

Construction

Overweight (Maintained)

AI's Turning Point Likely Positive For DC Builders

Stocks Covered 10
 Rating (Buy/Neutral/Sell): 10/0/0
 Last 12m Earnings Revision Trend: Negative

- **Maintain OVERWEIGHT.** Top Picks include Gamuda, Kerjaya Prospek, and Sunway Construction. Claims by [DeepSeek's large language model costing just USD5.6m to train](#) – a fraction of the billion-dollar investments that US companies have made – may reduce the need for data centres (DCs) in the future. However, we envisage DeepSeek's advancement could, in contrast, catalyse the DC industry as a whole, if its claim is proven to be true.
- **If DeepSeek's claims are true, [artificial intelligence \(AI\) training gains are likely to produce a c.30% increase in efficiency but does not translate into a c.30% reduction of chips or DCs.](#)** Instead, it means that the AI model gets 30% more power. Certain companies have lamented that AI is not able to deliver targeted ROIs and, hence, a more efficient AI model could enable such aimed returns to be met.
- **Jevons paradox could come into play.** The paradox states that when technological progress makes using a resource more efficient, overall consumption of that resource tends to increase. Assuming demand for AI is relatively elastic, falling prices due to efficiency improvements create higher AI adoption. We understand that one factor that slowed AI adoption within big organisations so far has been how expensive the AI models are to run.
- **Hyperscalers such as Meta (META US, NR) and Microsoft (MSFT US, NR)** mentioned that the emergence of DeepSeek has not changed their plans to invest heavily in AI hardware in DCs in 2025. Both MSFT and META defended their USD80bn and USD65bn AI-related investments for the current fiscal year, saying it is crucial to remain strategically competitive in AI over time.
- **DC builders' prospects to remain intact.** With tech giants staying put on AI investments, we think Gamuda and Sunway Construction's DC orderbook and tenderbook will not face substantial scale-downs, as most of their clients are MNCs from Tier-1 countries (the US, the UK, Netherlands) that are eligible for the universal validated end-user status. If AI adoption continues growing amid democratisation, it may also bode well for contractors aiming to build DCs (eg Kerjaya Prospek), with more DC providers potentially coming to Malaysia and providing more jobs for contractors.
- **Malaysia remains a magnet for DC investments** due to its cost competitiveness in land, labour, electricity and proximity to Singapore. As AI-enabled services may increase in the long run amid better affordability and efficiency, demand for underlying infrastructure is expected to grow in tandem. Hence, DC investments may continue coming on the assumption that Jevons paradox materialises in light of potential AI democratisation.
- **Notwithstanding the above,** we acknowledge the risks stemming from the lingering uncertainty with President Donald Trump having a 120-day window to comment on the AI chip restrictions. Any major adverse impact may warrant a change in valuation multiples for key DC contractors later on. Rerating catalysts could be the potential of chipmakers and policymakers in the US to overturn or tone down the AI chip restrictions.
- **A key risk** includes a major slowdown in DC development in Malaysia.

Top Picks

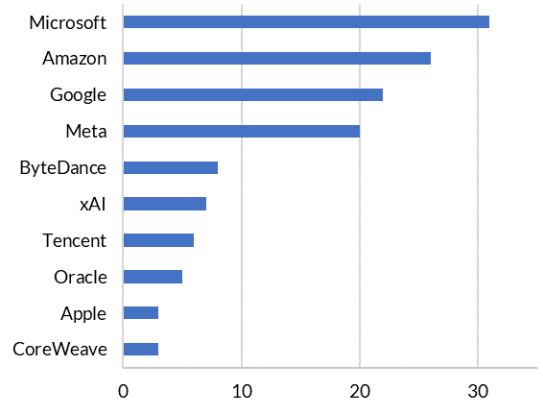
Company	Target Price
Gamuda (GAM MK) – BUY	MYR5.83
Kerjaya Prospek (KPG MK) – BUY	MYR2.67
Sunway Construction (SCGB MK) – BUY	MYR5.50

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Spending for AI DC on servers in 2024 (USDbn)



Source: Omdia

Company Name	Rating	Target (MYR)	% Upside (Downside)	P/E (x) Dec-25F	P/B (x) Dec-25F	ROAE (%) Dec-25F	Yield (%) Dec-25F
Econpile Holdings	Buy	0.56	34.8	61.8	1.7	2.7	-
Gabungan AQRS	Buy	0.46	69.0	4.3	0.3	6.2	3.7
Gamuda	Buy	5.83	44.3	18.6	1.9	10.3	2.5
IJM Corp	Buy	3.97	66.0	16.1	0.8	4.9	3.3
Kerjaya Prospek	Buy	2.67	25.0	14.2	2.4	17.1	5.1
KKB Engineering	Buy	1.86	33.8	13.0	0.9	7.3	3.9
Malaysian Resources Corp	Buy	0.86	71.6	25.6	0.5	1.9	2.0
MGB	Buy	1.20	69.6	6.6	0.6	10.2	3.1
Pintaras Jaya	Buy	1.85	24.2	23.4	0.7	2.8	2.1
Sunway Construction	Buy	5.50	59.3	18.0	4.5	26.5	3.3

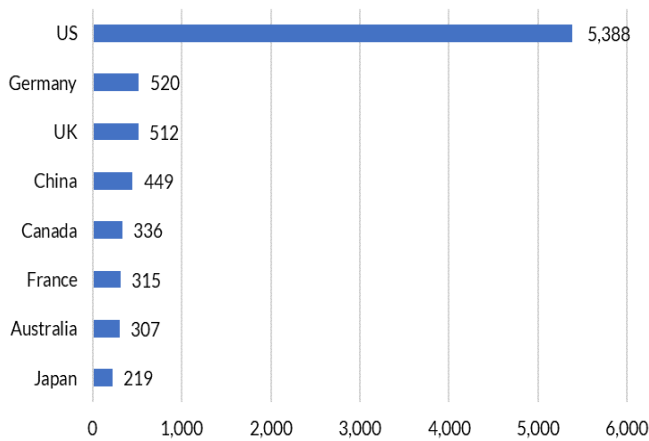
Source: Company data, RHB

Figure 1: DC providers in Malaysia aside from Google, Microsoft and Amazon Web Services (list not exhaustive)

DC Provider	Headquartered In	Country Tier (with respect to headquarters)	Live/launched capacity	Upcoming Planned Capacity
Yondr Group	Netherlands	Tier 1	n.a.	300MW
AirTrunk	Australia	Tier 1	50MW	100MW
EdgeConneX	US	Tier 1	n.a	Close to 300MW
NTT Global Data Centres	Japan	Tier 1	22MW	290MW
Equinix	US	Tier 1	n.a.	n.a.
NextDC	Australia	Tier 1	0MW	65MW
Vantage DC	US	Tier 1	31MW	256MW
Stack Infrastructure	US	Tier 1	0MW	220MW
K2 DC	Singapore	Tier 2	n.a	Up to 300MW
Princeton Digital Group (PDG)	Singapore	Tier 2	0MW	150MW
STT GDC JV	Singapore	Tier 2	20MW (in JV with Basis Bay)	120MW
Bridge DC (BDC)	China	Tier 3	16MW	135MW + 100MW (via partnership with Mah Sing)
GDS Holdings	China	Tier 3	69.5MW	168MW (co-developed with YTL Power)

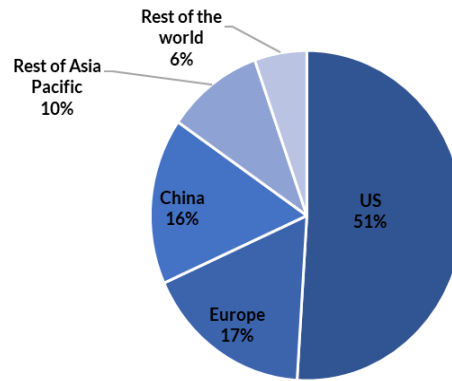
Source: RHB, Various sources

Figure 2: Number of DCs in top 10 markets



Source: Data Centre Solutions, Cloudscene Platform

Figure 3: Global DC capacity breakdown (%)



Source: Synergy Research Group

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