently in the coming years.

Exhibit 3: Sarawak Water Restructuring Before & After



Source: DayakDaily, The Borneo Post

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**Rural water coverage remains as the key focus.** As of late 2024, clean water access in urban areas had surpassed 90%, while rural coverage remained at just 71%, with the government announcing a RM20b total allocation to fully implement the Sarawak Water Master Plan. Rural water supply coverage improved from 61.9% in 2018 to 70.5% by mid-2024, lifting overall statewide coverage to 85.4%. That delta between current coverage and the 100% target by 2030 is not a risk — it's a growth driver. It implies a long, government-underwritten capex cycle with visible demand for the next five to seven years at minimum. ([DayakDaily](#)).

**State continues to drive the spending. The water projects are expected to remain capital intensive but still necessary due to its importance to the state's population wellbeing.** The Premier indicated the state would need at least another RM2b beyond the RM7b already spent to fully connect to the water grid system, bringing total committed investment to roughly RM10b, with a target of full statewide coverage by 2030. A RM1.1b pipe replacement programme covering 2,740 kilometres of ageing infrastructure began in late 2024 and is set to run in phases over five years. This is essentially a regulated asset base build-out — returns depend heavily on tariff-setting mechanisms and whether the utility can recover its asset costs efficiently. Since Sarawak Water is wholly state-owned and not publicly listed, tariff decisions have to balance out the economic costs with social costs, which is the primary downside risk an investor would need to price in. That said, the government's demonstrated willingness to commit state funds —on top of Federal allocations— suggests a strong sponsor with both the intent and fiscal capacity to follow through.

**Beneficiaries.** Since 2018, the Sarawak government allocated RM4b under an alternative funding scheme for 304 water supply projects and approved an additional RM809m ceiling under the 12<sup>th</sup> Malaysia Plan for another 127 projects. According to Sarawak Tribune, a more recent development in 2025 allowed projects valued below RM50m that were federally approved to be implemented through its Rural Water Supply Department. In total, the Sarawak Water Master Plan entails a total of RM20b to be spent and with RM7b spent (which took 7 years to be spent), the state still has RM13b (of which some were committed or allocated through alternative funding scheme and Feb 25 commitment towards the master plan) left to spend to be funded by the state. Overall, the water-capex beneficiaries remain as PANSAR and IAB due to their ability to execute on water-related EPCC jobs and systems. For pipe replacement, KKB and IBRACO remains the best proxy, after the latter has invested in a mild steel cement lined (MSCL) pipes from its new manufacturing plant at Demak Laut Industrial Park Phase 3.

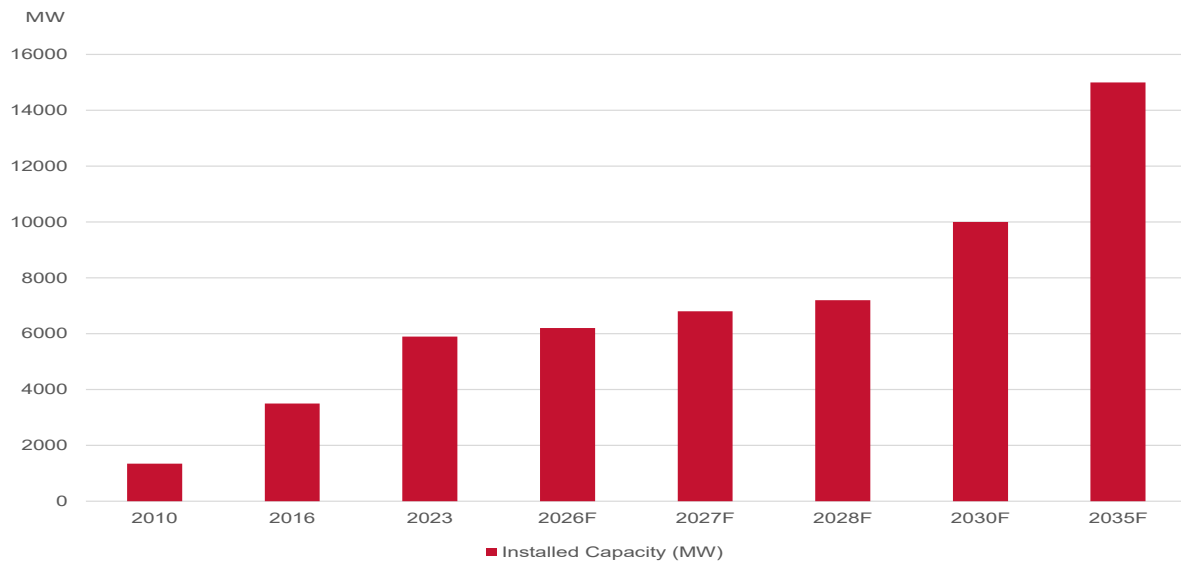
## Energy restructuring (Sarawak Energy)

**The Battery of ASEAN, Still Unlisted.** Sarawak Energy's core business spans the generation, transmission, distribution and retail of electricity, tapping the state's indigenous resources — hydropower predominantly, but also coal and gas — serving a customer base of more than 800,000 account holders with a workforce of over 6,300. Its available capacity across Sarawak is approximately 5,745 MW, the bulk from large hydroelectric plants at 3,558 MW. Its profit base of RM1.4b (based on SSM filings) is c. 35% of TENAGA (OP; TP: RM17.00) profit base which market cap is RM80b, still a very sizable power company given that it only serves the state.

**The Asset Base: A Hydro-Heavy Renewable Giant.** SEB currently operates three main hydropower plants — Bakun (2,520 MW), Murum (944 MW), and Batang Ai (94 MW) — and is completing the Baleh project (1,285 MW), alongside the 842 MW Tanjung Kidurong Combined Cycle Power Plant. Hydro-dominated generation assets carry several highly attractive investment characteristics: near-zero marginal fuel cost, long asset life, strong free cash-flows generation, and increasingly, a green premium as global capital chases renewable infrastructure.

**The Export Ambition — Regional Optionality.** What separates Sarawak Energy from a simple domestic utility is its regional export ambition. Since 2016, the company has been exporting power to Indonesia, averaging 190–200 MW to Indonesian national utility PLN. (The Edge Malaysia) More ambitiously, SEB plans to export 1 GW to Singapore by 2032 via an undersea cable developed by a Malaysian Singaporean consortium, and has signed power exchange agreements with Sabah Electricity for an initial 30 MW over a 15-year term. Singapore exports are the transformative prize — Singapore pays among the highest electricity prices in the region, and a 1 GW export deal at market rates would be a material earnings catalyst well beyond anything currently priced into the domestic regulated tariff framework.

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**Exhibit 3: Sarawak Energy Estimated Power Expansion Plans**

Source: Sarawak Energy &amp; other sources

**Exhibit 4: Sarawak Energy Projects List**

Project	Type	Capacity (MW)	Start	Expected Online	Status	Subsidiary	Key Notes
Baleh HEP	Hydropower	1285	2018	2028–2030	Under Construction	SEB Power Sdn Bhd	Largest upcoming HEP; 1,285MW on Baleh River, Kapit. CFRD design.
500MW CCGT (H2-ready)	Gas / Hydrogen	500	2024	2027	In Development	Sarawak Energy Berhad	Hydrogen-ready combined cycle turbine; boosts northern grid & may supply Sabah/Brunei.
Mukah Solar PV Plant	Solar	100	2025	2027	In Development	Mukah Solar Powerplant	JV with Solarvest & Press Metal; large-scale solar farm in Mukah.
Solar-Hydro Hybrid	Solar / Hybrid	50	2024	2025	Commissioned	Sarawak Energy Berhad	50MW pilot at Batang Ai — first solar-hydro hybrid in Sarawak.
BESS Sejingkat	Battery Storage	60	2023	Dec 2024	Commissioned	Sarawak Energy Berhad	60MW / 82MWh battery energy storage system; grid stabilisation.
Floating Solar	Solar	500	2025	by 2030	Planned	Sarawak Energy Berhad	Multiple floating solar installations across reservoirs.
Hydrogen Projects	Green Hydrogen	400	2026	2026–2032	Early Stage	Sarawak Energy / JVs	Partnerships with SK Energy, Sumitomo, ENEOS. Export & domestic use.
CHITOSE C4 Sarawak	Carbon Capture	5	2023	Operational	Commissioned	SEB / CHITOSE Group	5ha algae facility capturing coal plant CO2; produces aviation biofuel.
Northern Grid Extension	Transmission		2024	2025	In Development	Sarawak Energy Berhad	Enhancing reliability and export potential northward.
New Large HEPs	Hydropower	3000	2028	2028–2035	Concept / Planned	SEB Power / TBD	Future cascade dams; up to 20,000MW hydro potential in Sarawak.
ASEAN Grid Interconnect	Transmission		2025	2030+	Negotiation	SEB / Sembcorp / SPGroup	Power exports to Singapore, Philippines, Indonesia, Brunei, Sabah.
Ocean Thermal (OTEC)	Renewable		2024	Post-2030	Research / Pilot	Sarawak Energy Berhad	OTEC pilot in Miri — early-stage research into ocean thermal energy.

Source: Enlit Asia, SolarQuarter, Asia Pacific Green Hydrogen

**The Growth Capex: Ambitious But Capital-Hungry.** SEB is targeting 10 GW of generation capacity by 2030 and 15 GW by 2035, up from about 6 GW currently, with a [RAM Ratings](#) suggesting the company will need to almost double its annual capital expenditure to around RM4.5b to reach those targets. To support this, SEB has issued an RFP for five new hydropower dams, with shortlisted firms entering joint development agreements with SEB Power Sdn Bhd, followed by power purchase agreements with SESCO. ([The Exchange Asia](#)) THE RFP for the five dams are collectively called the cascading power sources (CPS) with submissions due by end-August 2026, with commercial operations slated for c. 2034-2035. This is an extremely capital-intensive trajectory, and it is precisely this funding need that is driving the IPO conversation.

**The Breakup and Listing Scenario.** Sarawak Energy is exploring the possibility of listing its power generation business in what could be one of the largest listings on Bursa Malaysia in recent years. The logical structure for a breakup follows the classic utility unbundling playbook — separating the natural monopoly regulated infrastructure from the competitive generation assets. The generation business (Bakun, Murum, Batang Ai, and future dams such as Baleh) would be a strong candidate for a potential IPO given its cashflow base and long-term growth potential. In addition, this is not too surprising to us as it was listed before and subsequently privatised in 2009. It holds the renewable hydro assets, carries the export optionality to Singapore and beyond, and would attract international infrastructure and ESG-mandated capital. Packaged as a pure-play renewable IPP (independent power producer) with a 15 GW growth roadmap could be its valuation trump card versus peers.

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**SESCO — the transmission and distribution arm** — would likely remain wholly state-owned, mirroring how most governments globally retain T&D as regulated national infrastructure. It is the natural monopoly wire business with stable regulated returns but limited upside. Being unlisted preserves the state's control over electricity tariffs. The critical question for any prospective investor is tariff structure and PPA terms. Unlike water, where Sarawak Water is funded directly by state allocations, Sarawak Energy's revenue is driven by electricity tariffs and PPAs.

**If true, Sarawak Energy could be a huge IPO.** While no details are being confirmed yet, a listing or partial listing of Sarawak Energy could be in the cards for Sarawak as it enables the group to better raise funds for its ambitious plans to expand its power generation capacity to 10 GW by 2030 (from 6 GW currently) and eventually 15 GW by 2030 which is going to be capital intensive. By accessing SSM data, Sarawak Energy (including both transmission and distribution) as a group delivered c. RM1.4b PAT (about 30% of TENAGA's 2024 profit base of RM4.8b). There are no details on the listing at this juncture but in FY24, its power generation subsidiary, SEB Power Sdn Bhd, generated PAT of RM783m.

Do note that back in 2009 the last traded market cap was at RM3.9b, implying a historical PER of 20x although it has already been more than a decade. Currently, pure power generation play listed in Malaysia like MALAKOFF (OP; TP: RM1.00) is trading at 23x FY26F PER and regional SEMBCORP is at 12x. If successful, the IPO will turn the company into a great proxy for investors to get exposure to the Sarawak state economic growth in the coming decade as energy relates to all the roadmaps to be undertaken by the state government for growth.

## State-linked entities' streamlining of ownership structure

**SEDC and PETROS movement.** SEDC Energy Sdn Bhd and Sarawak Metro Sdn Bhd, two of SEDC's most high-impact subsidiaries, will be officially moving out of SEDC and placed under new state entities beginning 2026. Sarawak Metro Sdn Bhd was officially transferred from SEDC to the State Financial Secretary (SFS) Inc. in January 2026, marking its transition into a standalone State-Owned Enterprise (SOE). Following this, SEDC Energy Sdn Bhd is also slated to move out of the SEDC portfolio beginning 2026, to be placed under Petroleum Sarawak Berhad (PETROS). SEDC Energy, formed in 2019 as SEDC's energy arm, drives the state's green energy agenda, focusing on hydrogen development, clean mobility, and positioning Sarawak as a key player in the global energy transition. Placing it under PETROS makes strategic sense to us — it consolidates Sarawak's upstream and downstream energy assets under one state-owned oil and gas champion, with SEDC Energy's hydrogen and clean fuels work complementing PETROS's broader energy mandate.

**Ports Restructuring — Sarawak Ports Authority.** On July 17, 2024, the Dewan Rakyat approved the Bill to repeal the Bintulu Port Authority Act 1981, transferring the powers, rights, duties, liabilities, and obligations of the Bintulu Port Authority to the Sarawak government — changing Bintulu Port's status from a federal port to a state port, in line with MA63. This was a significant political win, as Bintulu is Sarawak's most commercially critical port given its role in LNG exports.

On the regulatory side, the Sarawak Legislative Assembly unanimously passed the Sarawak Ports Authority Bill 2024, establishing the Sarawak Ports Authority as the central port regulatory body, replacing the Ports Authorities Ordinance 1961. The Sarawak Ports Authority will serve as a single regulatory body for all state ports, replacing the existing individual authorities in Kuching, Rajang, Miri and Bintulu, and is on track to be operationalised by the end of Q2 CY26. Bintulu Port Authority Sarawak (BPAS) has been set up to replace the authority for Bintulu Port in 2024. The process is structured in three phases (interim, corporatisation and privatisation). In the interim phase (which the state has completed), regulatory authority will be transferred from the existing port boards to the Sarawak Ports Authority.

The corporatisation phase will involve converting the current statutory port boards into wholly state-owned companies under the Companies Act, allowing port management and operations to be market-driven with a focus on efficiency, financial strength and accountability, and preparing for future privatisation. To expand on it further, this does not affect BIPOPT as it is already owned by investors in the open market and will likely not be affected by the regulatory restructuring. Hence, the corporatisation phase will likely involve other ports namely Kuching, Rajang and Miri. The privatisation phase (Phase 3) might enable Sarawak Port Authority with the Cabinet's approval privatise port undertakings and operations by licensing a new entity (private investors) which largely means that more private ownership will materialise eventually for the new consolidated entity. (At this juncture, we do not know about how these ports' ownership will be gradually privatised (from being fully state-owned) but we reckon there are plenty of options available.

**Setting up state aviation arm.** In 2023, the Sarawak government announced its intention to acquire MASwings to establish a state-owned airline. The acquisition was formally completed on 13 January 2025, followed by a signing ceremony on 12 February 2025, during which the airline's rebranding as AirBorneo was officially introduced. MASwings had previously been a wholly owned subsidiary of the Malaysia Aviation Group (MAG), which also owns Malaysia Airlines and is in turn owned by federal sovereign wealth fund Khazanah Nasional. The Sarawak government acquired MASwings— Sarawak is taking over with a fresh start, though the actual acquisition price was not publicly disclosed, with Premier Abang Johari citing commercial sensitivities.

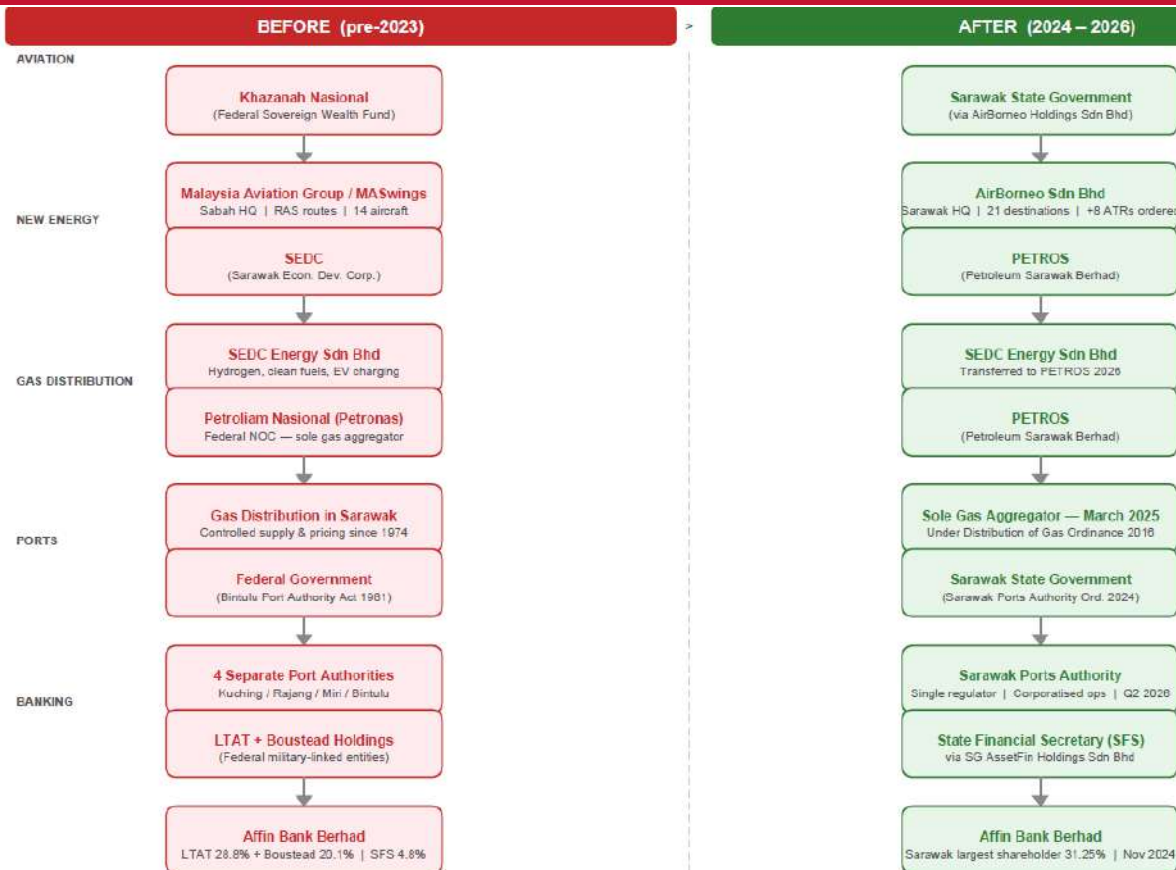
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**AirBorneo: Scope and Ambitions.** The rebranding to AirBorneo took effect on 1 January 2026, with the airline relocating its headquarters from Kota Kinabalu to Sarawak. All existing MASwings staff were absorbed into AirBorneo, with Sarawakian applicants given priority for technical and operational positions for future vacancies. The ambitions go well beyond simply maintaining the existing rural routes. AirBorneo plans to open direct routes to Singapore, Kuala Lumpur, Jakarta, Bali, Hong Kong, and Shenzhen, which would require new jet aircraft beyond the ATR turboprops and Twin Otters currently in the fleet. AirBorneo also decided to purchase ATR 72-600 aircraft rather than lease them, a decision that drew some public scrutiny over cost-effectiveness.

**Rural Air Services and Federal Subsidies.** A key unresolved question is the continuation of the Rural Air Services (RAS) subsidy. The interim RAS agreement between the federal government and MASwings signed on December 19, 2024 remained in force until its expiry at end-2025, and Sarawak's Transport Minister confirmed the state is engaging with Malaysia's Transport Ministry and relevant federal agencies to work out new terms and conditions for a new RAS agreement — including the continuation of federal subsidies. This matters because MASwings had previously operated under a PSO agreement that included an annual federal subsidy of RM209m to cover unprofitable rural routes. Negotiating who continues to fund those routes under the new ownership structure is still ongoing. We believe that this will help to provide an earnings base for MASwings to sustain the economic viability of the business.

**Taking more control and streamlining structures.** Taken together, the restructurings reflect a broader Sarawak state strategy: rationalising its sprawling stable of GLCs into cleaner, more purposeful ownership structures infrastructure under dedicated state holding companies — while simultaneously clawing back control of key economic assets from the federal government. This allows Sarawak to take ownership of its key assets and streamline in processes in order to create a more conducive environment for growth spanning across three key sectors: energy, logistics (aviation) and ports, setting up a fertile ground for more external investments to flow into the state.

## Exhibit 5: Sarawak State Entity Restructuring



Source: Borneo Post, DayakDaily, Bernama, The Edge Malaysia

## Green initiatives powering on in the state

**PETROS: The Key Player.** PETROS has been issued the first licence for Carbon Storage in Sarawak, formally designated it as the state's CCUS resource manager. It has also launched its first Sustainability Report covering 2022–2023, showcasing its ESG commitments. In January 2026, PETROS signed a Joint Collaboration Agreement with US-based HYCO1 and PJ Energy Services to explore technologies that convert CO<sub>2</sub> emissions into high-value industrial products. HYCO1's patented technology combines captured CO<sub>2</sub> with natural gas to produce chemical-grade syngas while reducing natural gas consumption by up to 50%. This is a notable step from storage-only CCS toward actual CO<sub>2</sub> utilisation. That aside, A storage study agreement was established between PETROS and Woodside Energy covering Site 3A in Central Luconia offshore Sarawak, where Woodside will evaluate both technical and commercial aspects of offshore carbon storage. Sarawak's landmass geology is estimated to have a CO<sub>2</sub> storage capacity of 3 trillion cubic metres, positioning the state as a potential leader in carbon storage development.

**Kasawari is ambitious compared to Norway Sleipner project.** The Kasawari offshore platform by Petronas is designed to process and inject 3.3m mt of CO<sub>2</sub> annually from gas with 40% CO<sub>2</sub>, which is four to five times larger than Norway's Sleipner project. To recap, Norway's 1991 carbon tax on offshore oil and gas industry effectively gave birth to its CCS industry. The project has operated continuously since 1996, storing over 19m MT of CO<sub>2</sub> by end-2022, though it averaged 0.8m MT per year for the first 20 years of its operations, below its design capacity of 1m MT. Its 2<sup>nd</sup> CCS project at Snovit was more problematic as the field exhibited a gradual rise in pressure after three years of operation, indicating that the CO<sub>2</sub> could not spread to as much of the available pore space as first thought but the problem was solved since then.

However, the broader global picture is worse as the real-world CO<sub>2</sub> capture rate across operational CCUS projects globally was just 49% (greenleft.org.au). CCS has three compounding reliability issues: -

- (i) Capture efficiency falls short of design specs.
- (ii) Underground storage unpredictable behaviour
- (iii) Difficult economics unless carbon price is conducive.

**Carbon pricing is key to justify CCUS economics.** Overall, we believe that CCS implementation possesses execution risks, but its economics could only make sense to Petronas if carbon pricing is aligned with the cost of the project. Hence, we do not foresee immediate impact to oil & gas or even industrial players in the state as the carbon tax has yet to be announced yet. Nevertheless, for Petronas & PETROS, CCS technology in the longer run would open up a potential path to net zero and justify its growth in oil & gas production without adding too much net CO<sub>2</sub> emissions. Sarawak will begin implementing a carbon levy in 2026 as part of the state's commitment to addressing climate change. As of 9<sup>th</sup> April 2026, the Federal and Sarawak governments have reached an agreement to establish a special joint committee aimed at coordinating Malaysia's carbon policies and streamlining the national carbon market.

Unveiled at the Asia Carbon Conference 2025, SSB 2030 outlines 10 strategic thrusts, 48 strategies, and 111 actionable plans to guide Sarawak's environmental and economic transformation, developed by MEESTy.

**Sarawak's energy mix already ahead of the curve.** Premier Abang Johari highlighted that hydropower now accounts for 70% of Sarawak's energy mix, enabling the state to cut its grid carbon emissions by 72% since 2010 by pivoting to hydropower generation (from mostly fossil fuel power previously)— well ahead of its 2030 targets. This is a genuinely impressive baseline that few regions in Southeast Asia can match.

**The Big Picture.** Sarawak has issued three documents on energy transition roadmap for the state namely: Sarawak Energy Transition Policy (SET-P), Sarawak Hydrogen Economy Roadmap (SHER), and Sarawak Sustainability Blueprint (SSB 2030). Therefore, the key issue now is how the state will translate them from well-crafted documents into bankable projects to attract potential investors into the green technology industry in the state, especially with the Petronas-PETROS legal cloud still hanging over the gas and CCUS investment landscape. These three documents together form the most ambitious and coherent state-level green policy stack in Malaysia, setting up the framework for green policies in the state. What makes Sarawak's position unique is that it has real renewable energy credentials to back it up through scalable hydropower due to its geographical advantage over other states in Malaysia, which mostly can only scale through solar build out.

Exhibit 6: Sarawak Energy Transition Policy Overview			
	SET-P Sarawak Energy Transition Policy	SHER Sarawak Hydrogen Economy Roadmap	SSB 2030 Sarawak Sustainability Blueprint 2030
<b>Launched</b>	August 2025	May 2025	May 2025
<b>Lead Agency</b>	MEESty Sarawak	MEESty / MOSTI	MEESty Sarawak
<b>Time Horizon</b>	To 2050	Medium-term (~2035)	To 2030
<b>Role / Purpose</b>	Unified energy transition framework — consolidates all existing strategies under one policy document. Addresses the energy trilemma: security, affordability, sustainability.	Full hydrogen value chain roadmap: from cost-effective production and infrastructure to certification, offtake agreements, and innovation.	Overarching sustainability strategy and parent document for SET-P and SHER. Broadest scope covering economy, environment, and society.
<b>Pillars / Thrusts</b>	7 pillars: 1. Renewable Energy 2. Natural Gas 3. Energy Efficiency 4. Low-Carbon Mobility 5. Clean Hydrogen 6. CCUS 7. Alternative Energy	5 strategic priorities: 1. Scale up production 2. Build domestic demand 3. Secure intl offtakes 4. Establish H2 certification 5. Invest in technology & innovation	10 strategic thrusts: 48 strategies 111 actionable plans (Energy transition = Thrust #1)
<b>Target Sectors</b>	Power · Transport · Industry · Buildings	Transport · Industry · Export markets	Energy · Economy · Environment · Society
<b>Key Numbers</b>	RM550B cumulative GDP by 2050 80,000+ new jobs created RM580–700B projected investment	Scale H2 output (green + blue) Secure long-term intl offtake deals APGH Conference — June 2026, Kuching	72% grid carbon cut since 2010 70% hydro in Sarawak's energy mix ~3M ha carbon-rich forest (40% of Malaysia's total)
<b>CCUS Role</b>	Core pillar #6 of 7 — integral to transition strategy. Key projects: Kasawari, Lang Lebah, M3 field (PETROS-managed).	Enables blue hydrogen production. Relies on PETROS-managed CO2 storage sites offshore Sarawak.	Part of Carbon Markets & CCUS thrust (thrust #4). Supports net-zero by 2050 target.
<b>Social Commitments</b>	>75% of income generated to benefit low & middle-income groups. Free higher education to cultivate green-collar talent pipeline.	Workforce readiness and local talent development. Participation from 400+ international delegates at H2EF 2025.	Social inclusion and equitable growth as core principles. Indigenous community involvement in carbon credit programmes.
<b>Governance</b>	State Energy Council to be established in 2026. Blended finance facility to crowd in private & development bank capital.	Cross-agency coordination via MEESty and MOSTI. Public-private collaboration model.	MEESty-led across all state agencies. Aligned with PCDS 2030 (Post-COVID Development Strategy).
<b>Implementing Arms</b>	PETROS — gas aggregation, CCUS Sarawak Energy Berhad — hydro, solar, grid	PETROS · Sarawak Energy · Private sector · International partners (Japan, S. Korea, Australia)	All state agencies under MEESty. PETROS and Sarawak Energy as primary delivery vehicles.
<b>Key Risk / Watch Point</b>	Kasawari CCS delay (target slipped to 2029–30?) Low carbon price (RM15/tonne) vs Norway's \$51/tonne	Blue H2 depends on CCS delivery. Green H2 requires significant electrolyser scale-up.	Petronas–PETROS federal-state legal dispute clouds investment confidence across all CCUS and gas projects.

Source: Borneo Post, DayakDaily, Bernama, The Edge Malaysia

## Conclusion

Overall, we believe that Sarawak is continuing its efforts to gain more control of its key assets while paving the way for more foreign direct investments into the state to drive the state's GDP in the medium and long term. We are also encouraged by the fact that the state is streamlining its authorities and regulators in key industries to smoothen out the project approval processes which helps to expedite major water, port and energy related projects in the future and make it easier for external investors in invest in the state. The state has also transitioned from building infrastructure in the past decade (Samalaju port, Borneo highway and etc) into higher value and more ambitious project such as the new airport and deep seaport nearby Kuching as well as its inroads in the semiconductor industry. That aside, the state is also trying to attract more higher value industries into the state leveraging on its power cost advantage.

**Everything hinges on power and gas.** To realise all its long-term development goals, we believe that it is highly crucial for Sarawak to possess gas aggregation rights for the gas being produced in the state as currently Petronas is selling most of the gas as LNG to foreign countries. Without sufficient gas supply for local usage, Sarawak Energy could be constrained to grow its gas-powered capacity in conjunction with the upcoming Baleh dam to reach the stated power capacity objective of 10GW by 2030. This will in turn slow down its plans to attract foreign investments in high value industries in the state (due to unavailability of significant additional power generation). That aside, the viability of the proposed deep-sea port will depend on the gas projects because the state's domestic economy by itself in our view is not sufficient to justify the potential capex of the port. At this juncture, The Federal Court granted Petronas leave to pursue its challenge on the constitutionality of several Sarawak ordinances governing oil and gas matters.

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**PETROS-Petronas gridlock goes into the final phase.** Chief Judge of Malaya Hashim Hamzah ruled that Petronas had met the threshold for the court to hear its petition. The court ordered Petronas to file its petition detailing the challenged provisions within 21 days, paving the way for a full hearing on the matter. The federal government notably did not object to Petronas proceeding. Critically, Sarawak didn't just wait to defend. On 23 February 2026, the Sarawak government filed its own petition in the Federal Court to determine the constitutional validity and continued applicability of the Petroleum Development Act 1974, the Continental Shelf Act 1966, and the Petroleum Mining Act 1966 to Sarawak. Sarawak's position is even more sweeping — the state argues that the sovereign rights to Sarawak's petroleum resources were vested in Sarawak on Malaysia Day under MA63, not in the Federation, and that the federal laws were originally for Malaya and were only extended to Sarawak under the 1969 Emergency Proclamation, which was annulled in 2011.

**When Will There Be a Final Decision?** There is no fixed deadline. With Petronas now having 21 days (which could be longer as Petronas has not filed any petitions at this juncture) from March 16 to file its full petition, the earliest the full constitutional hearing could be scheduled is likely mid-2026— Federal Court constitutional cases of this complexity typically take months to hear and decide. The stakes could not be higher — this is effectively a constitutional reckoning over who owns Sarawak's oil and gas, a question that has been simmering since 1974. The outcome will define not just the PETROS-Petronas relationship, but the entire framework of federal-state resource rights for decades to come. Therefore, it would be crucial for us to monitor the constitutional hearing in the coming months as it pertains to the state's future growth story and also Petronas role in the state in the space of oil and gas.

**Beneficiaries remain within the EPCC and construction space for exposure in Sarawak growth.** Until then, we believe that water related projects will still be the more likely segment to still see ramp-up in spending due to its political importance, which will in turn benefit **IAB, PANSAR and IBRACO**. We believe for exposure to the state the play still remains in the EPCC-related player and maybe even cement player as well (CMS) due to possible ramp-up in cement demand if deep sea port and new airport FID is announced as Sarawak will still be on building phase (albeit it has moved from basic infrastructure to higher value projects) in the coming years and we have yet to have any major exposure to asset owners (Sarawak Energy is still privately owned for instance).

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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