Future-proofing data centre investments

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AS Malaysia continues to be a hotbed for data centres (DC), credit ratings are increasingly becoming essential checkpoints for projects seeking capital.

The rush to build massive, billion-ringgit hyperscale campuses has created a new challenge: convincing investors that these capital-hungry facilities are reliable investments.

"The amount of money chasing DCs is incredible," says Sprint DC Consulting chief executive officer Gary Goh, whose firm advises on fundraising, acquisitions, site selection and technical due diligence for DC projects.

"Most projects start with bank financing, but once operations stabilise and bank balance sheets are stretched, the funding may shift to the bond market – though competition in the global US dollar bond space is intense," he tells *StarBiz 7*.

Goh notes that risk remains high, even for investors already in the sector.

Commercial risks, he says, are the hardest to price – how the DC asset will perform, how the market evolves, and whether Malaysia will remain a viable location in 10 to 20 years.

"Default risk is very relevant, and the terminal value of a DC asset is rather vague at times," Goh adds.

Such uncertainties have highlighted the need for a structured framework to assess project viability.

Earlier this year, MARC Ratings Bhd published a dedicated DC credit rating methodology – the first of its kind in the country.

MARC Ratings structured finance, property and retail portfolio head Yazmin Abdul Aziz says DCs are no longer niche; they are now foundational infrastructure for the digital economy.

Given Malaysia's surge in large-scale investments – especially in Johor and the Klang Valley – there is a growing need to assess these projects through a fit-for-purpose credit lens.

"Traditional property or infrastructure models do not fully capture the operational intensity or long-term viability risks of DCs.

"Our methodology fills that gap – it's tailored to assess the interplay of risks relevant to how these facilities are built, operated, and financed," Yazmin tells *StarBiz 7*.

She emphasises that a DC's credit strength is never determined by a single factor.

Due to the scale of funding and the industry's relative infancy, Yazmin notes that four areas are particularly important: who is building the facility, who is using it, operational resilience, and long-term sustainability.

"We start by assessing the sponsor and construction team, looking at their track record, experience with similar projects, and the risks associated with construction and commissioning.

"Next, we evaluate tenant quality and lease structure, including the stability and creditworthiness of the users," Yazmin adds.

Operational resilience is equally critical. Since DCs must run 24/7 with minimal downtime, the methodology examines redundancy in design, tier certifications, power usage effectiveness (PUE), and the reliability of utility and telecommunications supply.

This means checking if a DC has backup systems to prevent outages (redundancy), meets global uptime standards (tier certifications), operates efficiently without wasting energy (PUE), and can rely on uninterrupted power and network connections.

"Finally, we consider the overall sustainability of operations – how the project is designed and managed to maintain performance and efficiency over the long term.

"By evaluating these factors together, we can build a comprehensive view of a project's credit profile and give investors confidence in the facility's ability to deliver reliable, long-term performance," Yazmin says.

Overall, a facility that performs well under stress and is built with robust design and execution may deliver strong credit outcomes, even in challenging conditions.

"Ratings reflect both the financial strength of a project and its ability to operate reliably. For DCs, this means looking beyond the balance sheet to factors like uptime, tenant stability, and operational resilience," she adds.

Yazmin notes that hyperscale and colocation centres are assessed differently, as they present distinct risk profiles.

Hyperscale centres, typically backed by long-term anchor tenants, offer stable and predictable cash flow over many years.

However, they also carry concentration risk, as performance often depends on a single tenant.

"Hyperscale facilities generally involve larger upfront capital expenditure and more complex infrastructure requirements, which adds financial and operational risks that must be carefully managed," Yazmin says.

Meanwhile, colocation centres, which lease space to multiple tenants, may benefit from greater financial flexibility due to diversified revenue streams.

However, they face challenges such as shorter lease cycles, renewal risks, and varying tenant credit quality. While Malaysia has strong fundamentals for DCs – such as land, connectivity, and regional demand spillover, especially from Singapore – Yazmin highlights persistent challenges including energy resilience, land zoning, and access to skilled operators.

"Long-term tenancy and securing renewable power sources will become critical differentiators.

"The opportunity lies in building DCs that are not just big, but bankable, efficient, and future-ready," she says.

To sustain the country's competitiveness as a DC hub, Yazmin notes the importance of addressing resource strains – particularly on power and water – and managing community concerns over cost and reliability.

That said, operators are increasingly investing in renewable energy. Many DCs are securing long-term power purchase agreements with solar, wind, or hydro producers, or developing on-site renewable generation combined with battery storage.

Fitch Ratings head of Asia-Pacific infrastructure and project finance Sajal Kishore says land, water, power and connectivity are a given for DCs.

For Fitch, the credit strength of a DC comes down to three key factors: re-contracting risk, the nature and use of the facility, and its location.

"The initial term of a DC contract is usually 10 years, sometimes lightly shorter or longer in Asia. However, that is often not enough to repay the debt, creating re-contracting risk.

"Contracts are typically structured as 10+5+5, allowing extensions up to 20 years, but the uncertainty lies in whether renewals will happen, how soon, and on what terms," Sajal adds.

"Location is absolutely critical as it determines demand and supply dynamics. For example, DCs in Johor benefit from Singapore's proximity because the latter is constrained in terms of additional DC capacity."

Rising costs are becoming a major challenge.

As power, water, and land grow more expensive, the pace of new DC builds is likely to slow.

However, existing DCs will have a "significant advantage", Sajal notes, as demand continues to grow even while supply tightens – enhancing their credit strength.

At the same time, he says Malaysia's DC space still has growth opportunities as demand spills over from saturated prime hubs like Singapore, Tokyo and Sydney.

"This pushes demand for DCs into secondary markets like Johor, Melbourne and Osaka," he says.

■ DC risks remain high, even for existing investors, underscoring the need for a clear framework to assess project viability

■ MARC assesses DC credit strength by builder, user, operational resilience, and long-term performance sustainability

Sajal: Malaysia's DC space has growth potential as demand overflows from full hubs like Singapore, Tokyo, and Sydney.

Yazmin: The opportunity for Malaysia lies in building DCs that are not just big, but bankable, efficient, and future-ready.

Goh: Most projects begin with bank loans but often shift to bond financing as they stabilise and seek additional funding.