One Person's Risk Is Another Person's Opportunity

Assessing Technology and Data Centre Landscape Post US Mid-Terms

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Post US mid-terms, this has caused unease in US Tech stocks, and Malaysia tech names have also been dragged down by sentiment. More questions have also been posed on Data Centre rollout in the US amid concern of higher regulatory hurdle and slower new approvals in key states. For the tech secctor, we foresee a sentiment and valuations dip rather than earnings from delay in data center rollout. This is because Kenanga estimates that supply of wafers would have been playing catch up to fulfil DC demand in the first place (exhibit 1) being short by 21%, per Kenanga's rough gauge. In other words, there remains "buffer" for earnings estimate for semiconductors even if DCs were to be cancelled in the US. By our count. This view helps us keep conviction on NATGATE and AMBEST. Elsewhere, we also like KGB, which has strong secured revenues. We don't yet see urgency for bargain hunting for tech names sector wide.

On the potential for data centers development shiftomg to outside the US altogether, such as META saying eyeing overseas expansion, this is a modest positive for Malaysia. Our view is that this could anchor greater longevity of the Data Centre play locally, rather than an acceleration of demand immediately, on grounds that the affected pipeline in the US is likely concerning new approvals. This news could also benefit colocation players in Malaysia, subject to being able to ensure that resource such as water and power are sufficient; YTLPOWR and property names are currently unduly discounted at current share prices, in our view for the Data Centre prospects. More enduringly, we like TENAGA on the need to invest in infrastructure, and see recent weakness on skepticism over IBR mechanism as excessive. Within the M&E space, we like KEEMING.

Malaysia as a modest positive

Concern post mid-terms affects sentiment. Worries of stricter oversight post the U.S. mid-term elections post the Democrats sweeping both houses of U.S. Congress had caused concern on stricter federal and state oversight on the infrastructure fuelling the AI boom. The more immediate concerns at this time is intertwined with the speed of data centre approval pipeline with later ramification on AI regulations, which have affected share price of Technology stocks in the US. At time of writing, the KL Technology index slipped by another further 5% Since US Mid-Terms.

Approval slowdown risk with some exploring outside of Malaysia. Texas, the poster child being the lion's share of US data centre pipeline, has seen Governor Gina Hinojosa pushed on her campaign for tighter rules on new DC developments, including ensuring that operators bear their own power costs, protect water availability, pay their fair share of taxes and giving voice to local communities. To put the scale of the US data centre pipeline into perspective, the US is approximately 30x larger than Malaysia in terms of land area. US has planned pipeline of ~400GW including live capacity. Malaysia currently has an estimated DC development pipeline of ~8GW through 2030, which would translate into ~240GW for the US if we simply scaled by land size, still trailing that of the US.

We believe that the key distinction here is between projects already permitted and those applying for new approvals. If existing projects are allowed to proceed, the near-term impact on pipeline could be contained, and that risk would be to projects coming online from 2028/29 onwards. Case in point, META (post mid terms) has said will look at eyeing overseas expansion. This is modestly positive thesis for Malaysia colocation plays. Coincidentally, around the same time with Mid-Terms, Google had committed to spend USD15b over 2027/2028 in Malaysia. Microsoft on the other hand have earlier (in October) told New South Wales government officials that projects would move to Malaysia or Indonesia if they were unable to unlock power agreements (link), being other examples of Malaysia being a hot spot.

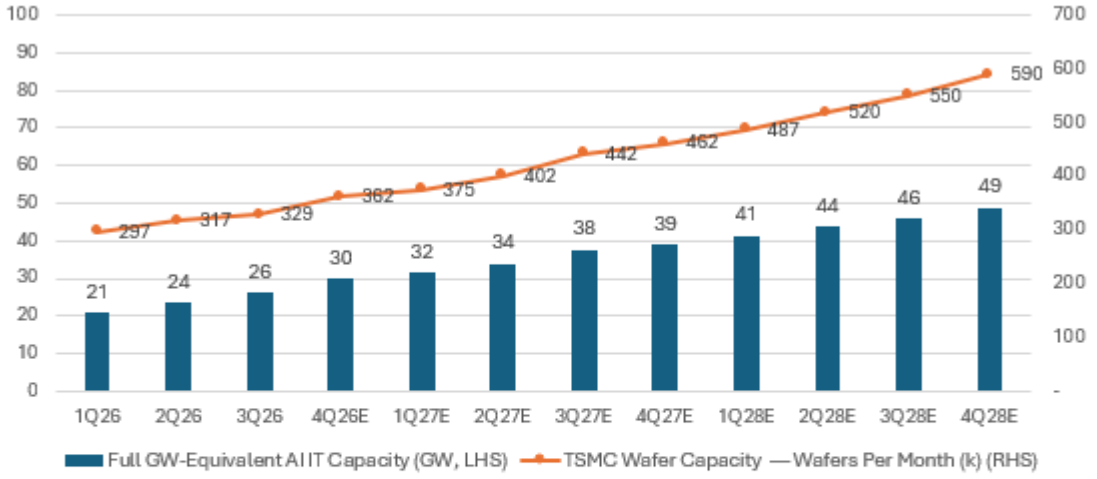
Why a small DC cut back won't translate to an earnings concern in our view for technology sector

The growth in demand would have been constrained by supply to some extent.... To assess whether the current DC development pipeline is adequately supported by the semi supply, we examined the additional DC capacity planned globally (ex-China) against the potential AI compute capacity supported by TSMC's wafer production. On the demand side, we identified

a total pipeline of 406.9GW, of which the US accounts for the lion's share at 345.9GW (~85%) (link). On the supply side, we estimated TSMC's wafer capacity across advanced nodes, and we had applied assumptions on AI allocation, chip yields and power consumption to theoretically derive the potential AI accelerator output and translate it into GW-equivalent DC capacity. Based on our estimates, TSMC could support approximately 142 GW and 180 GW in 2027 and 2028, respectively, bringing the combined supply to 322 GW. While planned expansion by TSMC naturally would be lower than DC pipeline as these are usually guided by projects with visible progress and power availability, this is still 21% below the planned DC pipeline.

… and thus not every planned DC needed to materialize. Even assuming 50GW of planned capacity is cancelled or deferred, the remaining pipeline of 356.9GW would still exceed our estimated semiconductor-supported supply by ~10%. This suggests that not every planned DC project needs to materialize to sustain demand for AI hardware, as semiconductor supply is the binding constraint. Hence, we believe the risk of project cancellations translating into an immediate decline in AI hardware orders could be relatively contained. This is assuming the 50GW is delayed outright and not relocated to other regions like South East Asia.

Exhibit 1: Estimation of Demand by Data Centres Versus Supply (TSMC)



Additional Demand (GW)	
US	345.9
Asia Pacific	33
Europe	22
Others	6
Total ex China	**406.9**

Supply (GW)	
TSMC 2027	142.4
TSMC 2028	180.1
Total Supply	**322.5**
Undersupply	*-21%*

Source: Kenanga Research, Companies. Note: Kenanga utilized own assumption of wafers per month, which is converted to AI accelerator outputs (based on gross GPUs per wafer and assumed AI allocation), before expressing the outputs as equivalent AI capacity (based on assumed power consumption per GPU).

Tech names worth visiting although we are not bargain hunting broadly. Premised on our assessment that demand forecasts conveyed by **NATGATE**'s optical transceiver customers are likely predicated on expected GPU shipments, which in turn depend on wafer capacity secured from TSMC, thereby providing a buffer against potential DC project cancellations. we remain positive on **NATGATE.** Separately, strong global demand coupled with ongoing supply constraints across WFE subsystems continue to benefit **AMBEST**, and we believe potential DC delays are unlikely to materially alter its outlook. For front end names, we also like **KGB** that has its revenue for 2027/2028 secured.

Malaysia seen to modestly benefit

Likely extends the visibility of data centre play, rather than a speeding up. DC rollout in Malaysia is already at high clip with Google actively rolling out contracts, and committing to USD15b spending over in 2027 and 2028. Given the fact that the disruptions in the US are likely on new approvals, we believe this will cause some of the build out plans to be explored outside of Malaysia, which in theory should lengthen the visibility in Malaysia; the quantum is hard to estimate at this juncture. The view against an immediate ramp up is also because barriers are also becoming more strict locally, with some approval bottleneck needing to be sorted out - recently Malaysia government unveiled 24 applications for approval are on hold, subject to power and water checks (news). This was to ensure new developments do not strain existing resources, whereby states without sufficient water should not host data centres, while investors are encouraged to introduce water recycling technologies. In the example of Google's investment, it is also investing in clean energy and water projects.

Watching demand impact on colocation market. A total of 12.3 GW of energy capacity has been approved for data centres (news) as of August this year, with the maximum demand from the sector projected to hit 8.39 GW by 2030. Existing rollout could still be maintained in our view compared to the speed in the last few years, although signing of energy supply agreement (ESA) now needing to consider power availability and water supply coupled with confirmed offtaker. Improved visibility for DC demand in Malaysia, would be a positive especially in areas such as the colocation data centre market which we view as relatively competitive.We foresee hyperscalers being a greater part of the demand mix could also spur demands for renewable energy, given clean energy is commonly part of their strategy.

Unduly discounted. Assuming the fall in the share price of YTLPOWR is dragged down also by AI/Data CEntre concern, at last close of RM5.01, this implies only 600MW of the total pipeline has been given benefit to, all else equal. We have forecasted 1.2GW of its larger total pipeline. Elsewhere, where we find data center valuations are more heavily discounted at the moment include the property space. While property isn't only affected by data center dynamics primarily, they account for 7-14% of our target prices of **SIMEPROP, ECOWLD and MAHSING**, where these companies currently trade at prices that has fully dsicounted DC valuations. We continue to look at potential EPCC opportunities. For more pure play Data Centre exposure, we like **SUNCON**.

M&E and TENAGA benefit first, and solar beneficiaries thereafter. For **TENAGA**, we see the discount implied by skepticism on the IBR mechanism being excessive, in light of the expected power generation buildup and significant jump in regulated asset base on announced and signed ESA. The government would consider renewable energy, battery storage, and off-grid generation where grid capacity was insufficient. Every DC requires substations, power distribution and grid connections. This supports our view that TENAGA will continue to invest aggressively in grid upgrades, whereby **KEEMING** should benefit from DC-related electrical works especially from further hyperscaler spillover. More DCs necessitates more green power, but new solar projects still depend on available grid capacity, being the constrain to the speed of being able to sign on new power offtake such as in the CRESS programme.

Exhibit 2: Stocks and Remarks

No.	Sector	Stock	TP	Valuation basis	Remarks
1	Tech	NATGATE	RM2.14	SOP, Implied 21x FY27 EPS	Our forecast assumed ~50% discount to mgmt's guidance, and current market price has reflected another 15% discount, making the upside appealing if mgmt delivers its forecast. The forecast by optical transceiver customers of NATGATE would have been based on expected GPU delivery by NVIDIA, AMD, Google etc, which is in turn constrained by the wafer capacity available from TSMC. Given that TSMC's planned supply remains below the total indicative DC demand pipeline, there is already a buffer against potential project cancellations.
2	Tech	AMBEST	RM1.80	25x FY27 EPS	Share price of ~RM1.10 implies only 15x forward PER, trading at a steep discount to peers such as UWC, Coraza and CPETECH. Strong demand for WFE subsystems, coupled with ongoing supply shortages particularly in the vacuum valve segment (as reflected in the recent surge in revenue and earnings of European customer V and highlighted at the Yole conference we attended last week), continues to benefit AMBEST. We believe potential DC delays are unlikely to materially alter its outlook. Meanwhile, major US-based WFE customer L has indicated strong demand visibility through 2028, with loadings to AMBEST expected to commence in 2H26, while ongoing qualifications with new Customer M and European Customer A provide further upside potential in 2027.
3	M&E	KEEMING	3.23	22x PER	At RM2.62, we believe the market has yet to fully price in KEEMING's DC growth runway. The latest c.RM44m subcontract marks its second win from the same hyperscale DC development, taking cumulative awards to c.RM66m. With the project still progressing in phases, there is scope for further repeat orders which remains upside to our current forecasts.
4	Utilities	TENAGA	16.3	DCF	Market pricing in a significant discount due to skepticism toward the IBR mechanism but we view that the AFA charge absorption is a one-off and would be insignificant even if sustained given the power generation buildup and significant jump in regulated asset base on announced and signed ESA.
5	Property	SIMEPROP ECOWLD MAHSING	RM2.01 RM2.35 RM1.82	RM0.2 from DC RM0.16 from DC RM0.26 from DC	All 3 names have mentioned in earlier results briefing that DC enquiries flow remains very strong with a YoY increase observed by some

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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