Harrisma data centre, Indonesia

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As infrastructure financiers increasingly venture into the digital space amid the second year of pandemic, Indonesian internet service provider Inet Global Indo this month (July) broke ground on its Rp1 trillion ($68.9 million) hyperscale data centre phase 1.

Indonesia's data centre sub-sector has been gaining traction from local and international investors. The market activity corresponds to the compelling results of last year's inaugural *IJGlobal* Global Digital Infrastructure Survey.

More than half of the respondents agreed that digital infrastructure is key to re-booting economies post coronavirus. Seven in 10 responded that Europe and Asia Pacific will benefit the most from digital infrastructure. While almost 53% already integrate digital infrastructure into their current projects.

This year's second Global Digital Infrastructure Survey, conducted by *IJGlobal* in collaboration with international law firm Allen & Overy and DI intelligence partner M&E Global, is still accepting responses.

Project background

The hyperscale data centre occupies up to 1.7ha of land in Jababeka industrial estate, West Java. It has a total capacity of 3,000 racks with tier 3 specification (certification) facilities.

The data centre will incorporate zero downtime facility design, power usage effectiveness (PUE) of less than 1.5, and a green building concept. PUE measures how efficiently a data centre uses energy. The lower the figure, the higher the efficiency.

The project comprises 3 phases:

- phase 1 – 3-storey data centre building, first-level IT computer room with a 3.5MW fit-out capacity, and supporting MEP facilities
- phase 2 – second-level IT computer room with a 7MW fit-out capacity
- phase 3 – third-level IT computer room with a 7MW fit-out capacity

State-owned Pembangunan Perumahan is the EPC contractor. Harrisma targets completing phase 1 by 2022.

Project fast-tracking

Inet's subsidiary Harrisma Data Citta is the project developer.

In May (2021), Harrisma achieved financial close for phase 1 after signing an Rp629.8 billion debt package with state-owned infrastructure finance and advisory company Indonesia Infrastructure Finance (IIF).

IIF was the sole lender for the 10-year senior term loan facility. The interest rate is around 9-10%, *IJGlobal* understands. The debt-to-equity ratio is 63:27 on a project value of about Rp1 trillion.

Singapore-based Nuevo Asia Capital was phase 1's MLA. IIF will act as the joint MLA for phases 2 and 3. Nuevo and IIF are looking at 2 to 3 potential international and local banks, "ideally a bilateral loan", *IJGlobal* was told. The 2 ticket sizes will be slightly bigger than phase 1 with a total investment value at around $100 million, *IJGlobal* has heard.

Harrisma targets to complete phase 1 in a year (2022) and arrange funding for phases 2 and 3 in parallel. This arrangement allows the company to quickly grow its business and establish itself as a key market player. Though not uncommon, the project showcases investor appetite in the region.

A booming sector

According to World Bank, internet users in Asean member countries have trebled from 127 million in 2011 to 390 million by the end of 2017, amounting to half of the population in the region.

The trend is apparent in Indonesia too. As of 2020, internet users reached 175.4 million, or 64% of the country's population – a 250% increase from 50 million in 2019.

Local cellular operators Telkomsel and Ooredoo saw a surge of internet and data service during holidays. Last year, the 2 companies recorded an increase in internet data traffic of 49.8% and 27% during Eid al-Fitr, a Muslim holiday that marks the end of the month-long fasting period.

The high internet traffic shines a light on investment opportunities in the country's data centres sub-sector. Research and Market estimated that the Indonesian data centre market will grow 11.6% annually, reaching $3.35 billion by 2026, up from $1.79 billion in 2020.

Government ICT policy

Last year, Indonesian President Joko Widodo announced plans to spend Rp30.5 trillion in the 2021 state budget to develop the country's information and communication technology sector. "The Covid-19 pandemic has shown that the availability and the functionality of digital infrastructure have become essential and strategic," said Widodo.

Communication and Information Minister Philip Gobang then in May (2021) announced 5 strategies to accelerate digital transformation:

- digital transformation planning for regulations, funding scheme, and financing
- prepare digital transformation roadmap
- expand digital infrastructures and increase internet service across 12,500 villages
- speed up the integration of national data centres
- equip human resources with digital knowledge

Businesses are increasingly transforming by adopting cloud computing systems, data-intensive applications such as the Internet of Things (IoT), data analytics, and artificial intelligence.

US-based research company Forrester surveyed the country's digital transformation progress – 43% of Indonesian companies are on a digital transformation journey. Another 34% of the companies plan to start by this year (2021).

A strong competitor

Indonesia has 51 operational data centres, with 29 in the capital city Jakarta. The country has a growing demand for internet and network services and displays plenty of untapped opportunities compared to its neighbours.

In May (2021), the Singapore government announced a "temporary pause" on developing data centres. The government will stop releasing land for data centres as the sub-sector has accounted for up to 7% of the country's total electricity consumption in 2020.

The growth in foreign direct investment has validated Indonesia's attractiveness as an alternative. Tencent Cloud (China), Alibaba Cloud (China), Microsoft (US), Logos (Australia) have announced plans to build data centres in the country.

Indonesia's data centre industry is one of the few sub-sectors that has grown during the pandemic. "The market behaviour has changed since covid, with businesses and even school lessons switching online. Local data centres can provide the need of containing companies' data as close as possible with the used," Nuevo Asia Capital country director Yulianni Liyuwardi told *IJGlobal*.

Wide customer base

Local telecoms companies have also been eager to participate in the sub-sector. They have advantages over the market as they are familiar with the geographical complexity, which allows them to tap into regions with the highest potential growth.

"Foreign companies either have to bring over international customers or establish a new user base, whereas local companies already know the areas that align with their business strategies," a project participant told *IJGlobal*.

"One of the key competitive advantages is their standing position as an independent data centre provider. The facility will rent out 500 racks as a section to its customers, accommodating big players in the market," added Liyuwardi.

But even so, it does not stop international companies from entering the market. "Right now, the market is sufficient for both international and local players, everyone gets a share of the pie," said the project insider.

“While renewable energy is the frontier of infrastructure investments in Asia Pacific, digital infrastructure has gained a lot of traction during Covid,” Nuevo Asia Capital director Rahul Agarwal told *IJGlobal*.

However, local companies will have to maintain and even improve their operational standards to retain their customers in the increasingly competitive landscape. "It depends if the company was able to grab this window of opportunity presented in the market," a market observer told *IJGlobal*.