Getting Chippy

US Rules on Remote Access of Advanced Chips

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Malaysia, among other countries, is facing tighter scrutiny given the freshly released interim final rule (IFR) by the US to address remote access to advanced super intelligence (SI) chips and servers (news). This development firmly moves away from country-level quotas from a much earlier AI Diffusion Act, but restricts advanced AI chips diversion and clamps down on remote access of chips (ie data centers selling compute power) primarily to D5 countries.

This reflects a more cautious development with regard data centre demand lcoally. We believe that hyperscalers facing roll-out restrictions in the US and planning to offshore could still see Malaysia benefit, cushioning the impact of this latest ruling. Before that, we expect some differentiation in valuation near term between firms serving predominantly US versus non-US customers, as investors digest the landscape. Overarchingly, as we see demand for data centres is still strong, the areas we deem the sell off appearing excessive is in core and shell EPCC (GAMUDA and SUNCON), being the safest plays as they predominantly serve US MNCs/customers. We also highlight that the U.S. Commerce Department's Bureau of Industry and Security document also introduces potential implications for Malaysia's IC design industry, particularly companies serving non-US customers developing advanced AI chips.

New restrictions that govern compute as well as licensing requirements on transfers of advanced semiconductors to countries including Malaysia

Two pronged. Firstly, new restrictions will apply for exports, reexports, or transfers (in-country) to overseas data centers that remotely supply significant volumes of compute to firms headquartered in Country Group D:5 (nations under US arms embargo, which includes China) or Macau. Secondly, a license will be required to export, reexport, or transfer (in-country) advanced semiconductors to Indonesia, Malaysia, Singapore, Thailand, or Brazil; countries which present a higher-than-normal risk of diversion. The latter is a destination-based license requirement, where there was gauged to be an unacceptable risk of diversion. This is also framed as an extension of existing controls where a license is already required for the same if these entities are headquartered, or whose ultimate parent company is in D5 countries or Macau.

Why it makes it more restrictive to access compute? The document by the U.S. also prescribes a low bar for this license for data centres providing compute, whereby only 12 million total processing power (TPP) is the allowable ceiling. This is estimated to be equivalent to 750 NVIDIA H100 SXM chips, and likely to stifle the ability to use the advanced chips for any meaningful training clusters, in our view. The wordings also encapsulates digitally-linked infastructures in addition to data centre linked physically, so this cuts out any circumvention from allocating chips into multiple data centers. The restrictions also prohibit a data centre that is not in the D5 country to provide training of advanced AI models for a D5 country – a catch-all of sorts.

Punitive at the country level; Malaysia not sitting at the laurels The US will actively monitoring for countries that do not comply and will be considering a range of consequences for such countries. These include omport restrictions, new license requirements on advanced semiconductor exports, downgrading the country's status in the U.S. export control regime, and Entity List designations and temporary export prohibitions for foreign persons involved in such activities. At time of writing, we note that locally MITI had since July 2025 required that any export, re-export, transshipment, or transit of U.S.-origin high-performance AI chips through Malaysia requires a Strategic Trade Permit under the Strategic Trade Act 2010. More recently, rules are also being mulled for data centres to reveal details of their graphic processing units imports, operators and data centre locations (news).

IMPLICATIONS

Future restrictions risk that may curb access, though we think there are compensating factors. Data Centres providing significant compute power to firms headquartered, or with an ultimate parent headquartered, in Macau or Country Group D:5 and will continue providing these services must obtain a license or face future export restrictions. We will thus be monitoring therefore expansion plans of non-US data centres activity in Malaysia for any slow down, though Kenanga's view is that there exists a strong pipeline in data centres of 12.3 GW whereby electricity supply is secured. Moreover, US hyperscalers could look

for sites outside of the US, following the mid-terms where certain US states have become more cautious on future approvals.

Implication is still less punitive overall versus an earlier version. The regulatory changes in this rule formalizes the rescission of the AI Diffusion Rule, during President Joe Biden's era, which would have segregated countries by tiers and governed by country quota. This would have been even more prohibitive.

Construction and Utilties

Little first order impact on coverage universe. As the new rule exempts US-headquartered firms, we see little impact on our universe of construction coverage, as the majority of their clients for companies under coverage are US-based hyperscalers, such as Google, AWS, and Microsoft, alongside other data centre developers like Yellowwood, Stack, and Vantage. The only potential exception is SUNCON's project with K2 (non-US). However, the contract value is relatively small at RM748m and is already at the tail end of completion. Thus, any financial or operational impact on **SUNCON** (OP; TP: RM9.70) remains essentially remote.

Overall, data centre demand is Malaysia remains strong but we believe that the demand will be focused more on US-based customers or non-China linked players. **TENAGA** will be largely shielded as its ESA signed are protected by take or pay charges at least for the first 5 years. We have not priced in any Neo cloud valuation for YTLPOWER beyond current announced business, and thus there is no earnings risk in our forecast in this regard. And as for its colocation data centre push, while choosing potential data center clients may become a more selective endeavour, it may still benefit from overflow of DC demand from US.

M&E

We remain selective on players with diversified order books and stronger exposure to TNB's grid expansion. Stricter end-use verification and GPU licensing requirements could delay new and ongoing DC projects, particularly non-US operators without confirmed end-users/offtakers. This could slow DC-related order book replenishment and weigh on near-term sector sentiment. With the sector currently trading at c.13x forward FY28 PER, we expect valuations to remain subdued until there is better visibility on new contract awards. We maintain **KEEMING** (OP; TP: RM3.23) as our top pick, supported by its diversified order book across HV, DC, industrial and commercial projects, as well as its greater exposure to US hyperscalers.

Tech - IC Design

Prima facie, the proposed BIS regulations could have implications for Malaysia's IC design industry, particularly companies serving non-US customers developing advanced AI chips. While the draft does not directly prohibit IC design services, it introduces a licence requirement under 744.23(a)(3) for applicable advanced logic ICs subject to the export administrative regulations and specified in ECCN 3A090.a, designed by companies that are neither approved nor authorized IC designers, when exported, reexported or transferred by front-end fabricators or OSATs to or within any destination. The draft also retains the worldwide destination scope of the advanced computing foreign direct product (FDP) Rule, meaning qualifying foreign-produced chips may remain subject to US export controls. While the direct impact on chip design services appears limited at this juncture, we believe the potential implications for downstream manufacturing and delivery of finished chips warrant closer monitoring.

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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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Published and printed by:

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