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Sarawak: Transitioning Into An Economic Powerhouse



19 February 2024

Construction

Sarawak : Transitioning Into An Economic Powerhouse

- **Sarawak is upping its ante with supercharged infrastructure.** In light of the higher development expenditure (DE) allocated for Sarawak – not just at the federal, but state level, we view that catalytic infrastructure enhancement will take place. This is further backed by the state's Post COVID-19 Development Strategy (PCDS) 2030, which aims to reach a GDP of MYR282bn by 2030 vs the estimated [MYR146bn for 2023 based on the projection by Sarawak's Economic Planning Unit](#).
- **Key infrastructure components to look out for in Sarawak.** We identified sectors such as water (pipe works, flood mitigation and water treatment plants), transportation (Kuching Autonomous Rapid Transit (ART) and several highway projects), and renewable energy (in the form of hydropower) via cascading dams and industrial gas production (hydrogen), coupled with the potential setup of data centres to present infrastructure expansion opportunities. New oil well discoveries off the shore of Sarawak combined with its location to be a prime spot for carbon capture and storage (CCS) may also drive the demand for related infrastructures.
- **In a sweet spot to gain from foreign investments.** Factors such as having the most competitive unsubsidised electricity tariffs in ASEAN, business friendly policies and abundant renewable energy sources (namely hydropower) have enabled Sarawak to attract foreign investors. Recall that the state saw foreign investments worth MYR12.4bn in 2022 compared to MYR9.4bn in 2021 – making it the also the third highest state in terms of foreign approved investments after Johor (MYR58.8bn) and Selangor (MYR33bn). Inflow of foreign investments may translate into the need of setting up infrastructure in industrial areas such as the Samalaju Industrial Park and Sarawak Petchem Industrial Park in Bintulu.
- **Contractors set to benefit from Sarawak's infrastructure wave.** Even for 2022, Sarawak recorded the fifth largest value of construction projects among the country's states, at MYR9.9bn. In terms of value of construction work done – Sarawak has seen a continuous increase since 2017, except in 2020 when the sector was hit by the pandemic. Sarawak recorded MYR14.6bn worth in terms of value of construction work done in 2023 (the fourth largest after Selangor, Federal Territory and Johor – representing a 5-year CAGR of 4.5%, which is commendable in comparison to most other states, which saw a decline.
- **Sarawak infrastructure thematic stock ideas.** KKB Engineering is the Top Pick for the Sarawak plays under our coverage given its diverse infrastructure exposure followed by IJM Corp which is gradually regaining its footprint in the state. We also take note of Gamuda's track record in Sarawak via the Pan Borneo Highway (PBH) and Second Trunk Road (STR) projects. We also highlight Ibraco (IBRA MK, NR) as a non-rated idea for Sarawak.
- **Key risks:** Unforeseen pandemic outbreaks and unexpected downward revision in DE for the state.

Company Name	Rating	Target (MYR)	% Upside (Downside)	P/E (x) Dec-24F	P/B (x) Dec-24F	ROAE (%) Dec-24F	Yield (%) Dec-24F
Cahaya Mata Sarawak	Neutral	1.14	11.0	9.5	0.3	3.5	2.1
Gamuda	Buy	6.46	26.4	13.6	1.2	8.9	2.4
IJM Corp	Buy	2.47	12.8	20.3	0.8	3.8	3.0
KKB Engineering	Buy	2.02	18.1	14.4	1.2	8.2	3.5

Source: Company data, RHB

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Overweight (Maintained)

"Sarawak is on the right track in developing its economy towards achieving advanced status by 2030."

Sarawak Premier Datuk Patinggi Tan Sri (Dr) Abang Haji Abdul Rahman Zohari bin Tun Datuk Abang Haji Openg

Top Picks for Sarawak Play

KKB Engineering (KKB MK) – BUY
IJM Corp (IJM MK) – BUY
Gamuda (GAM MK) – BUY

Target Price

MYR2.02
MYR2.47
MYR6.46

Analysts

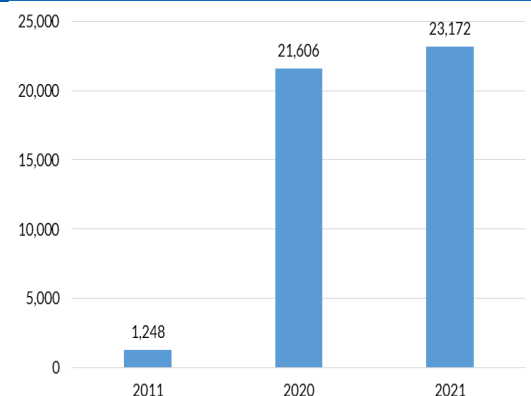
Adam Bin Mohamed Rahim
+603 2302 8101
adam.mohamed.rahim@rhbgroup.com



Nai Wan Yan
+603 2302 8125
nai.wan.yan@rhbgroup.com



Renewable energy generated in Sarawak (GWh)



Note: From the main grid
Source: Sarawak Energy

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Snapshot Of Actionable Ideas

Figure 1: List of key themes under Sarawak and the potential beneficiaries

Theme	Investment Thesis	Potential Beneficiaries
Water related development	Sarawak's overall water supply coverage in 1Q23 stood at 84.1%; 99% coverage for urban areas, and 66.9% coverage for rural areas, with the aim to achieve 100% water supply coverage by 2030 as per the Sarawak Water Supply and Water Grid Master Plan.	KKB Engineering: Secured at least MYR200m of contracts under the first phase of the Sarawak Water Supply Grid Programme (SWGPs). Ibraco: Secured a MYR44.9m job from Jabatan Bekalan Air Luar Bandar Sarawak – package NR4 (Northern Region, Lawas District) under the SWGP.
Flood mitigation initiatives	Phase 2 of the Kuching flood mitigation projects was one the 33 high priority nationwide flood mitigation projects. Aside from this, there have been a series of flood mitigation projects in Sarawak focused on certain areas, ie Sibu, Kuching which were rolled out since 2010.	Naim Holdings: Involved in Phase 1 of Kuching Flood Mitigation Project. Pansar: Involved in a MYR78m job package for Phase 3 of Sibu Flood Mitigation project.
Hydropower dam development plans	The Sarawak Government is looking to build cascading dams along rivers to generate electricity without having to inundate large areas of land. The cascading dams are planned to be set up in Sungai Tutoh (Baram district), Sungai Gaat (Kapit) and in the Belaga district.	KKB Engineering: Fabrication, installation and commissioning of penstocks for Batang Ai Hydroelectric Dam. Pansar: Construction and completion of Jetty C, road and bridges (contract value: MYR99.6m). Naim Holdings: Construction of Bengoh Dam (contract value: MYR230m). Gamuda: Currently involved in the Upper Padas Hydroelectric Dam.
Potential to be a data centre hotspot	In relation to the export of electricity to Singapore from Sarawak, Singapore plans to invest in data centre projects within the state. Such plans are of no surprise as Sarawak has abundant supply of hydro energy.	Sarawak Consolidated Industries: Has an industrialised building system (IBS) facility. IBS is an important component in constructing data centres. HSS Engineers: Has been involved in project management services for various data centres in West Malaysia.
Enhanced road connectivity in the works	Upcoming highways include the Sarawak-Sabah Link Road Phase 2 and Pan Borneo Highway (PBH) Sarawak Phase 2. There are also remaining contracts yet to be rolled out for Sarawak's STR project.	Contractors involved in PBH Sarawak and STR: Kimlun-Zecon JV, Naim Holdings-Gamuda JV, TRC Synergy JV with Endaya Construction and Pembinaan Kuantiti, KKB Engineering, Cahya Mata Sarawak and Ibraco.
Less congestion with Kuching Autonomous Rapid Transit (ART)	For the Kuching ART, contract awards for the Blue Line Package 2 and the Green Line have yet to be rolled out.	IJM Corp: Construction and completion of the Rembus ART depot and other associated structures, stabling yard, detention pond, access road as well as civil works via JV with two other parties. Ibraco: Constructing a 15km ART alignment, starting from the depot in Rembus and along the Kuching-Samarahan Expressway up to Stutong, seven stations, and a bridge that will cross Sungai Kuap via a JV with two other parties.
Potential Trans-Borneo Railway	The Federal Government in Nov 2023 agreed to the ambitious plan to construct a mega-railway project linking Sarawak to Sabah and eventually to Kalimantan (known as the Trans-Borneo Railway) which is estimated to cost MYR63bn.	Gamuda and IJM Corp: Both are strong names in rail-related projects.
Higher investments to boost industrial production	There are now two cornerstone hydrogen projects being undertaken by Sarawak Economic Development Corporation's (SEDC) subsidiary, SEDC Energy – backed by proposed investments of over MYR10bn by South Korean and Japanese parties.	KKB Engineering: Has setup a new subsidiary, KKB Energy which plans to undertake construction and manufacturing of utility projects and parts, transportation projects and other related support services relating to renewable energy such as hydrogen electrolyzers assembly and processes.
Carbon capture and storage (CCS) opportunities	Recently in Jan 2024, Petroliaam Nasional Bhd (Petronas) has awarded production-sharing contracts (PSCs) for six exploration blocks and one discovered resource opportunities (DRO) cluster marketed under the Malaysia Bid Round 2023 (MBR 2023) – indicating higher oil and gas activity in Sarawak. More than an estimated 46trn cubic feet of potential carbon storage capacity has been identified across 16 of Malaysia's depleted fields. Interestingly, 11 of these 16 potential CCS sites are at fields offshore Sarawak	KKB Engineering: Its subsidiary, OceanMight has secured 16 projects since 2014 worth c.MYR1.6bn in total for oil & gas-related structures which includes the Kasawari CCS project. KKB has a role as the primary contractor for the price agreement for the EPC of standard wellhead platforms for Sarawak Shell and Sabah Shell Petroleum, in addition to its involvement in PTTEP's Pemanis Satellite topside job in 2020. This puts the group at the forefront to secure upcoming steel fabrication projects.
Cement production prospects	Sarawak is expected to see the entry of two major regional cement manufacturers, namely YTL Cement and SCG International (Thailand), under a bold plan by the State Government to strengthen the cement supply chain.	YTL Corp via YTL Cement: Signed an MoU with Innocement (a JV between SEDC and Bintulu Development Authority) to supply cement to Sarawak.

Source: Various media, RHB

Featured Stock Ideas

KKB Engineering (KKB MK, BUY, TP: MYR2.02) – Sarawak's strategic infrastructure proxy

KKB is the main pick under our coverage for Sarawak's infrastructure plays due to its diverse infrastructure exposure in the state – spanning projects related to a highway, water supply and fabrication of steel structures for oil & gas structures plus industrial buildings. The presence of Sarawak Economic Development Corporation (SEDC) as a shareholder (10.7% stake) in the group may position it at the forefront when it comes to state-centric development projects. Balance sheet-wise, the group is in a net cash position which may enable it to conveniently gear up if required to in the future to make way for any potential expansion. For instance, it has setup a subsidiary, KKB Energy which intends to undertake construction and manufacturing of utility projects and parts, transportation projects and other related support services relating to renewable energy such as hydrogen electrolyzers assembly and processes.

IJM Corp (IJM MK, BUY, TP: MYR2.47) – gradually regaining a foothold in Sarawak

We remain upbeat on IJM Corp's effort to strengthen its presence in Sarawak. The last job IJM Corp was involved in Sarawak was the Murum Dam access road worth MYR246.7m (secured in 2010) via two packages. Fast forward to 2023, the group via its industrial concrete products inked an MoU with SEDC for the potential establishment of the group's first piles manufacturing base in Sarawak. We view this to be timely in light of the anticipated infrastructure wave in the state. Moreover, IJM Corp's MYR260m job win for the Kuching ART's Rembus depot via a JV with Azam Sehasrat and Unique Deco indicates that the group is actively eyeing for infrastructure jobs in the state. As such, we do not discount the possibility of it to participate in the upcoming tenders for the Kuching ART.

Gamuda (GAM MK, BUY, TP: MYR6.46) – already building expertise in hydroelectric dams

Gamuda is no stranger to Sarawak as the group secured road-related projects namely the PBH Sarawak and STR projects. Both of these projects are executed via a JV with Naim Holdings (NHB MK, NR). While the group did not hint on eyeing any infrastructure projects in Sarawak, we take comfort from Gamuda's current role in developing the 187.5MW Upper Padas Hydroelectric Dam in Sabah (estimated cost: MYR4bn). Such exposure in hydroelectric dams could pave the way for it to stand a chance in Sarawak's plan to develop cascading dams.

Ibraco – building up its construction orderbook alongside its property business

Ibraco is a Sarawak based property developer with 72% of FY22 revenue coming from property development, while the remaining revenue was contributed by construction (17%) and quarry operations (9%). The group made headlines in Nov 2023 after securing a MYR569m contract for Kuching ART via a JV with two other parties with Ibraco holding a 51% share. Additionally, we observed that its riverside mixed development project, NorthBank is located near the proposed Kuching ART route it is building (particularly near the Jalan Stutong stretch) – indicating that the development would be attractive once the project is developed. In the same year, the group successfully secured a MYR530m contract to construct a portion of the STR in Samarahan. Prior to this, it had clinched a MYR303m contract related to the new Mukah airport in 2017. In short, we view such projects to strengthen the group's ability to expand its construction orderbook of MYR1.5bn as of end 3Q23.

Economic Overview

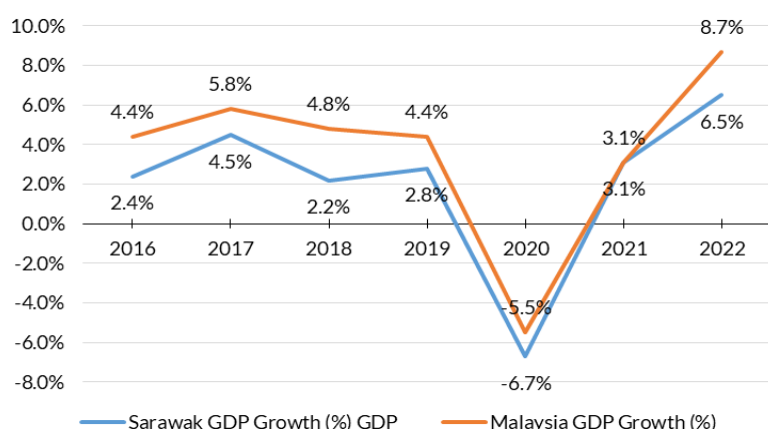
Sarawak's economic outlook

Sarawak's massive capital injection to propel economic growth. Sarawak is expected to see more than MYR100bn in injection of capital into the state's economy in the next six years, as it moves towards becoming a developed state by 2030.

The planned injection augurs well with the state's PCDS 2030 which highlights infrastructure, utilities, transport, manufacturing and renewable energy as the key enablers among others. In a nutshell, such plans by the State Government indicate that there could be more infrastructure opportunities up for grabs, not just from hydrogen/methanol-related jobs but also infrastructure works. This could bode well for Sarawak's economy moving forward, which grew 6.5% YoY in 2021 after recording a 3.1% YoY expansion in the preceding year (Figure 2). Looking ahead, Sarawak is expected to chart [economic growth of between 5% and 6% in 2024](#) as compared to an estimated 4-5% in 2023.

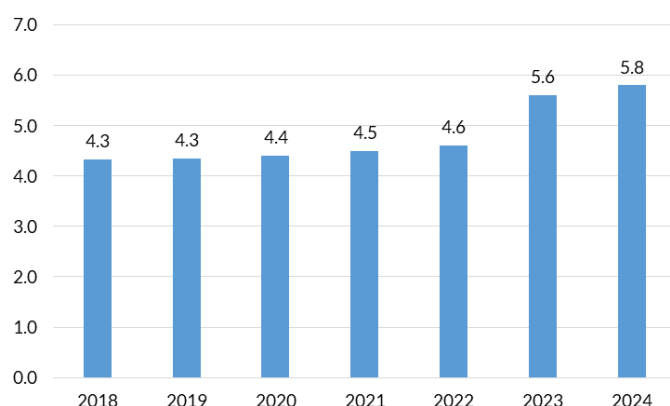
Development expenditure trends. Such economic growth would be underpinned by higher DE not just allocated by the Sarawak Government but also the Federal Government. The DE allocated by the Federal Government to Sarawak is the highest ever at MYR5.8bn in 2024 while the Sarawak Government's MYR7.8bn DE is the largest in five years (Figures 3 and 4).

Figure 2: Sarawak's vs Malaysia's GDP growth at constant 2015 prices (%)



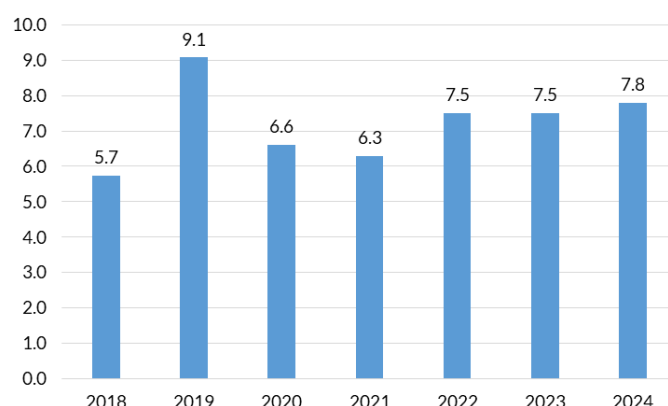
Source: Department of Statistics Malaysia (DOSM)

Figure 3: Trend of proposed DE for Sarawak by the Federal Government (MYRbn)



Source: Ministry of Finance

Figure 4: Trend of proposed DE for Sarawak by the State Government (MYRbn)



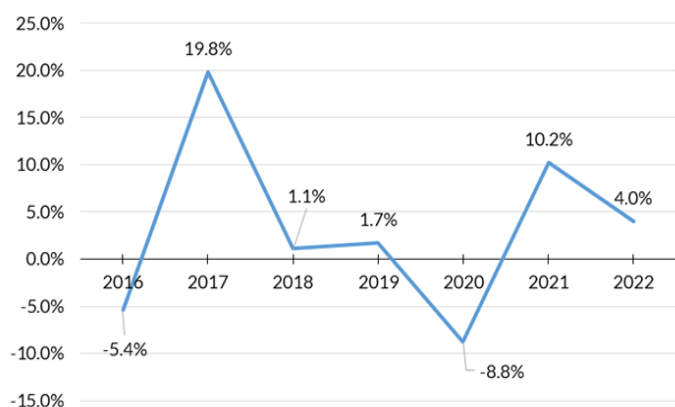
Source: Sarawak State Government

Construction Sector Highlights

Sarawak's construction sector GDP growth reached 4% in 2022 (2021: 10.2%) amid a high base effect (Figure 4). Nonetheless, the aforementioned stronger DE earmarked for Sarawak could likely boost the growth seen for the state's construction sector by virtue of having a higher rollout of infrastructure projects benefitting contractors. In 2023, Sarawak was the state with the fifth largest value of projects awarded at MYR9.9bn after Selangor (MYR25.4bn), Johor (MYR20.5bn), Kuala Lumpur (MYR15.5bn) and Pulau Pinang (MYR12.7bn). The anticipated awards related to projects such as the STR and Phase 2 of the Sabah-Sarawak Link Road in addition to the other types of construction projects may likely boost the value of projects awarded in Sarawak in the next two to three years.

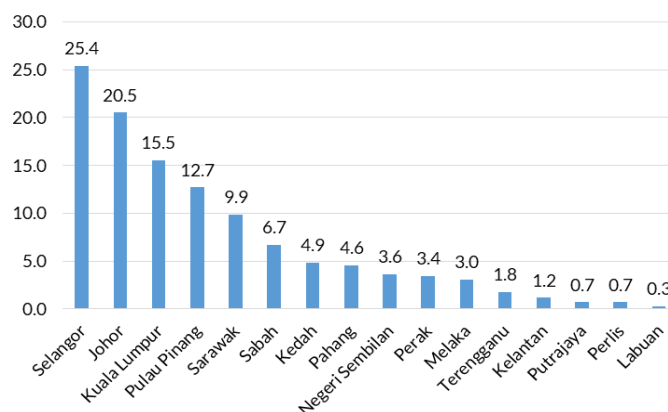
Value of construction work done in Sarawak has been continuously increasing since 2017 except in 2020 when the sector was hit by the pandemic. Sarawak recorded MYR14.6bn worth in terms of value of construction work done in 2023 (the fourth largest after Selangor, Federal Territory and Johor – representing a six-year CAGR of 4.5%, which is commendable in comparison to other states which in fact saw a decline. On further scrutiny, the quarterly value of construction work done in Sarawak reached the highest ever in 4Q23 at MYR4bn – signalling that construction activities remain resilient despite the dearth of new big ticket infrastructure projects (Figure 8).

Figure 5: Sarawak's construction sector GDP growth at constant 2015 prices (%)



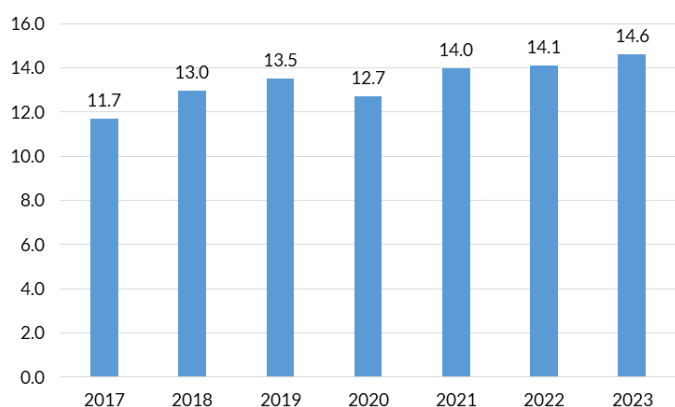
Source: DOSM

Figure 6: Value of construction projects awarded according to states in 2023 (MYRbn)



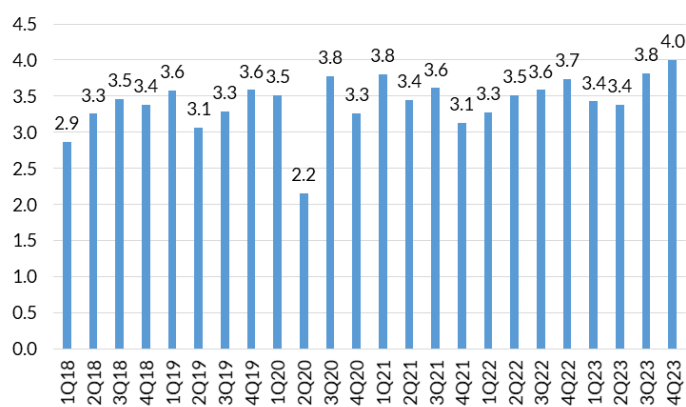
Source: Construction Industry Development Board

Figure 7: Annual value of construction work done in Sarawak (MYRbn)



Source: DOSM

Figure 8: Quarterly value of construction work done in Sarawak (MYRbn)



Source: DOSM

Water-Related Development

Sarawak's water consumption is high but pipeline construction is very low. According to the Malaysian Water Industry Status and Outlook Report 2020/2021 published by the Malaysian Water Association (MWA), domestic consumption of water between 2008 to 2017 was the highest in Sarawak with an average annual growth of 3.5%. In contrast, the average annual growth in terms of water pipeline construction (in km length) between 2008 to 2017 in Sarawak stood at 2.8% – below the national average of 3.1%. The latest data as of May 2023 revealed by Sarawak's Minister of Utility and Telecommunication, Datuk Julaihi Narawi indicates that [Sarawak's overall water supply coverage in 1Q23 stood at 84.1%](#); 99% coverage for urban areas, and 67.8% coverage for rural areas.

Figure 9: Proportion of Sarawak's population living in households with access to treated pipe water (%)

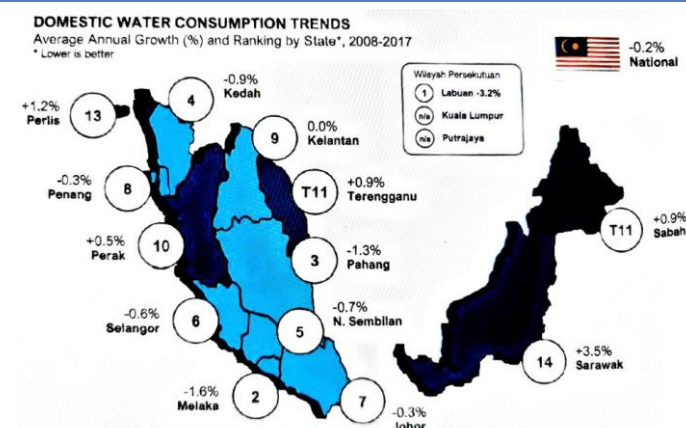
Year	Proportion of Sarawak's total population using safely managed water drinking water services	Proportion of Sarawak's urban population using safely managed water drinking water services	Proportion of Sarawak's rural population using safely managed water drinking water services
2019	82.6%	99%	64.8%
2020	83.4%	99%	66.5%
2021	83.6%	99%	66.9%
2022	83.7%	99%	67.2%

Source: DOSM

Such a scenario necessitates the push to enhance Sarawak's water infrastructure as the state aims to achieve 100% water supply coverage by 2030 as per the Sarawak Water Supply and Water Grid Master Plan. As such, the Sarawak Water Supply Grid Programme (SWGP) was introduced in 2018, which encapsulates a comprehensive plan to improve Sarawak's water coverage. This involves the need for laying and replacing pipelines, construction of booster stations, upgrading and improvement of water treatment plants, digitalisation of water supply, and improvement works done to the present water supply system. Initially, the funds allocated towards SWGP was MYR2.8bn (for 298 projects) but the Sarawak Government has increased its project funding by MYR1.2bn to MYR4bn.

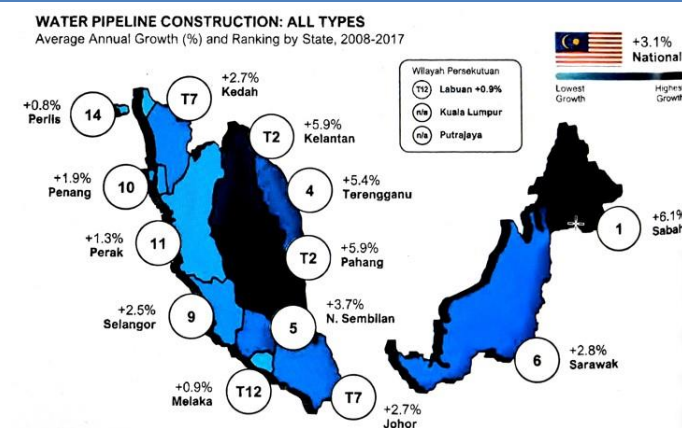
For instance, a [total of 46 high-impact water supply projects worth around MYR768m](#) are currently being implemented to improve water infrastructure and supply system in Bintulu while seven projects worth c.MYR416m are still in planning phase which could see the rollout from 2024. Separately, nine projects under the Sibu Water Board worth c.MYR673m were approved under the 12th Malaysia Plan (12MP). In the medium term, MYR552m will be provided under Sarawak's alternative funding initiative in 2024 to continue and start water supply projects.

Figure 10: Domestic water consumption trend in Malaysia



Source: Malaysian Water Association

Figure 11: Water pipeline construction in Malaysia



Source: Malaysian Water Association

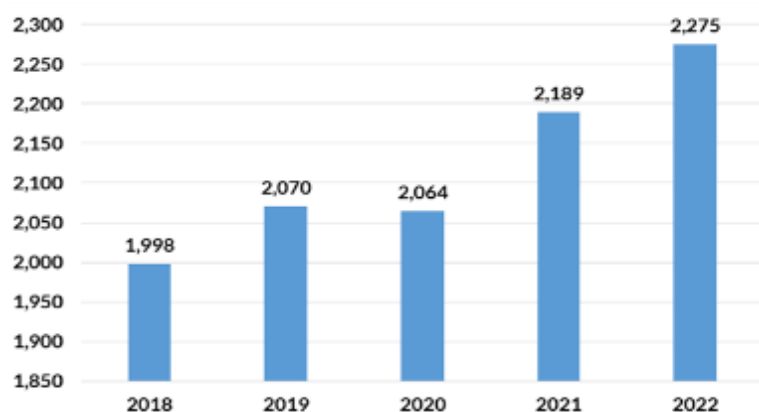
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Capacity of water treatment plants in Sarawak. The design capacity of water treatment plants in Sarawak stood at 2,275m litres per day (MLD) in 2022, representing a four-year CAGR of 3.3%. Looking ahead, Sarawak has the [c.MYR1.6bn Landeh water treatment plant project](#) for Kuching in its pipeline. The new plant known as Plant 5 under Kuching Water Board with an initial capacity of 400 MLD will eventually be upscaled to 800 MLD to cater for the demand in Kuching and beyond, including Bau and Samarahan.

Additionally, the Batu Kitang water treatment plant will see its capacity increase to 984MLD by 2026 from 780 MLD currently via the upgrade of Plant 2 and Plant 4 under the Kuching Water Board to also cater the increasing consumption in Kuching. At the moment, the upgrading works of Plant 2 are expected to be completed by 1Q24 which may raise the overall capacity of Batu Kitang water plant by 104 MLD. The remaining 100 MLD production capacity will be facilitated by the upgrade of Plant 4. [The tender for the Plant 4 upgrading project has been announced last year with a deadline submission at 27 Dec 2023.](#) Upon the Batu Kitang water treatment plant reaching a capacity of 984 MLD, the reserve margin is expected to increase to 11% from 5%.

Figure 12: Design capacity of water treatment plants in Sarawak (MLD)



Source: Ministry of Natural Resources, Environment and Climate Change

Figure 13: Batu Kitang Water Treatment Plant, Kuching



Source: Kuching Water Board

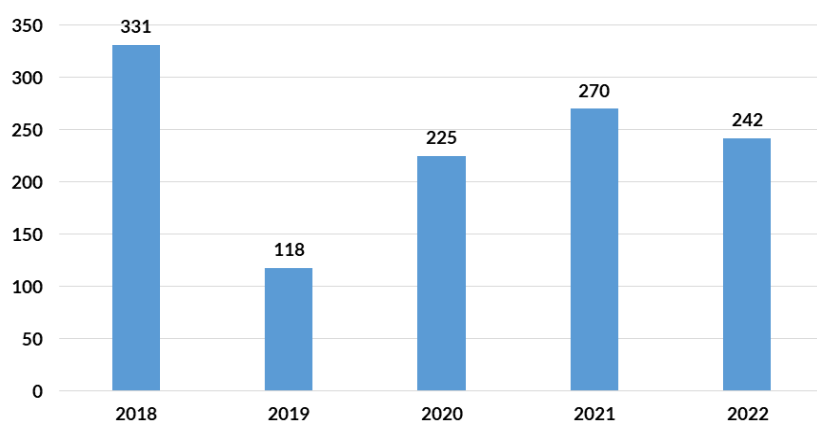
Potential beneficiaries of Sarawak water supply projects. All in, the initiatives to enhance Sarawak's water supply coverage may benefit contractors involved in the manufacturing of pipes and also the construction and commissioning of water supply projects such as KKB in particular. which secured at least MYR200m of projects under SWGP. Moreover, KKB supplied mild steel cement lined pipes for the construction of water treatment plant in Kogopon, Papar, Sabah – indicating the need for the group's manufacturing products for water treatment plants. Another company involved in water-related projects in Sarawak is Ibraco.

Flood Mitigation Initiatives

Flood incidents in Sarawak. There were 242 flood incidents reported in Sarawak in 2022 compared to 331 flood incidents in 2018 (Figure 14). Notwithstanding the lesser number of flood incidents reported in Sarawak, flood mitigation projects remain a crucial component under the state's future development. On the Federal Government level, c.MYR11.8bn has been allocated under the Budget 2024 for flood mitigation projects spread across 33 high priority projects. Phase 2 of the Kuching flood mitigation project was one the 33 high priority flood mitigation projects. The rollout of the said project could likely take place in 1Q24. Aside from this, there have been a series of flood mitigation projects in Sarawak focused on certain areas, eg Sibu, Kuching, which were rolled out since 2010 (Figure 15).

Key beneficiaries of flood mitigation projects in Sarawak potentially include Naim Holdings, Pansar (PNSR MK, NR) and the formerly listed Hock Seng Lee. NHB was involved in Phase 1 (Stage 1) of the Kuching Flood Mitigation Project while Pansar was awarded a sub-contract worth MYR78m for the Phase 3 of the Sibu Flood Mitigation project (Figure 15).

Figure 14: Number of flood incidents reported in Sarawak



Source: Department of Irrigation and Drainage

Figure 15: List of flood mitigation projects in Sarawak (not exhaustive)

Project	Estimated cost	Contractor	Completion date or expected time for completion
Phase 1 (Stage 1) of Kuching Flood Mitigation Project	MYR149m	JV between Naim Holdings (via Naim Cendera SB) and Ambang Project Management	Mar 2010
Phase 1 of Sibu Flood Mitigation Project	MYR138m	Not disclosed	Sep 2012
Phase 2 of Sibu Flood Mitigation Project	MYR50m	Not disclosed	2014/2015
Phase 3 of Sibu Flood Mitigation Project	MYR78m	Pansar via a subcontract from Kiasan Engineering. Project owner is DID	Mar 2022
Phase 4 of Sibu Flood Mitigation Project	MYR120m	Contracts yet to be rolled out	In design detailed stage as of May 2023
Sungai Sarawak Integrated River Basin Development Project	MYR150m	Call of tenders was done in Nov 2023	Not available
Sungai Maong Kiri flood mitigation project	MYR120.5m	Contracts yet to be rolled out but planned to be implemented by 2Q25	To be completed within 24 months
Phase 5 of Sibu Flood Mitigation Plan	MYR275m	Contracts yet to be rolled out	Likely to be proposed under the 13 th Malaysia Plan
Stampin resettlement flood mitigation works	MYR350m	Contracts yet to be rolled out but expected to commence in 1Q24	2026

Source: Various media

Hydropower Dam Development Plans

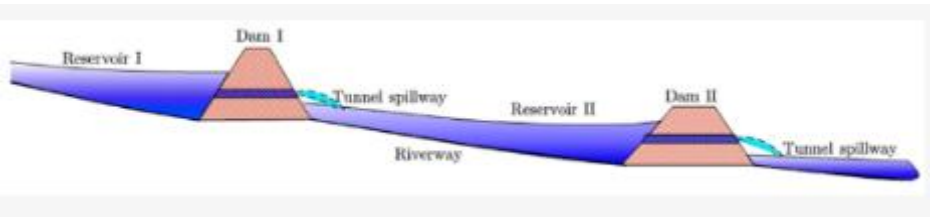
Hydropower is an important source of electricity in Sarawak. There are currently three large hydropower dams operating in Sarawak which are the Batang Ai, Bakun and Murum Dam with a total capacity of more than 2,000 MW. Meanwhile, the Baleh Dam is being constructed and targeted to begin operations by 2027. Taking into account this upcoming dam, Sarawak’s total installed hydropower capacity may reach 4,737 MW. Sarawak Energy has an installed capacity of 5,643 MW, with c.77% coming from hydropower in 2021 while the state itself aims to maintain at least 60% electricity generation mix from hydropower.

Upcoming dams in Sarawak. Looking ahead, the Sarawak Government is looking to build cascading dam along rivers to generate electricity without having to inundate large areas of land. The cascading dams are planned to be set up in Sungai Tutoh (Baram district), Sungai Gaat (Kapit) and in the Belaga district as the [villagers there have consented in letters to the proposed projects](#).

The potential of having a higher capacity to generate renewable energy (hydropower) may enable Sarawak to export electricity to Singapore and Sabah. According to Sarawak Utilities and Telecommunications Minister Datuk Seri Julaihi Narawi, the export of electricity to Sabah and Singapore from Sarawak is expected to only constitute 12% or 1,130 MW from an estimated generated 9,529 MW by 2030.

Therefore, the state would still have sufficient electricity supply of 8,399 MW for local use and needs which also covers foreign companies setting up manufacturing and production plants in various industrial parks in Sarawak. The higher contribution towards state coffers via the export electricity could enable Sarawak to further empower expansion of infrastructures not just for utilities but also the industrial space. After all, the state’s PCDS 2030 aims to have 15% of Sarawak’s electricity income to be derived from international markets through renewable energy.

Figure 16: Chart depicting a cascading dam



Source: Journal Article titled 'Numerical Simulation and Risk Assessment of Cascade Reservoir Dam-Break' published on 17 Jun 2020

Figure 17: List of hydropower projects in Sarawak

Hydropower Project	Capacity	Financing	Estimated Costs
Batang Ai (1985)	108 MW	Multiple federal funds and loans, including from EXIM bank	MYR93m
Bakun (2011)	2,400 MW	Federal and state government and loans from EXIM bank	MYR7.4bn
Murum (2014)	944 MW	Sarawak Energy, using Islamic bonds	MYR3bn
Baleh (expected to commence by 2027)	1,285 MW	Sarawak Energy; internal funding and sukuk bonds	MYR8bn

Source: Various media

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Internationally, the state's primary electricity, Sarawak Energy has a 33.3% stake in the Mentarang Induk Hydropower project (MIHEP) (capacity 1,375 MW) worth USD2.6bn in North Kalimantan via its participation in the developer company – Kayan Hydropower Nusantara (KHN). The remaining stakes in KHN are held by Adaro Energy (ADRO IJ, NEUTRAL, TP: IDR2,740) and Kayan Patria Pratama at 33.3% each. The project has commenced construction in 2023 and is expected to be completed by 2029.

MIHEP's pre-qualification process took place in 2021. We understand that pre-qualification process for MIHEP's civil works has been carried out in 2021 which stipulated that at least one member of the bidding consortium or JV has been the main civil contractor for at least one major hydroelectric project in excess of USD250m in the last 15 years. While we view that it could likely be Indonesia contractors getting a piece of the pie, Sarawak Energy's participation in the project may provide Sarawak-based contractors with the opportunity on a subcontractor basis, in our view.

Figure 18: Ground breaking ceremony for MIHEP



Source: Sarawak Energy

Figure 19: Location of MIHEP



Source: Consul-General Republic of Indonesia, Kuching, The Borneo Post

Figure 20: List of contractors involved in dam projects in Sarawak

Hydropower project	Year of award	Contractor	Job Scope	Value
Baleh Dam	2017	Pansar	Construction and completion of Jetty C, road and bridges	MYR99.6m
Bakun Dam	2008	KKB	Providing galvanised structural steel and subcontract work secured directly from the Malaysia-China Hydro (MCH) JV	Not disclosed
Batang Ai Dam	1984	KKB	Penstocks for Batang Ai Hydroelectric Dam	Not disclosed
Bengoh Dam	2007	Naim Holdings	Main contractor	MYR230m

Source: Various media

Potential contractors for upcoming dams projects include KKB, Pansar and Naim Holdings (Figure 20). As for non-Sarawak based contractors, we view Gamuda to have an upper hand in eyeing hydropower projects in Sarawak as it is developing the Upper Padas Hydroelectric project in Sabah.

Potential To Be a Data Centre Hotspot

Singapore to channel data centre investments in Sarawak. In relation to the export of electricity to Singapore from Sarawak, the former plans to invest in data centre projects within the latter. Such plans are of no surprise, as Sarawak has an abundant supply of hydro energy. Under this deal, the completion of a proposed 720km undersea cable connecting Kuching and Changi by 2032 will enable Sarawak to export renewable energy of up to 1GW.

Such a deal is timely amidst Sarawak's aspirations to have five Tier IV data centres by 2030. Tier IV means that data will always be safe and accessible, and never be offline, making it a highly reliable source for internet content. More importantly, the growth in data centres may enable higher internet connectivity and penetration rates in the state, with 94% of household in Sarawak having internet subscription at home in 2022 vs 90% in 2019.

Sarawak currently has one data centre (1.2MW capacity) in Santubong, which was developed by a Kuching-based telecommunication company irix. The centre was launched in Sep 2022 and utilises Sarawak's high level of hydroelectric power. irix's data centre in Santubong is the first Tier IV data centre in Malaysia certified by Uptime Institute – it is also carrier neutral. This data centre also offers direct international connectivity to Indonesia, Singapore, China, the Philippines, and beyond via the Batam-Sarawak Internet Cable System or BaSiCS, as well as the upcoming South-East Asia-Hainan-Hong Kong Express Cable System or SEA-H2X.

Another upcoming data centre in Sarawak includes a carbon neutral 200MW green data centre in Kota Samarahan, which will be co-developed via a Singapore-Sarawak consortium called FutureData. The said data centre is slated to be developed on a built-to-suit model and will be integrated into the FutureGreen District – a new township that emphasises mixed developments powered by sustainable infrastructure. Within this township, 135 acres have been earmarked for 200MW green data centre – construction is slated to commence this year.

Figure 21: irix's data centre in Santubong



Source: irix

Figure 22: FutureGreen District's master plan



Source: TSG Group

Taking into account the usage of pre-fabricated components via industrialised building systems (IBS) for data centres in general, Sarawak Consolidated Industries (SCIB MK, NR) may stand a chance to be a contractor for this project. SCIB is a Sarawak-based contractor with specialisation in IBS – producing hollow core slabs and precast concrete among others. IJM Corp could also be a potential beneficiary, as the group is in talks with the Sarawak State Government to set up a factory for piles manufacturing plant in the state.

We also do not discount the possibility of project management consultants with data centre exposure, eg HSS Engineers (HSS MK, NR).

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Enhanced Road Connectivity In The Works

Allocation for road projects under Sarawak's State Budget 2024. Under State Budget 2024, MYR662m has been provided for the implementation of various road and bridge projects, as well as the construction of the Kuching Inner Ring Road. What is more sizeable for listed contractors to chew on are the STR, PBH Sarawak Phase 2, and the Sarawak-Sabah Link Road projects.

STR

By 2025, Sarawak is expected to have an enhanced road network system – this is as the State Government continues to implement the STR (MYR5.6bn) initiative, which spans 225km from Batang Sadong Bride to Sebuyau. Once completed, the new highway will cut the travelling distance between Kuching and Sibu to only 225km – it is currently 312km via the Coastal Road Network and 400km via the Pan Borneo Highway.

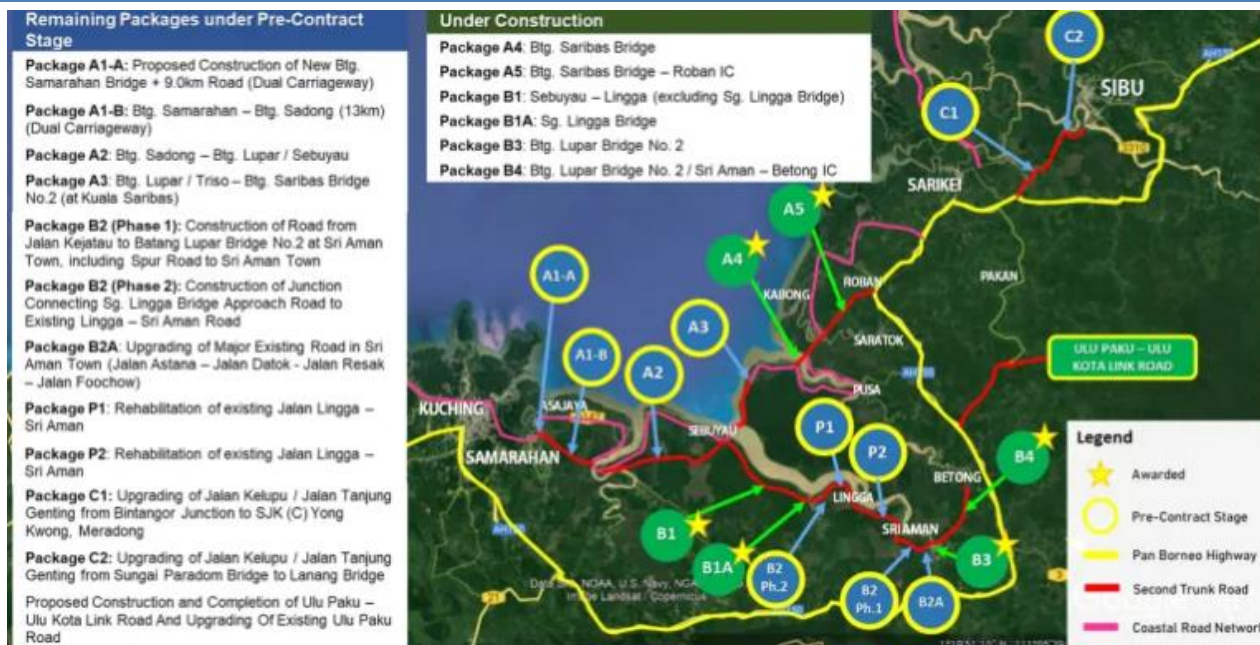
The STR is broken down into three packages: Package A (112km), Package B (94km), and Package C (30km). There are at least [eight work packages out of 20](#) that have been awarded under this initiative.

Figure 23: List of contractors involved in the Sarawak STR

Contractor	Work package	Scope	Value
Ibraco (Jul 2023)	Package A1-A Sarawak STR	Construction and completion of the new Batang Samarahan Bridge and a 9km new 4-lane dual carriageway road from Batang Samarahan to Batang Sadong.	MYR529.8m
Golden Throne Construction (Oct 2023)	Package B2A Sarawak STR	Upgrading major existing roads in Simanggang Town into dual carriageways	MYR60.9m
PCSB CCEED JV	Package A4 Sarawak STR	Construction and completion of Batang Saribas Bridge No. 2 at Kuala Saribas, Beting Division	Not disclosed
Gamuda via JV with Naim (Feb 2020)	Package B3 Sarawak STR	Proposed Batang Lupar Bridge No 2 at Sri Aman Town	MYR224m

Source: Bursa Malaysia announcements, Various media

Figure 24: Sarawak STR (225km) project



Note: Chart is as of May 2023, therefore, Package A1-A, Package B2A are no longer under the pre-contract stage

Source: Ministry of Infrastructure and Port Development Sarawak

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PBH Sarawak

What's left for PBH Sarawak? With the MYR16bn Phase 1 of PBH Sarawak project reaching the tail end of completion (98% as of Dec 2023), contracts will likely be rolled out soon for the 88km Phase 2 of PBH Sarawak (also known as Northern Coastal Highway) – linking Limbang and Lawas via Brunei Darussalam. Given the length of Phase 2 of PBH Sarawak is only 88km (vs 786km for Phase 1), the number of packages should be lesser with each package ranging between MYR400m and MYR600m, in our view. As such, we think that it could be any of the contractors under Phase 1 of PBH Sarawak (Figure 25) that would eye the second phase of the said project.

Figure 25: Key highlights of PBH Sarawak

Details	Phase 1 of PBH Sarawak	Phase 2 of PBH Sarawak
Number of work packages	11	Could likely be 3-4 packages based on our estimates
Cost	MYR16.1bn	MYR1.8bn based on our assumption of MYR20m per km
Length	786km	c.88km
Start and end point	Telok Milano-Miri	Limbang-Lawas
Completion progress as at Dec 2023	c.98%	Not disclosed

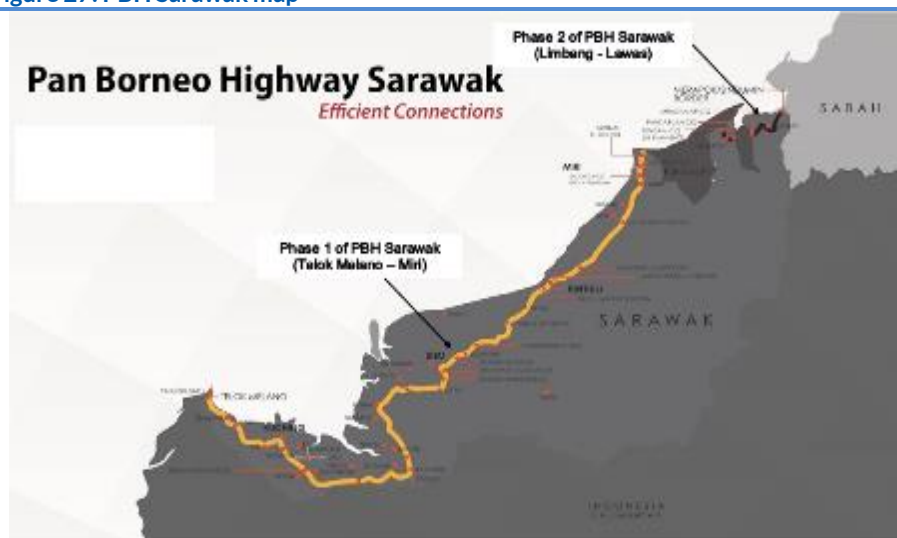
Source: Various Media

Figure 26: List of contractors involved in PBH Sarawak Phase 1 (not exhaustive)

Contractor	Work Package	Value (MYRm)
Kimlun via JV with Zecon (30% Kimlun, 70% Zecon)	WPC03 – Serian roundabout to Pantu Junction	1,460
Gamuda via JV with Naim Holdings (30% Gamuda, 70% Naim)	WPC04 – Pantu Junction to Batu Skrang	1,567
TRC Synergy (through its subsidiary Trans Resources Corporation) via JV with Endaya Construction and Pembinaan Kuantiti (30% Trans Resources Corporation, 70% other JV partners)	WPC05 – Batang Skrang to Sungai Awik Bridge	1,310
Cahaya Mata Sarawak (through its subsidiary PPES Works via JV with Bina Puri (70% PPES Works, 30% Bina Puri)	WPC06 – Sungai Awik Bridge to Bintangor Junction	1,360
Hock Seng Lee via JV with Dhaya Maju Infrastructure (Asia) (70% Hock Seng Lee, 30% Dhaya Maju Infrastructure (Asia))	WPC07 – Bintangor Junction to Julau Junction and Sibu Airport to Sungai Kua Bridge (including Batang Rajang Bridge)	1,700
Mudajaya via JV with Musyati (30% Mudajaya, 70% Musyati)	WPC08 – Sungai Kua Bridge to Sungai Arip Bridge	1,326
KKB Engineering via JV with WCT Berhad (70% KKB Engineering, 30% WCT)	WPC09 – Sungai Arip Bridge to Bintulu Airport Junction	1,289

Source: Bursa Malaysia announcements

Figure 27: PBH Sarawak map



Source: Lebuhraya Borneo Utara

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Sarawak-Sabah Link Road project

The Sarawak-Sabah-Link Road (SSLR) (more than 300km) under which Phase 1 (77km from Simpang Gelugus to Long Lopeng) is currently being implemented, has a contract value of MYR1.1bn and awarded to Samling Resources as the main contractor.

Kimlun Corp (KICB MK, NR) has been awarded with a MYR780m subcontract by Samling Resources in Nov 2021 for the main works for contraction and maintenance of Phase 1 of SSLR (Lawas to Long Lopeng Junction).

Phase 1 of SSLR has reached 13.6% completion as at Apr 2023, with the expected completion by Jan 2026. Phase 2 of SSLR (estimated at MYR7.4bn) is expected to be rolled out in 1H24. We do not think that KICB would eye for the project as it is currently occupied with Phase 1 of SSLR. As such, other Sarawak-based contractors in partnership with contractors from West Malaysia are likely to participate in Phase 2 of SSLR.

Figure 28: SSLR layout



Source: Miri City Sharing

Figure 29: Work packages under SSLR Phase 2

Package	Details
1	61km stretch between Mulu and Long Seridan
2	101 km stretch from Long Seridan to Nanga Medamit
3	63km section between Long Lopeng and Long Komap
4	97km section from Rumah Aling to Long Merarap

Source: Southeast Asian Infra

In the long run, 7,530km of new roads will need to be built and 3,487km of substandard roads must be upgraded or rehabilitated to connect all rural areas, according to Sarawak Deputy Premier Datuk Amar Douglas Uggah. We continue to reiterate that names which have a track record in existing Sarawak highway projects will be on the lookout for further opportunities for road-related projects in the state. These names include KKB, Gamuda, TRC Synergy (TRC MK, NR) and Naim Holdings.

Less Congestion With Kuching ART

The **Kuching ART** is part of Phase 1 of the Kuching Urban Transportation System (KUTS) plan (estimated at c.MYR6bn), fully financed by the Sarawak Government. Phase 1 of KUTS involves a c.70km route comprising three lines and 31 stations with dedicated lanes. The project is targeted to be completed by 4Q25 for the Blue Line (Rembus to Riveria stretch), 4Q26 for Blue Line (Riveria to Hikmah Exchange) and Red Line with the Green Line being the last to commence operations in 4Q27.

Details for system work packages for Kuching ART. Two system packages for the Kuching ART have already been awarded in Jul and Nov 2022 worth MYR1.9bn in total. Meanwhile, advanced works for the Rembus Depot had been clinched by Hock Seng Lee before the full works were awarded in Dec 2023 to a JV between IJM Construction SB (IJM Corp's subsidiary), Azam Sehasrat and Unique Deco for a value of MYR260m. The Rembus Depot is being built on an 80-acre site which would house facilities like a hydrogen production plant, stabling yard and operation control centre amongst others.

Civil work packages that have been awarded under Kuching ART. Kuching ART has three lines (Blue, Red and Green). The Blue Line Package 1 was awarded in Nov 2023 to a JV consisting of Ibraco Construction SB (Ibraco's construction arm), China Railway Engineering Corp (M) and Nanyang Tunnel Engineering for a value of MYR560m. Meanwhile, the Red Line package was secured by a JV comprising Sri Datai Construction (Sarawak), JV Builders and CHEC Construction for a value of MYR943.3m.

Any more investment ideas under Kuching ART? The Blue Line Package 1 for Kuching ART involves construction of a 15km ART alignment, leaving the Blue Line Package 2 (yet to be awarded) at c.12km. Additionally, the Green Line (which is the longest line at 30km) package is also yet awarded to any party. KICB has previously expressed interest to participate in the Kuching ART project. Sarawak Metro highlighted that 20% of the 70km alignment of the Kuching ART would be elevated – presenting an opportunity for the group to supply precast components such as segmental box girders which KICB is known for. We also do not discount KKB's participation in the Kuching ART project – particularly for fabrication-related works for the hydrogen production plant at the Rembus Depot.

Figure 30: Contracts awarded for systems and depot under Kuching ART project

Work Packages	Job scope	Appointed Contractor	Value (MYRm)
System Package 1	Supply of the rolling stock, which is the hydrogen-powered ART vehicles; depot equipment and maintenance vehicles; signalling and control system; and automatic platform gate.	JV between EPR (Kuching), Global Rail and Mobilus	1,425
System Package 2	Supply of telecommunication, supervisory control and data acquisition, automatic fare collection; computerised maintenance management system, operation control centre, and information technology system.	JV between DOM industries (M) and China Railway Electric Engineering Group Malaysia	448
Advanced works for Rembus Depot	Construction and completion of the advanced works for Rembus Depot	Hock Seng Lee	64
Rembus Depot	Construction and completion of the Rembus ART depot and other associated structures, stabling yard, detention pond, access road as well as civil works.	JV between IJM Construction SB, Azam Sehasrat and Unique Deco	260

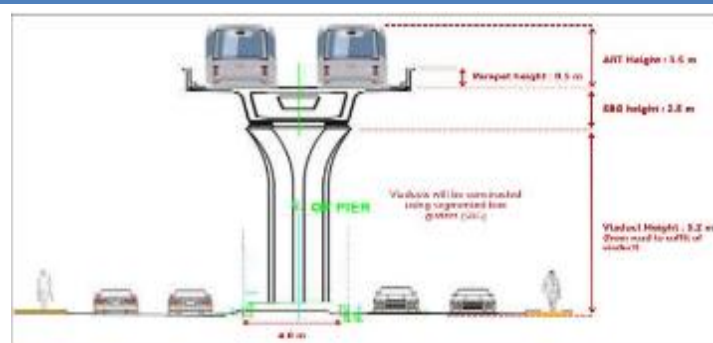
Source: Various media

Figure 31: Cross section of the at-grade section of Kuching ART



Source: Kuching ART Environmental Impact Assessment report, Sarawak Metro

Figure 32: Cross section of the elevated section of Kuching ART



Source: Kuching ART Environmental Impact Assessment report, Sarawak Metro

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Figure 33: Details of the three lines under Kuching ART

Line	Remarks	Length	Appointed Contractors	Contract Value	Job Scope	Period
Blue Line	Rembus to Hikmah Exchange	27.6km	Blue Line Package 1 (Rembus to Stutong (near NorthBank)): JV comprising - Ibraco Construction SB, China Railway Engineering Corp (M) and Nanyang Tunnel Engineering	MYR568.6m	Constructing a 15km Autonomous Rapid Transit (ART) alignment, starting from the depot in Rembus and along the Kuching-Samarahan Expressway up to Stutong, seven stations, and a bridge that will cross Sungai Kuap	Feb 2024 to Dec 2026
			Blue Line Package 2: yet to be awarded	n.a.	n.a.	n.a.
Red Line	Kuching Sentral to Pending	12.3km	JV comprising - Sri Datai Construction (Sarawak), JV Builders and CHEC Construction	MYR943.3m	Build the infrastructure for the Red Line and road widening works	Feb 2024 to Dec 2026
Green Line	Pending to Damai Central, Santubong	30.0km	Yet to be awarded	n.a.	n.a.	n.a.

Source: Various Media

Figure 34: Aerial view of Rembus Depot site in Sep 2023



Source: Sarawak Metro

Figure 35: Artist illustration of the Rembus Depot



Source: Sarawak Metro

Figure 36: Lines under Kuching ART (Blue, Red and Green)



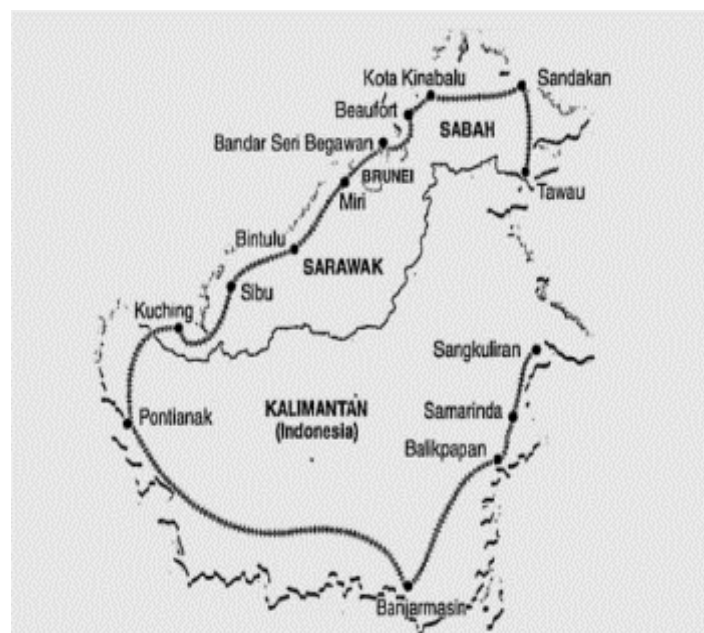
Source: Sarawak Metro

The Federal Government in Nov 2023 has agreed to the ambitious plan to construct a mega-railway project linking Sarawak to Sabah, and eventually to Kalimantan (known as the Trans-Borneo Railway) which is estimated to cost [MYR63bn](#). Earlier in Oct 2023 – the Federal Government announced that it will finance a ground survey to look into the feasibility of constructing the said project.

Such plans for a Trans-Borneo Railway appears to be apt, with Indonesia already relocating its national capital to Kalimantan from Jakarta – potentially necessitating cross border flows between Sarawak, Sabah and Kalimantan in the future. Also, Indonesia is already improving its railway system in Kalimantan via an extensive railway connecting Nusantara in East Kalimantan with major cities around it, and if Sarawak and Sabah chose not to jump on the bandwagon, they stand to lose a great opportunity.

In fact, plans for a Kalimantan railway line started in 2019 which include Banjarmasin-Tanjung (196km) and Banjarmasin-Palangkaraya (194km). Upcoming plans for Kalimantan's railway network will expand the stretch to a total of 2,428km in various phases (Figure 37) covering destinations such as North Kalimantan and Pontianak.

Figure 38: Overall alignment of proposed Trans-Borneo Railway



Source: Future Southeast Asia

Our view on the Trans-Borneo Railway. We envisage the rollout of the said project to not happen so soon, perhaps only in the next five years given the Federal Government is occupied with other upcoming mega projects such as the Penang Light Rail Transit, Kuala Lumpur-Singapore High Speed Rail and Mass Rapid Transit 3. Nonetheless, we view a faster-than-expected rollout to be a catalyst not just for Sarawak-based contractors but also for Malaysian contractors as a whole – especially those with rail credentials such as Gamuda and IJM Corp, to name a few.

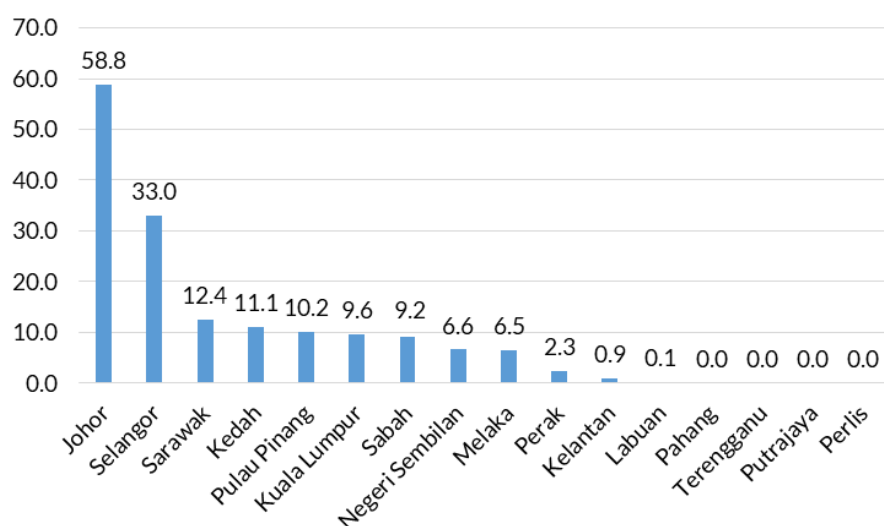
Higher Investments To Boost Industrial Production

Sarawak's foreign investments

Sarawak was the third highest state in terms of approved investments in 2022 at MYR28.2bn – representing a 9.6% YoY increase from 2021. Out of this MYR28.2bn total of approved investments in 2022, 44% came from foreign investments. In absolute terms, Sarawak saw foreign investments worth MYR12.4bn in 2022 compared to MYR9.4bn in 2021 – making it the third highest state in terms of foreign approved investments after Johor (MYR58.8bn) and Selangor (MYR33.0bn).

What is the pull factor for foreign investors into Sarawak? Sarawak Government's policy is clear to promote green energy through PCDS 2030 to become a preferred destination for foreign investment. Foreign investors are invited to add value to green energy by starting research and development towards the transition to clean energy. Other factors include political stability, business-friendly investment policies, efficient government machinery, availability of natural and renewable resources, young talent workforce, and availability of land for development purpose.

Figure 39: Foreign investments recorded by state in 2022 (MYRbn)



Source: Malaysian Investment Development Authority

Notable foreign investments in hydrogen production. There are now two cornerstone hydrogen projects being undertaken by SEDC's subsidiary, SEDC Energy at the Sarawak Petchem Industrial Park in Bintulu. SEDC Energy is in partnership with a consortium of companies from South Korea (Samsung Engineering (028050 KS, NR), Posco (005490 KS, NR) and Lotte Chemical Corp (011170 KS, NR) with a proposed investment of MYR11.3bn (USD2.4bn) with the Joint Development Agreement (JDA) signed in Oct 2023 for hydrogen production project called H2biscus.

Additionally, SEDC Energy is also forging partnerships with Japanese companies Sumitomo Corporation and Eneos for the H2ornbill project in Sarawak Petchem Industrial Park, aimed at scaling up green hydrogen production. These international collaborations highlight the global significance of Sarawak's hydrogen endeavours. Sarawak's green energy aspirations can be tied back to the Kuching ART vehicle, which will be powered by hydrogen along with SEDC's hydrogen buses.

According to the Sarawak Premier, the H2ornbill and H2biscus projects are expected to [generate an additional RM2.4bil to Sarawak's gross domestic product by 2030](#) with a combined capacity from both projects at over 200k tonnes per year. More importantly, recall that both projects are recognised under the National Energy Transition Roadmap (NETR).

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Figure 40: Summary of planned/proposed hydrogen projects in Sarawak

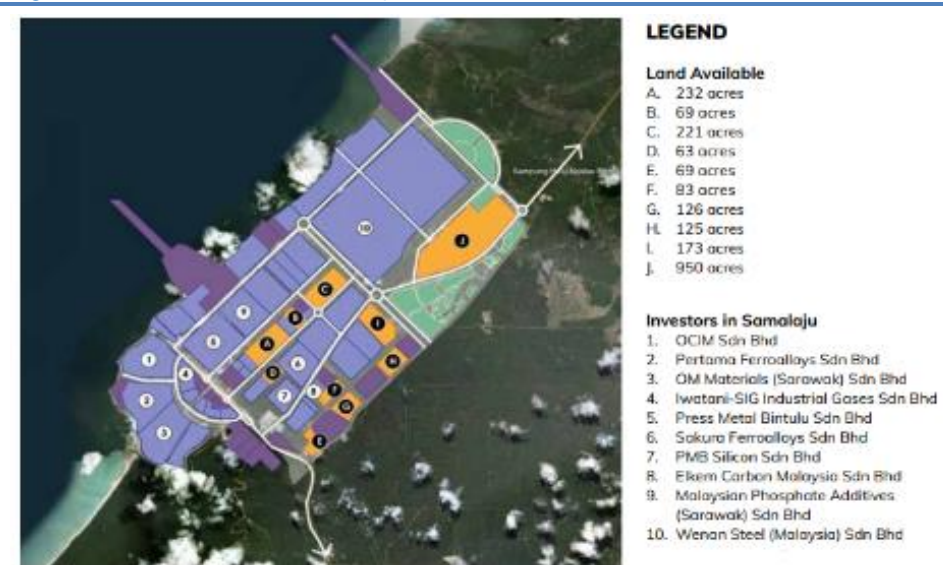
Hydrogen Project	Parties involved	Proposed Investment	Annual Capacity	Progress	Expected commencement
H2biscus	SEDC Energy with Samsung Engineering, Posco and Lotte Chemical Corp	MYR11.3bn	Green hydrogen production: 150k tonnes of which 7k tonnes would be for domestic use	Final investment decision to be made at end 2024 based on the front end engineering design (FEED) which commenced in Nov 2023 EPC contracts are expected to be rolled out at end 2024/early 2025 once FID is approved.	Early 2028
H2ornbill	SEDC Energy with Sumitomo Corporation and Eneos	MYR8.5bn	To produce 90k tonnes of green hydrogen of which 2k tonnes would be for domestic use	Was reported to be entering the FEED phase in Dec 2023	Late 2027/early 2028
A project from Australia	Undisclosed	MYR5.6bn	Undisclosed	Undisclosed	Undisclosed

Source: Various media

One major spillover impact from the said hydrogen projects would be the creation of new hydrogen-based industries such as the manufacturing of electrolyzers, fuel cells and green chemical industry. Electrolyzers are required as hydropower will be used to electrolyse water to produce green hydrogen without emitting carbon dioxide.

Aside from hydrogen production – Sarawak is known for accommodating energy intensive industries via Samalaju Industrial Park which has attracted investment of some MYR30bn from local and foreign companies. The latest development related to Samalaju Industrial Park includes the signing of an MoU between SEDC Energy and Gallois New Energy Materials (M) for the construction of a MYR6.3bn graphite plant in Samalaju Industrial Park.

Figure 41: Land available at Samalaju industrial Park



Source: RECODA

How are contractors going to benefit from such projects? Contractors having fabrication capabilities are expected to leverage on the development of the aforementioned projects (hydrogen and graphite manufacturing). We are of the opinion that KKB stands out to be a major beneficiary of such projects. The reason being is that KKB's new subsidiary, KKB Energy SB intends to undertake construction and manufacturing of utility projects and parts, transportation projects and other related support services relating to renewable energy such as hydrogen electrolyzers assembly and processes. Aside from the group has a track record in supplying, fabricating and installing structural steel works of industrial plants and factories, namely for a glove factory in Petchem Industrial Park, a ferro alloy complex and a polycrystalline silicon manufacturing plant in Samalaju Industrial Park amongst others.

Carbon Capture And Storage (CCS) Opportunities

Sarawak's mining and quarrying activities make up 21% of the state's GDP in 2022. More importantly, the Sarawak's GDP for the mining and quarrying sector (which includes oil & gas activities) grew by 5.6% YoY in 2022 after two straight years of declines. Moving forward, we view oil & gas activities in the state to pick up, backed recent gas discoveries off the shore of Sarawak.

Recently in Jan 2024, Petronas was awarded production-sharing contracts (PSCs) for six exploration blocks and one discovered resource opportunities (DRO) cluster marketed under the Malaysia Bid Round 2023 (MBR 2023). Amongst the recipients of the PSC were Sarawak Shell, Petronas Carigali, Petroleum Sarawak Exploration and Production and INPEX Malaysia E&P. The awarded PSCs are expected to garner more than MYR1.3bn worth of capital investment to the country in the form of exploration work activities.

Separately, Thailand's national oil & gas company PTT Exploration and Production (PTTEP TB NR) has made new oil & gas discoveries in three fields offshore Sarawak, Malaysia, including Chenda-1 exploration well in Block SK405B, as well as Bangsawan-1 and Babadon-1 exploration wells in Block SK438.

Sarawak Shell has also been making headlines following its role as the operator for the Rosmari and Marjoram (R&M) sour gas fields not just limited to an onshore gas plant but also a deep-water subsea facility and remotely operated offshore platform.

Figure 42: Three oil and gas discoveries by PTTEP



Note: Sirung-2 only had appraisal success
Source: Offshore Mag

CCUS prospects for Sarawak. In relation to oil & gas exploration, carbon capture, utilisation and storage (CCUS) is an upcoming environmental friendly component which captures CO₂ emissions from large point sources such as fossil power generation and industrial processes for storage deep underground or re-use. Taking into account Sarawak's location outside the ring of fire, combined with a huge storage space in depleted oil wells and saline aquifer, may enable Sarawak to be a major player in CCUS. Furthermore, CCUS may be the only way to address the nearly 25% of unavoidable point source industrial emissions from fossil fuel intensive processes using natural gas, according to Sarawak Deputy Minister of Energy and Environmental Sustainability Datuk Dr Hazland Hipni.

Existing CCS projects in Sarawak (or Malaysia for that matter) include the Kasawari CCS project (expected start-up in 2025) – with the ability to reduce carbon dioxide emissions via flaring by 3.3m tonnes pa, making it one of the largest offshore CCS projects in the world. Aside from that, PTTEP also has a CCS facility for its Lang Lebah offshore field – which has in-place reserves of 5trn cubic feet of gas.

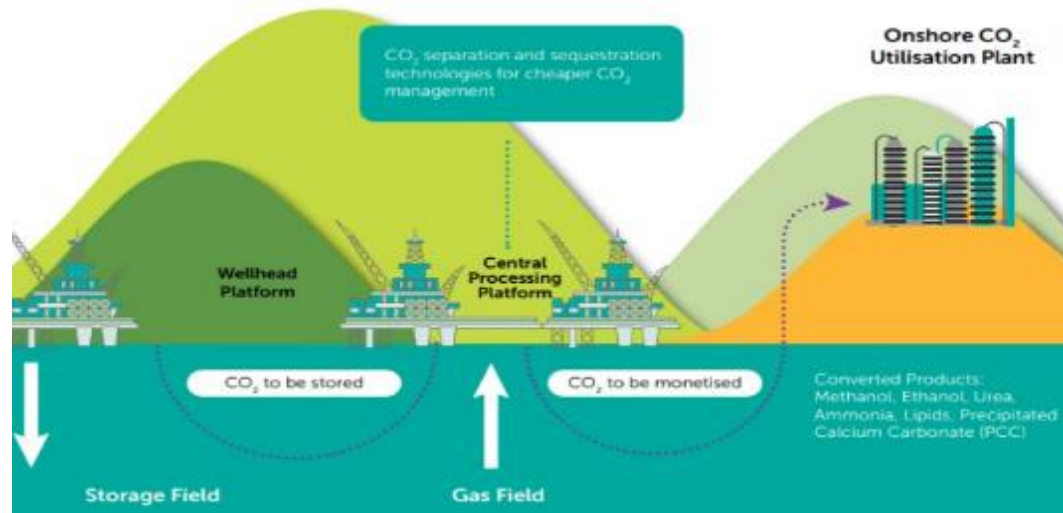
Sarawak appears to be a prime location for CCS projects. According to Petronas' Malaysia Petroleum Management (MPM), more than an estimated 46trn cubic feet of potential CCS has been identified across 16 of Malaysia's depleted fields, which is more than ample for the nation's forecast upstream CO₂ emissions. Interestingly, 11 of these 16 potential CCS sites are at fields off the shore of Sarawak while the other five are located off the shore of West Malaysia.

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Encapsulating the expected higher demand for wellhead platforms in light of oil discoveries offshore Sarawak and the potential growth of CCS projects (which is highlighted under the NETR) – fabricators such as Malaysia Marine & Heavy Engineering (MMHE MK, BUY, TP: MYR0.57) and KKB have a track record for projects related to wellhead platforms and also CCS projects. Recall that the only other Petronas-licensed yard fabricator in Sarawak is Brooke Dockyard and Engineering Works Corporation – indicating manageable competition.

Figure 43: Process flow of Kasawari CCS



Source: Petronas

Cement Production Prospects

With the slew of anticipated infrastructure projects in Sarawak, building material players – particularly cement producers are also seen to be key beneficiaries of the state's infrastructure wave. In regard to this, the Sarawak Government has already taken steps to strengthen its cement supply chain with Innocement (a JV between SEDC and Bintulu Development Authority) inking MoUs with YTL Cement and Thailand's SCG International (a subsidiary of Siam Cement (SCC TB, BUY, TP: THB340)) in Jul 2023. Cahya Mata Sarawak (CMS MK, NEUTRAL, TP: MYR1.14) is currently Sarawak's sole cement manufacturer.

Aside from strengthening Sarawak's cement supply chain, Innocement also aims to ensure the long-term reliability of supply and stability of cement prices in the state. To achieve such targets, a sufficient supply of cement must be available through Sarawak – with such supplies being easily accessed in a timely and cost-effective manner, coupled with stable and transparent pricing. Based on a statement by [SEDC and Bintulu Development Authority in Jan 2023](#), to date, the average unit price of cement is 15% higher compared to West Malaysia and also 4% higher than in Sabah.

YTL Cement has clinker plants in Langkawi (annual capacity: 3.3m metric tonnes) and Vietnam (via Fico-YTL Cement JV) (annual capacity: 1.4m metric tonnes). In our view, the most cost efficient way for YTL Cement would be for it to ship cement from its two clinker plants to Sarawak and subsequently grinding it prior to selling. Vietnam Minister of Construction Nguyen Thanh Nghi has called for a reduction in the export tax on clinker to 5% which could further ease costs if the proposal passes through. Additionally, we see YTL Cement's clinker plant in Langkawi – which has its own deep water terminal – could smoothly facilitate the movement of cement cargo to Sarawak from Langkawi. More importantly, in the event there is insufficient local cement supply, Vietnam can serve as a buffer to fill up the gap with additional shipping costs being potentially passed on to the client, in our view.

In relation to SCG International, importations of cement are subjected to the certificate of approval issued by the Malaysia's Construction Industry and Development Board, as well as the Domestic Trade and Cost of Living Ministry, which are the custodians for policy decisions on the import of cement. Therefore, YTL Cement could have the upper hand for its Langkawi clinker plant given its local status.

All in, Sarawak's annual cement demand is between [2-2.5m tonnes](#) and may rise further with upcoming infrastructure projects (highways, dams, flood mitigation projects) backed with higher DE for the state. The total of 960 projects with a combined value of about MYR46bn have been allocated for the state's infrastructure development – warranting stronger demand for cement in the long run. We also do not rule out the demand which may potentially come from Indonesia's New Capital City in Kalimantan.

Figure 44: CMS' cement production capacity

Plants	Annual production capacity (million metric tonnes)
Two cement grinding plants in Pending (Kuching) and Bintulu	1.0
Mambong clinker plant Line 1	1.6
Upcoming Mambong clinker plant Line 2 (estimated cost of MYR750m with 36 months completion time)	1.9

Source: Company data, RHB

Figure 45: Cement production capacity in Malaysia

Cement Producer	Annual production capacity (million metric tonnes)	Market share (%)
Malayan Cement (grinding capacity)	25.1	61.5
Cement Industries of Malaysia	7.2	17.7
Hume Cement	3.6	8.8
Tasek Corp	2.3	5.6
Cahya Mata Sarawak	2.6	6.4

Source: Company data, RHB

Key Risks

Risks that could impact Sarawak's infrastructure expansion include:

- i. Unforeseen pandemic outbreaks;
- ii. Unexpected downward revision in DE for the state.

Nevertheless, we view such risks to be minimal as the value of construction works done in the state have stayed at a healthy level. This indicates that contractors in the state are always occupied with jobs. Save for 2Q20, Sarawak saw its value of construction work done even higher in 3Q20 at MYR3.8bn vs the pre-pandemic level in 2018-2019, which only topped MYR3.6bn (Figure 8).

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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470