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# JS-SEZ | Causeway to Opportunities

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# Johor-Singapore Special Economic Zone

# Causeway to opportunities

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## SEZ value uplift could be more than the sum-of-parts

A Johor-Singapore SEZ, backed by clear policy and strong execution, has the potential to materially uplift economic value creation on both sides of the Causeway. Integrating Singapore's global financial and logistics capabilities with Johor Bahru's (JB) access to competitive land, labour and renewable energy is a synergy multiplier. Regionally, this could be a competitive advantage in attracting fresh foreign direct investment (FDI) to the SEZ – especially as supply chains migrate South - while also fast-tracking Net Zero transition. Broad sector winners include banking, property & REITs, industrials, renewables, technology and telecom. Our winning SEZ Dozen include: **AXRB, CIMB, FCT, FRKN, GENS, ITMAX, OCBC, SCI, SPSB, Solarvest, Singtel and Malaysia Telekom**.

## Going from close to closer

The economies of Singapore (SG) and Malaysia (MY) are already closely integrated. SG accounts for nearly 25% of MY's FDI. For MY, SG is its second largest trading partner. Globally, SEZ success is determined by right locations, smooth logistics and strong policy frameworks. Historically entrenched ties between JB and SG already augments the locational advantage. Now a robust policy framework needs to be established that backs easier movement of capital and people. This should bolster SG's role as a financial centre and logistics hub. Concurrently, JB could unlock substantial value from its access to land, labour and energy.

## Five major investment themes set to drive equities

While details are limited, early official statements point to SEZ initiatives focused on better cross-border integration, FDI facilitation, talent development and entrenching renewables. We think these should catalyse equity valuations in SG and MY anchored under five themes: (a) optimizing hinterland access; (b) stimulating North - South supply chain shifts; (c) fast-tracking Net Zero transition; (d) expanding infrastructure and property investments; and (e) broadening the SME economy. In our view, the SEZ could create a regionally differentiated value proposition by its combination of capital access, infrastructure and policy stability.

## Wide-ranging sector winners

Multiple sectors stand to benefit. Banks are key given already entrenched cross-border positioning, enabling share gain from higher wholesale and retail credit demand and fees from trade. Increased infrastructure investments as well housing and commercial facilities demand could be a boon to SG and MY property developers and REITs. Data centre establishment should be positive for SG & MY telecom as well as SG and MY electronics manufacturing players. Increased renewable capacity should spur SG industrials and MY renewables. Easier travel could ease labour pressures and widen the mass market for SG gaming. Our SEZ Dozen top picks are those that can potentially see earnings and multiple upgrades from their medium-term gearing to the five investment themes.

**MIBG JB-SG SEZ Winning Dozen**

| Company | Ticker | Price (LCY) | TP (LCY) | Rating |
|---|---|---|---|---|
| Axis REIT | AXRB MK | 1.84 | 2.18 | BUY |
| CIMB | CIMB MK | 6.48 | 7.40 | BUY |
| Frasers Cpt. Trust | FCT SP | 2.13 | 2.40 | BUY |
| Frencken | FRKN SP | 1.52 | 1.77 | BUY |
| Genting Singapore | GENS SP | 0.905 | 1.16 | BUY |
| ITMAX System | ITMAX MK | 2.19 | 2.65 | BUY |
| OCBC | OCBC SP | 13.51 | 14.05 | HOLD |
| Sembcorp Ind. | SCI SP | 5.19 | 6.30 | BUY |
| SingTel | ST SP | 2.32 | 3.05 | BUY |
| Solarvest | SOLAR MK | 1.52 | 1.76 | BUY |
| SP Setia | SPSB MK | 1.35 | 1.66 | BUY |
| Telekom Malaysia | T MK | 6.00 | 6.80 | BUY |

*Source: Factset, Maybank IBG Research*
*Share price as at 16 Apr closing.*

# Contents

# 1. JB-SG SEZ: The right ingredients?

The World Development Report identifies SEZs as a means of facilitating global value chain participation. The United Nations reports 140 economies globally use zones to drive investments and foster economic growth. A majority of these zones are located in emerging economies and are multi-activity zones. In developed economies, zones are mostly focused on optimising logistics.

## 1.1 SEZ success depends on location, policy and inclusivity

According to the World Bank, success for an SEZ is determined by several broad factors coming together. Firstly, selecting the right location is crucial as this helps minimise excessive capital expenditure. Additionally, creating a favourable business environment with a focus on policy reform is essential. This needs to take shape in conjunction with rigorously assessing market demand and involving the private sector. Adopting an inclusive and sustainable approach is critical in order for the SEZ to maximise its positive impact.

**Fig 1: World Bank lessons for successful SEZ implementation**

| FACTORS FOR SUCCESS | FACTORS FOR FAILURE |
|---|---|
| Choose the right location | Lack of strategic planning and demand-driven approach |
| Foster a conducive business environment with a reform-oriented mind-set | Failure to address market and policy failures such as infrastructure and government coordination |
| Increase market contestability through rigorous market-demand assessment and private sector participation | Poor policy and legal environment and weak implementation capacity |
| Maximise positive spill-overs through an inclusive and sustainable approach | Inability to mitigate ESG risks |

*Source: World Bank, Maybank IBG Research*

Interestingly, incentive packages and ownership schemes have proven to have limited impact on the success of an SEZ. However, initiatives such as corporate tax breaks have had marginal significance. Establishing effective one-stop-shops is essential in addressing bottlenecks that may be affecting the broader economy. However, this requires close coordination amongst different levels of government and other stakeholders. Successful SEZs are often developed by governments and private sector players with expertise in planning and designing such zones. Following the establishment of an SEZ, long-term government commitment and coordination between all stakeholders is crucial for policy continuity and smooth implementation. The presence of relevant laws and regulations before or during programme launch is also important.

Failures in SEZs typically stem from poor development practices such as inadequate facility design, maintenance, and promotion. Common mistakes include lack of strategic planning, failure to address market and government failures, weak policy and legal environments, and insufficient capacity for implementation and risk mitigation, including environmental and social risks.

## 1.2 Case Study #1: Shenzhen SEZ - a case study of successful implementation

Shenzhen SEZ in China was established in 1980 during China's transition from central planning to a market economy. Serving as a testing ground for market-based reforms, Shenzhen implemented clear objectives and corresponding policies, including tax incentives and liberal business regulations. The SEZ received special tax benefits and preferential treatment for foreign investment. From 1980 to 2008, Shenzhen's GDP increased from USD4m to USD115b – a CAGR of 26.9%. Correspondingly, per capita income increased dramatically from USD122 to USD13,196. FDI was critical to this success. At establishment, FDI amounted to just USD0.7m. Over the 30 years, FDI increased on average by 29% annually.

Shenzhen's success was facilitated by its strategic location near ports and airports, as well as access to a skilled and educated workforce. Additionally, it provided necessary infrastructure and services such as banking, housing, education, and healthcare. Also, there was a significant focus on global best practices, which led to establishment of a supportive legal and regulatory environment, efficient administration and a flexible labour market. We believe the combination of these policy and infrastructure factors were critical in the successful implementation of this SEZ.

## 1.3 Case Study #2: Ethiopian, Moroccan and South African SEZs have had mixed results

According to the African Development Bank, African SEZs have generally had mixed success in attracting FDIs, new business development and job creation. Multiple factors have played a part, including misalignment between the SEZ's' sectoral focus and the host country's comparative advantages, inadequate infrastructure development, weak ESG practices, insufficient political backing, unclear business strategies, and a failure to integrate the SEZs effectively into the wider economy. African SEZ policies heavily rely on fiscal incentives to attract investment, with nearly 90% of examined regimes offering such incentives, surpassing the global average. This sometimes overshadows the strategic focus of the SEZ and the institutional collaboration required for the execution of programmes.

## 1.4 JB-SG SEZ: Right location. Policy and implementation are known-unknowns

The close proximity of Johor Bahru (JB) to Singapore together with historical, social and political ties already is a strategic advantage in terms of the SEZ's location. There is considerable capital and people movement daily between these two locations. However, growth has an overhang given policy and border control considerations when crossing over either side of the Causeway. Unblocking these logistical challenges and easing traffic for both people and goods should be a key consideration when assessing the success of this SEZ. At the same time, Johor Bahru has been a key recipient of spill-over demand in terms of data centres, manufacturing capacity, housing and consumer spending. A clear policy framework that facilitates addressing these demand factors should further strengthen the SEZ's probability of success. Additionally, incentives for investment promotion and seamless connectivity to Singapore's financial and logistics nodes should be key in attracting regional and global FDI to the SEZ, we believe.

# 2. Singapore-Malaysia: From close to closer integration

## 2.1 Macroeconomic overview

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Singapore and Malaysia will be creating an SEZ in Johor, which is next to the Singapore border. The project was officially announced during the 10th Malaysia-Singapore Leaders' retreat in Oct 2023. A Memorandum of Understanding was signed on 11 Jan 2024, although comprehensive details of the SEZ will be revealed only when the full-fledged agreement is signed, likely at the 11th Malaysia-Singapore Leaders' Retreat in late 2024.

The SEZ aims to strengthen economic connectivity by simplifying the movement of people, investments and goods across the Malaysia-Singapore border, as well as strengthening the business ecosystem to support investments. Malaysia is hoping to attract nine sectors to the SEZ, including logistics, energy, manufacturing, tourism, healthcare, education, financial services, business services and digital economy

The Johor state government has proposed for the SEZ to be located in Iskandar Malaysia, an economic growth corridor that spans 2,217 sq km across southern Johor, an area three times the size of Singapore. The area includes Johor's capital city, Johor Bahru, the heavy industrial city Pasir Gudang, Iskandar Puteri, Kulai, Sedenak and part of Pontian town (Fig 2).

**Fig 2: Iskandar Malaysia**

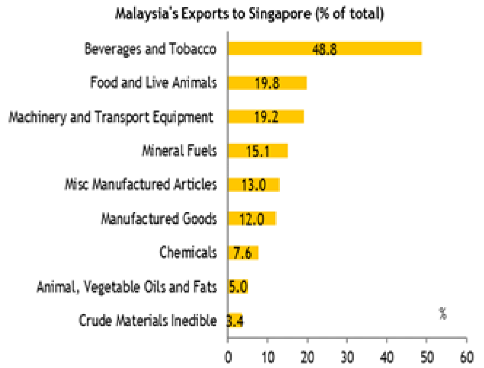

*Source: Maps4news, Financial Times*

The economies of Malaysia and Singapore are already closely integrated. Malaysia is Singapore's third-largest trading partner with total bilateral trade reaching SGD123.6b (USD92.5b) in 2023, while Singapore is Malaysia's 2nd largest trading partner. Malaysia shipped nearly half of its beverages & tobacco and 20% of its food & live animal exports to Singapore in 2023 (Fig 3). Around 19% of Malaysia's mineral fuel imports are sourced from Singapore, a petroleum hub (Fig 4).

Singapore was Malaysia's top source of FDI in 2023, contributing MYR43.7b (USD9.3b) or 23% of Malaysia's total FDI (Fig 5).

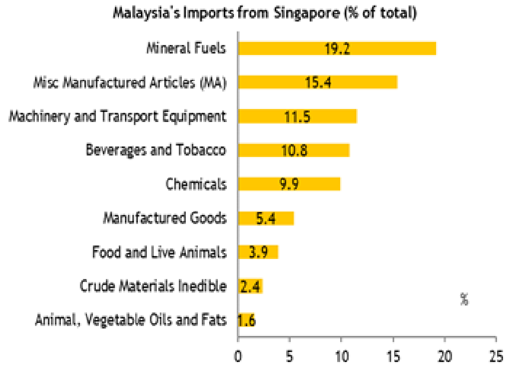
Since the Iskandar region was established in 2006, cumulative investments as of Sep 2023 amounted to MYR45.8b (USD9.7b), equivalent to 25% of total foreign investments (Fig 6). Singapore is the second-largest foreign investor in Iskandar, behind China.

**Fig 3: Malaysia shipped half of its beverages & tobacco and 20% of food & live animals exports to Singapore in 2023**



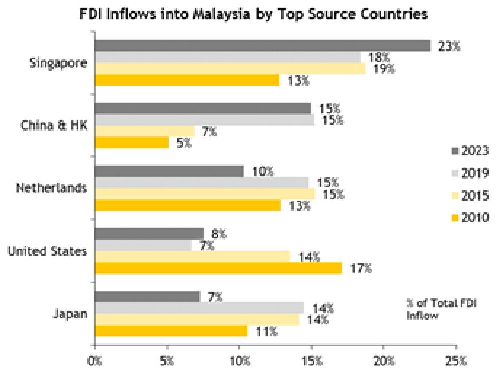

*Note: Denotes share of Malaysia's exports of the given product category, which was shipped to Singapore*
*Source: CEIC*

**Fig 4: Malaysia sourced 19% of Its mineral fuels imports from Singapore in 2023**



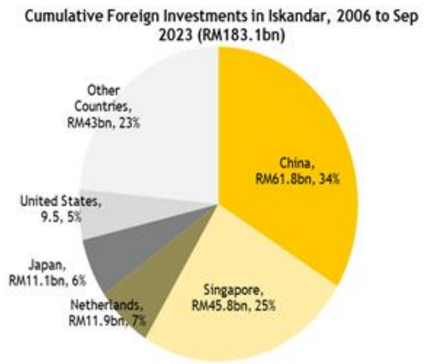

*Note: Denotes share of Malaysia's imports of the given product category, which was sourced from Singapore*
*Source: CEIC*

**Fig 5: Singapore is Malaysia's top source of FDI**




*Source: CEIC*

**Fig 6: Singapore is 2-largest foreign investor in Iskandar**




*Source: Iskandar Regional Development Authority, The Star Malaysia*

## 2.2 A boost to Johor investment

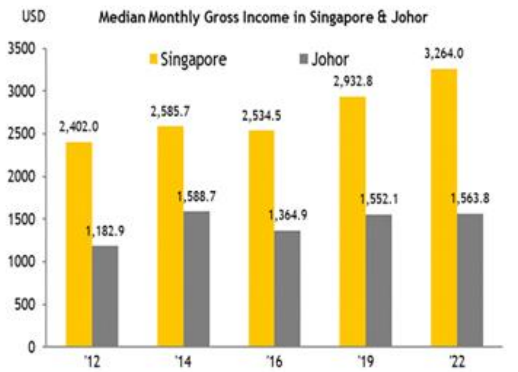
The SEZ could make it easier and more attractive for Singapore companies, multinationals and SMEs to invest in Johor. The economic zone could complement and sharpen Singapore's FDI competitiveness.

Investors will have access to Singapore's world-class financial centre and logistics infrastructure, as well as Johor's more affordable labour pool, abundant land, and cheaper energy resources. For instance, median monthly wages in Johor were less than half that of Singapore in 2022, at USD1,563 (Fig 7). Average electricity tariffs for businesses in Johor are around 40% that of Singapore (Fig 8).

Initiatives under the SEZ may include special tax arrangements and bonded warehouses, according to Singapore's Prime Minister Lee, at the Malaysia-Singapore leaders' retreat in Oct 2023. There may also be measures to enable freer movement of professionals, managers, executives and technicians to support investments and business operations.

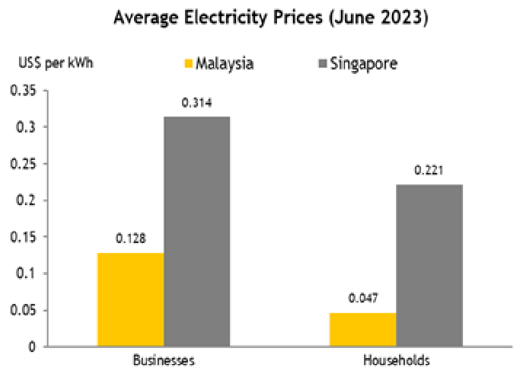
In addition, there could be a range of investment incentives, as typically seen in investment zones. These could include grants, subsidies or financial assistance for capital investments, research & development or training programmes. Customs duty exemptions, import permit waivers and simplified licensing procedures could be made available to help facilitate trade. Businesses operating in an SEZ typically enjoy access to better infrastructure, such as transportation networks, logistics facilities and telecommunications. Firms will also have better access to supplier and customer networks, given the amalgamation of upstream and downstream businesses within the zone.

**Fig 7: Median monthly income in Johor was less than half of Singapore in 2022**




Source: CEIC

**Fig 8: Electricity tariffs for businesses in Malaysia around 40% of Singapore's**




*Note: For households, data is calculated at the average annual level of household electricity consumption. For businesses, data uses 1,000,000 kWh annual consumption*

*Source: Global Petrol Prices.com*

Several bottlenecks to investment may be addressed or alleviated with the SEZ, including red tape, unpredictable cross-border travel duration and talent gaps.

The SEZ will minimise red tape and simplify the process of setting up a business in Johor. Malaysian and Singaporean authorities are working on a one-stop investment service centre in Johor to streamline and expedite approval and licensing processes for businesses looking to establish a presence within the SEZ. The centre is set to be completed before end of 2024.

The SEZ and accompanying JB-Singapore Rapid Transit System Link (RTS) will help relieve congestion at Malaysia-Singapore land border crossings and reduce travel time, a common bugbear of businesses looking to set up operations in Johor. Since 19 Mar 2024, travellers to or from Singapore by car via the Woodlands and Tuas checkpoints are enjoying faster immigration clearance via QR codes instead of passports. Around 350k travellers cross the Woodlands Causeway daily, making it one of the busiest border crossings in the world. Authorities are also exploring digitised processes to speed up cargo clearance at land checkpoints.

Cross-border train capacity will be ramped up to 10,000 passengers per hour (from 640 passengers hourly for the current KTM service) when the RTS commences operations in 2026. The proposed single-point clearance immigration system will expedite travel, as passengers can clear both Singapore and Malaysian immigration at the point of departure. Travel time between Singapore and Johor Bahru will take just 5 minutes, with the RTS Link expected by Malaysian authorities to reduce congestion on the Causeway by 35%.

Freer movement of talent would give businesses in Johor better access to the needed skills and labour. In addition, authorities in both countries are looking at jointly curating training and work-based programmes, which may help build up Johor's human capital and address talent gaps. Over time, an influx of knowledge-intensive investments could help boost skills transfer and raise productivity levels.

## 2.3 Multi-sector beneficiaries in both countries

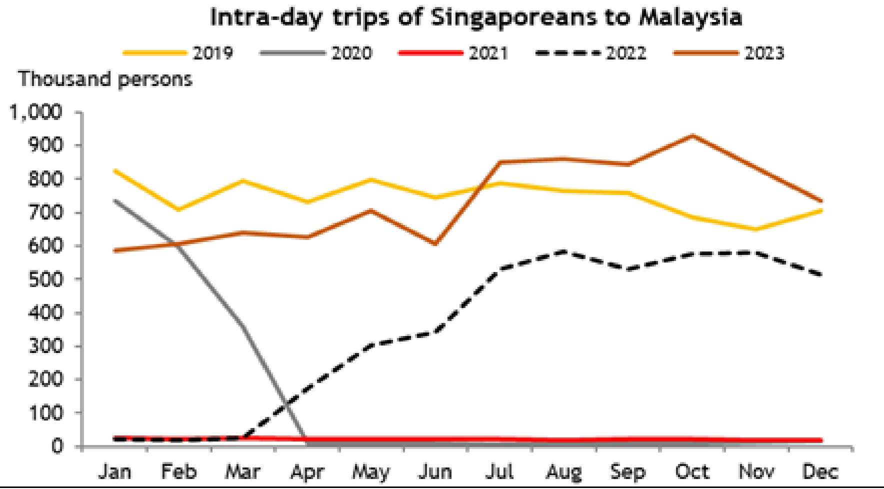
The SEZ could facilitate more renewable energy investments in Johor and cross-border charging facilities for electric cars, in conjunction with Singapore's decarbonisation drive. As part of its push towards Net Zero emissions by 2050, Singapore plans to import 30% of its electricity supply from renewable sources by 2035. A Future Energy Fund with an initial SGD5b catalytic fund was announced in Budget 2024 to help build critical infrastructure needed for the nationwide energy transition. In addition, Singapore will phase out sales of petrol cars by 2030, and only allow registrations of electric and hybrid vehicles.

There is scope for more solar energy projects in Johor, given the abundance of land. A notable example is the recently proposed 450MW Sultan Ibrahim Solar Photovoltaic Park to be located in the Pengerang Industrial Park, which will be ASEAN's largest solar energy storage system. In Oct 2023, Singapore's ComfortDelGro Engie announced a collaboration with Malaysia's Yinson Greentech to offer motorists a combined EV charging network of over 1k charge points in both regions, set to increase to 8k by 2030.

Another potential opportunity lies in data centres. Due to their high and carbon-intensive energy consumption, Singapore imposed a four-year moratorium on new data centre builds in 2019. Although the moratorium ended in January 2022, new capacity remains tightly regulated with only four projects (totalling 80MW) approved since then due to sustainability considerations. Due to its proximity as well as cheap land and electricity, Johor has become a popular destination for data centre investments in recent years, in lieu of Singapore's more stringent criteria. Malaysia secured 113MW in new data centre take-up in 2022, roughly four-fold of Indonesia and Thailand. The increased connectivity accorded by the SEZ could facilitate more data centre investments in Johor, and renewable energy could potentially be used to power these data centres.

Johor's retail and tourism sectors could benefit from greater cross-border connectivity, as the shorter travel time alongside a competitive exchange rate induces more Singapore residents to take trips and do their shopping in Johor. According to a recent SensingSG report , one in three Singaporeans travel to Johor Bahru at least once a month, and seven in 10 Singaporeans said they would travel to Johor Bahru monthly for lifestyle and entertainment, shopping and dining if more convenient travel measures were implemented. The number of Singaporean day-trippers to Malaysia has exceeded pre-pandemic levels since July 2023, as Singaporeans flock to Johor for shopping and leisure amid a favourable exchange rate (Fig 9).

**Fig 9: Number of Singaporean day-trippers to Malaysia has exceeded pre-pandemic levels from July to December 2023**




*Source: Tourism Malaysia*

The economic zone may boost the Johor property sector, with an increase in economic activities and jobs. Johor will become a more attractive place to live and retire. One in three Singaporeans in the SensingSG survey said they were looking at buying a home and retiring in Johor Bahru. Singaporeans are drawn to Johor due to lower living costs and the strong Singapore dollar, and anticipate that cross-border travel will be more convenient with the RTS Link and SEZ. In addition, the hybrid work environment post-pandemic has made it more feasible to live in Johor and work in Singapore. About 34% of employed residents surveyed by Singapore's Ministry of Manpower in 2022 said they worked from home at least once a month.

The increased homebuyer interest may boost the take-up of Malaysia's My Second Home (MM2H) programme. The retirement residency visa scheme was revamped in Dec 2023, which tweaked fixed deposit requirements and visa durations (Fig 10).

**Fig 10: New conditions for Malaysia's Retirement Residency Visa (MM2H)**

| | Sep 2021 to Dec 2023 | From 15 Dec 2023 | | |
|---|---|---|---|---|
| Category | Single category | Silver | Gold | Platinum |
| Fixed deposit | MYR1m | MYR500k | MYR2m | MYR5m |
| Visa duration | 5 years | 5 years | 15 years | Eligible for PR |
| Age requirement | At least 35 years old | At least 30 years old | | |
| Liquid assets | MYR1.5m | Not announced yet | | |
| Income | At least MYR40k a month | Not announced yet | | |
| Required days in Malaysia per year | 90 days | 60 days | | |

*Source: CNA*

There will be opportunities in the healthcare space, as more Singaporean retirees live and play in the SEZ. Singapore's ageing population will increase healthcare spending. Almost 1 in 4 Singaporeans will be over 65 years of age by 2030. Healthcare costs in Malaysia are estimated to be about 30-50% cheaper than in Singapore. Singaporeans can use their Medisave to pay for treatments at 13 hospitals in Malaysia, including Regency Specialist Hospital and Gleneagles Medini in Johor. Medisave use is currently limited to hospitalisations and day surgeries, and patients must first be referred by the healthcare firms' Singapore centres.

Other beneficiary industries include Johor's manufacturing suppliers, agriculture and the finance sector. Malaysian suppliers will be able to tap the SEZ for more business opportunities from large firms expanding their operations there. The SEZ could boost agricultural imports from Johor, as faster cargo clearance will be a boon for perishables. Both Malaysian and Singapore banks could benefit from greater loan demand, alongside more investments.

# 3. Five major investment themes to drive value

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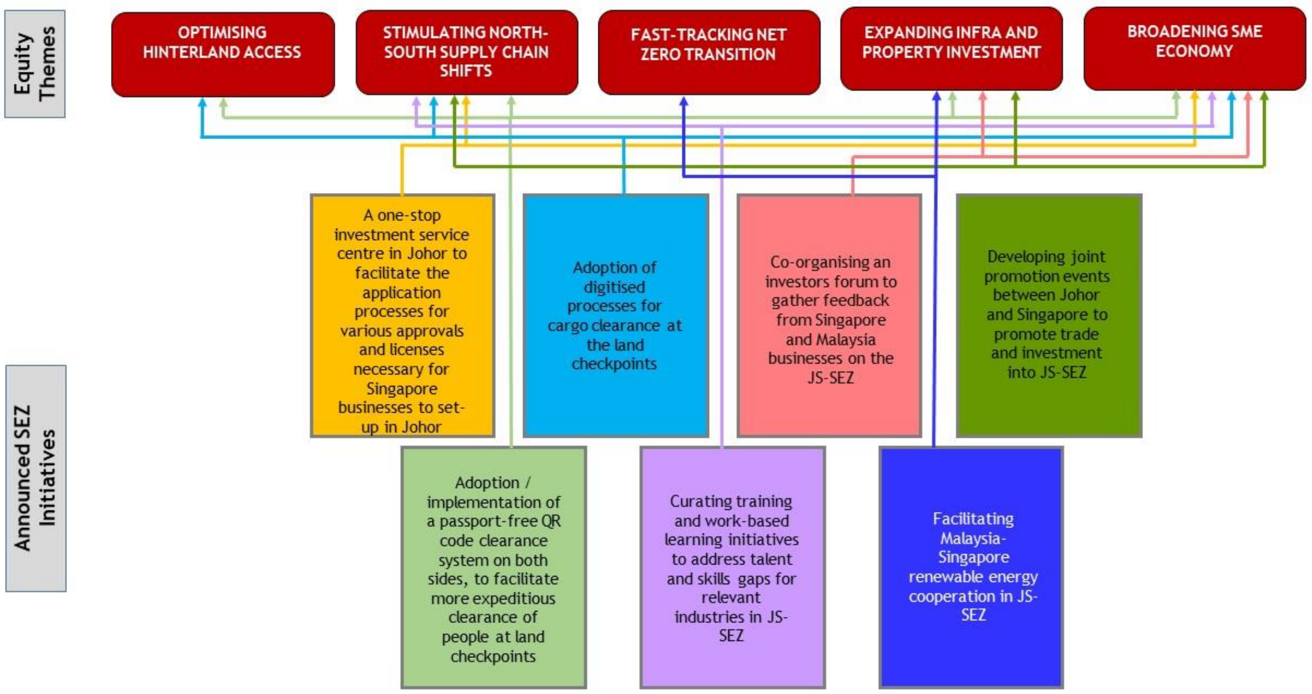
As discussed earlier in the report, very little is known of the ultimate form of the SEZ. This also extends to the structure of incentives and the problems and bottlenecks the SEZ will be designed to ultimately solve.

However, the MOU document signed between Singapore and Malaysia do offer some clues. The joint ministerial statement from the Malaysian Ministry of the Economy and Singapore's Ministry of Trade and Industry suggests the SEZ could be developed to reduce cross-border trade friction, enhance complementary strengths of both regions and leverage these to drive competitive advantages in seizing regional opportunities.

Additionally, the SEZ seems to be focusing on leveraging the FDI Johor has already been receiving and its resultant economic development, together with Singapore's own significant investments in the state.

**Fig 11: Tube map of sector themes under proposed SEZ initiatives**




*Source: Ministry of Economy Malaysia, MTI, Maybank IBG Research*

The joint statement identifies seven key initiatives to achieve these outcomes. These are highlighted in Fig 11 above. We believe these initiatives should ultimately catalyse five equity investment themes that should impact multiple sectors across Singapore and Malaysia. These themes are:

a. **Optimising hinterland access** by easing people and goods movement
b. **Stimulating North-South supply chain shifts** through access to capital, policy stability and infrastructure
c. **Fast-tracking Net Zero** transition through development of green energy generation and transmission

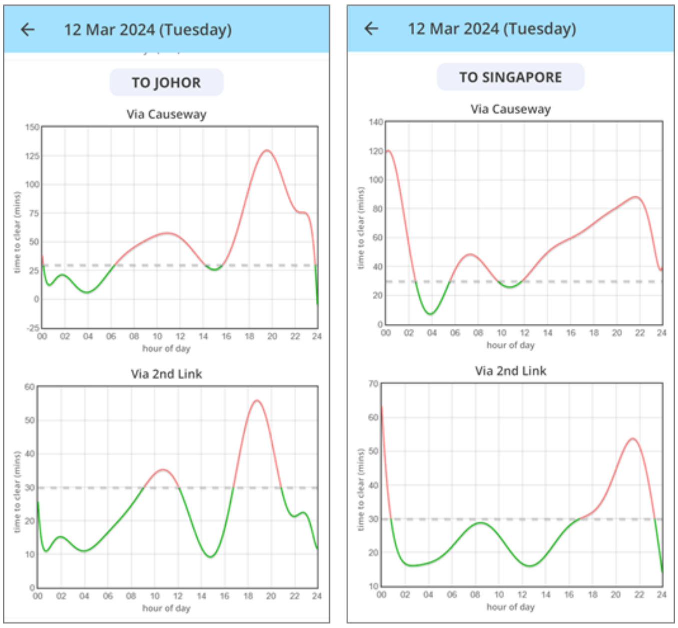
d. **Expanding infrastructure and property development** to cater to increased demand for housing, commercial, industrial and leisure facilities
e. **Broadening the SME economy** through increased demand for support services and goods as MNCs and trade flows shift

In terms of the sectors that are set to benefit the most, for Malaysia, we believe this should be the banks, technology, property and REITs, construction and renewables. For Singapore, we believe banks, industrials, technology manufacturing, REITs and healthcare should benefit the most.

## 3.1 Optimising hinterland access

The Johor-Singapore Causeway is one of the busiest border crossings in the world. An estimated 100,000 vehicles and 360,000 people cross daily. This requires massive resources from immigration, border control, customs as well as physical transportation infrastructure. As a result, bottlenecks occur with a vehicle travelling the 1.056km of the Causeway taking up to 5-6 hours during peak periods (Fig 12).

**Fig 12: Weekday waiting times to clear both sides of the border based on real-time tracking**




*Source: Beat the Jam App, Maybank IBG Research*

Clearly, such extended delays add to the cost of doing cross-border business. For the success of the SEZ, a more seamless border is essential for the movement of people and goods.

The proposed passport free clearance system that streamlines border security and customs should be a major structural improvement, in our view. This should allow investors, employers and employees to treat Singapore and the SEZ as a single integrated area.

On March 19, Singapore implemented a QR-code based immigration clearance system at both its land checkpoints arriving from Johor. The Immigration and Checkpoints Authority of Singapore estimates this should reduce clearing time by 30%. At the same time, the manual immigration counters at the passenger halls are set to be replaced by 800 automated lanes.

We believe this should ease cross-border people connectivity issues, especially as similar solutions are implemented on the Johor land border, which is set to be the gateway to the SEZ.

Lower cross-border travel friction should result in better connectivity of public transportation systems. We believe this should be a critical success factor for the proposed rapid transit system (RTS) light railway link between Woodlands, Singapore and Bukit Chagar, Johor (Fig 13). This 4km railway shuttle link is expected to ferry 10,000 passengers per hour per direction when operational.

With the RTS link integrated with the rest of the public transport infrastructure on both sides of the border, we believe this should provide significant support in meeting the travel and human capital needs of the SEZ.

**Fig 13: Proposed RTS link between Woodlands and Bukit Chagar**


*Source: Straits Times, Maybank IBG Research*

The ease of crossing should also extend to more efficient cargo clearance and transport processes. Easing bottlenecks here is essential in order to be competitive in manufacturing and exports within the SEZ as well as supporting its overall business ecosystem to expand.

The ASEAN Single Window launched in 2018 has helped to expedite cargo clearance and reduce paperwork for trade between Singapore, Malaysia, Indonesia, Thailand and Vietnam. Stronger integration of Singapore and SEZ with the potential removal of further tariff and non-tariff barriers is likely to further increase efficiencies, in our view.

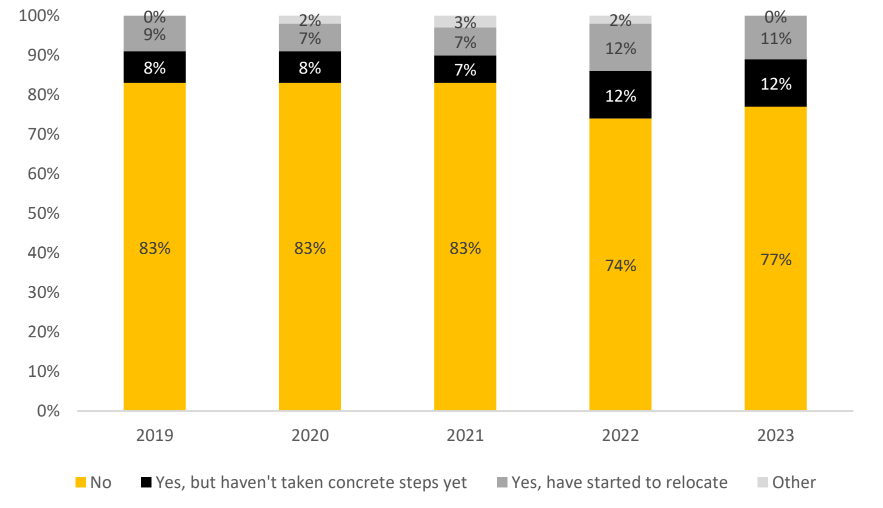
The ease of crossing should be a catalyst to several sectors, in our view. A key beneficiary could be Malaysian property developers as demand for new housing ramps up from SEZ industries as well as Singaporeans choosing lower cost residency across the border. REITs could also see upside from demand for commercial, warehousing, retail and industrial space. We believe this may drive opportunities for Singapore REITs as well in increasing their asset bases, especially in industrial, commercial and data centres. Malaysian consumer sector players should also see benefits from increased cross-border consumption as well as the domestic economy multiplier effect of the SEZ. Additionally, Singapore/Malaysia healthcare names could benefit from increased utilisation of existing facilities in Malaysia through an increase in inbound patients from Singapore for more cost-competitive treatments. Also, as the SEZ ecosystem develops with the relocation of businesses and workers, healthcare services should see rising demand, in our view. Additionally, the ease of border crossing into Singapore may provide a boost to the Singapore gaming sector through increased mass market volumes.

## 3.2 Stimulating North–South supply chain shifts

Multiple factors, including US-China trade tensions, friend-shoring requirements and building supply chain redundancies post-Covid are driving a structural shift in supply chains out of China.

Indeed, in the 2023 China Business Climate Survey by AmCham China, 23% of polled corporates indicated that they are already shifting or considering to shift manufacturing out of China. In 2019, this was just 17%. For technology companies, the proportion is 33%.

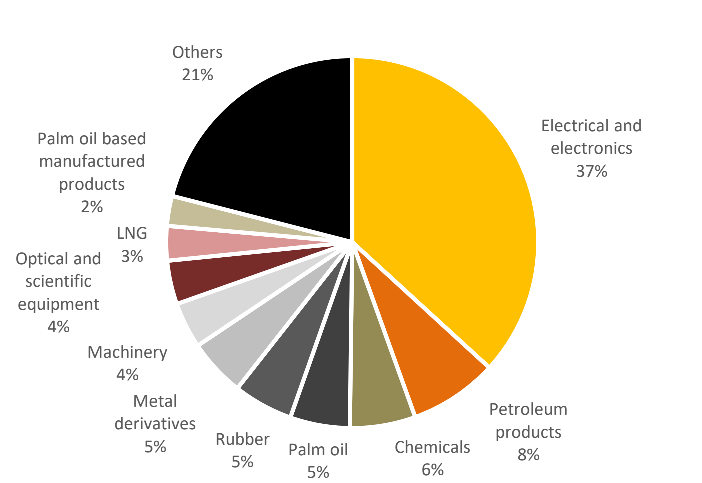
**Fig 14: Manufacturing relocation intentions of US firms in China**




*Source: AmCham China, Maybank IBG Research*

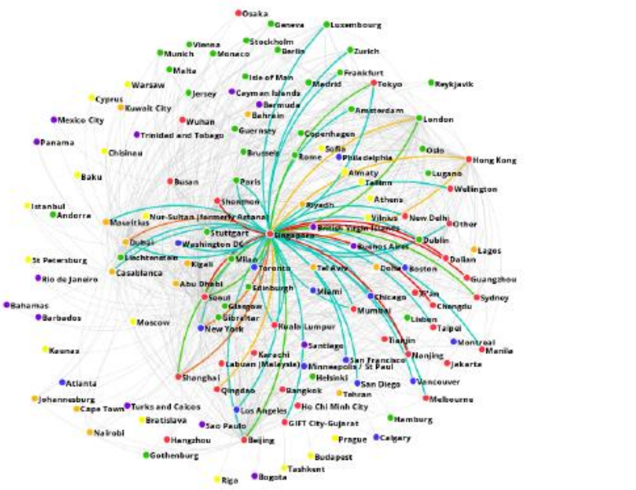
This is creating major opportunities for ASEAN given its infrastructure, connectivity and relative geopolitical neutrality. Within this, Singapore and Malaysia have significant competitive advantages. Malaysia already has established manufacturing and export infrastructure. Singapore is one of the region's top financial centres with global connectivity and access to cross-border capital. The sum of these advantages of the SEZ should be bigger than the parts, in our view. Leveraging Singapore's access to capital and advanced manufacturing and complementing that with Malaysia's strong manufacturing infrastructure in an integrated trade area could result in a differentiated offering to corporates looking to shift to ASEAN.

**Fig 15: Malaysia exports in 2020-21**




*Source: Statista, Maybank IBG Research*

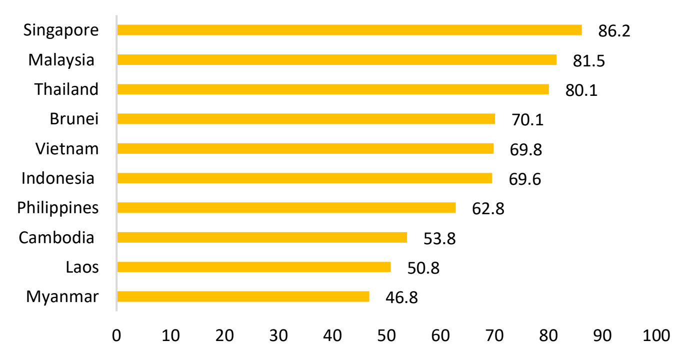
**Fig 16: Singapore connectivity to global financial centres 2023**



*Source: GFCI, Maybank IBG Research*

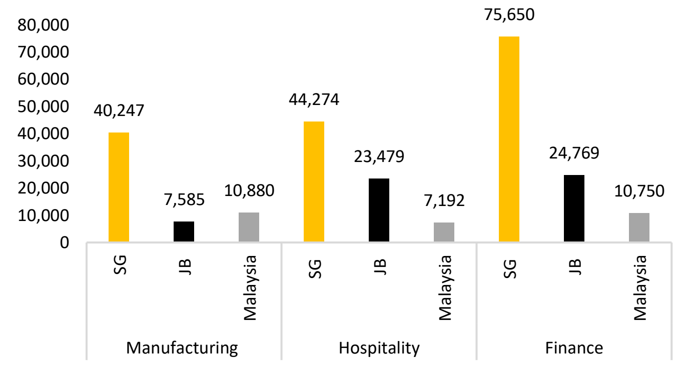
Indeed, as Fig 15 shows, Malaysia's electrical and electronics exports are already sizeable. With the increasing intensity of the US-China chip war and rising adoption of artificial intelligence, demand for capacity in this sector should escalate, we believe. This should give Malaysia a natural advantage in gaining market share. Fig 16 is an indicator of Singapore's extensive and deep connectivity to other global financial centres. The Global Financial Centres Index ranks Singapore as the #3 financial centre globally and the #1 in Asia Pacific. With such wide and deep connectivity to global capital sources, Singapore should be able to leverage its position to address the rising capital requirements for supply chain shifts.

**Fig 17: SE Asia ease of doing business index score**




*Source: Statista , Maybank IBG Research*

**Fig 18: Average annual salaries by industry (USD)**




*Source: Statista, Payscale, Glassdoor, Maybank IBG Research*

Separately, Singapore is home to 7,000 MNCs. An integrated SEZ solution which offers global capital market access with a wider pool of labour, land and infrastructure should provide significant incentives to increase investments and expand capacity for these entities. With the global minimum effective tax adjustments for MNCs underway through the Base Erosion and Profit Shifting (BEPS) 2.0 initiative, the SEZ may provide an avenue for these companies to offset higher costs. As seen in Fig 18 above, salary levels in Johor are much more competitive compared to Singapore. MNCs may be able to take advantage of this and lower staffing costs over time.

Additionally, Singapore and Malaysia rank high on ease of doing business regionally (Fig 17). An integrated SEZ should further ease bottlenecks, which could catalyse more MNC relocations.

Supply chain shifts and MNC relocations should benefit Singapore and the large Malaysian banks, in our view. They have made significant investments in integrating cross-border services, while also having sizeable presence on both sides of the border and regionally. This should provide opportunities not only in lending, but also in fee income from cash management, transaction banking, trade and IB&A. Additionally, Singapore and Malaysian technology manufacturing players should benefit from increased order flows to the region. The REITs and developers on both sides of the Causeway should also be beneficiaries of increased demand for warehousing, data centres, industrial and commercial space. Increased energy and infrastructure requirements should drive more manufacturing capacity which would benefit Singapore's Industrials as well as Malaysia's Construction and Power sector. In our view, higher demand for technology connectivity, cybersecurity and AI applications should be a positive for Telco players.

## 3.3 Fast-tracking Net Zero transition

Singapore plans to reduce its carbon emissions to 60 tCO2e by 2030 and achieve Net-Zero emissions by 2050. This would require major reductions to current emissions levels. 40% of Singapore's emissions are from the power generation sector, where 95% of the feedstock is natural gas.

In order to reduce carbon intensity and emissions, Singapore is pursuing an energy reset where it is increasing contributions from green energy. Domestically, its small land size, sub-optimal wind velocities and limited water supply make green power generation at scale limited. As a result, Singapore has set a target of importing around a third of its electricity supply from low carbon sources regionally by 2035. Meanwhile, the Energy Market Authority has given conditional approvals for around 4.2GWh to be imported from Indonesia, Vietnam and Cambodia. Malaysia, and specifically Johor, offers significant potential given its proximity, large land availability and accessibility to renewable resources. This is likely to be further supported by the bi-lateral pledge in October 2023 to accelerate cross-border electricity trading between Singapore and Malaysia.

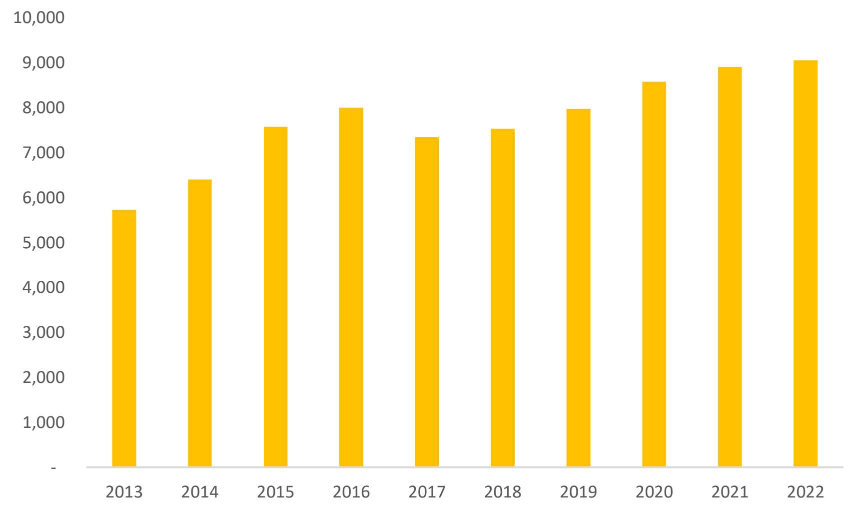
**Fig 19: Renewable energy potential in Malaysia**

| Renewable energy | Potential (MW) |
|---|---|
| Hydropower | 22,000 |
| Solar PV | 6,500 |
| Biomass-biogas | 1,300 |
| Mini-hydro | 500 |
| Solid waste | 400 |

*Source: Universiti Teknologi Malaysia, Maybank IBG Research*

Overall, Malaysian renewable electricity potential is estimated at 30.7GWh. The current installed capacity is less than a third of this, giving significant headroom for growth and further investment.

**Fig 20: Malaysia renewable energy generation capacity (MW)**




*Source: Statista, Maybank IBG Research*

The 'Johor Green Deal' unveiled at the Asia Pacific Climate Week conference in 2023 sets out the roadmap of the state's sustainability ambitions. This should also encompass the SEZ, we believe. The Johor state government's investment firm Permodalan Darul Ta'zim (PDT) is already working with Malaysian utility firms to develop a large-scale solar project. At the same time, there are bilateral discussions ongoing on developing a common standard electric vehicle infrastructure. This could be essential as seamless cross-border connectivity would require significant resources for

EVs as Singapore phases out internal combustion engines by 2040. Under a federal plan, Johor is set to install 1,100 EV charging stations by 2025 – equivalent to >10% of national capacity.

We believe Singapore's access to capital, especially sustainability-linked and green funding, as well as its own sustainable energy needs together with Johor's land and natural resource availability should catalyse joint investments in further capacity. The SEZ is likely to accelerate this given its own energy requirements and the rising demand for green energy from potential manufacturing participants within.

We believe the shift towards green energy and the SEZ accelerating the transition should boost Singapore industrials. These have mandates for transitioning their own revenues towards sustainable sources and are likely to play a major role in sourcing, generation and transmission of energy in Singapore as well as in the SEZ. Similarly, the Malaysian Power and Renewable Energy sector should benefit from new mandates and volumes. Concurrently, we think the Malaysian construction and infrastructure sector should also be a winner with rising order books from renewables. Finally, the banks in Singapore and Malaysia are beneficiaries given large capital requirements as well as their own sustainable lending targets.

## 3.4 Expanding infrastructure and property investments

The trends of supply chain shifts, increasing demand for green energy and rising demand for space – both industrial and residential, would need to be accommodated with sufficient infrastructure.

Based on the joint statements from the Prime Ministerial offices in Singapore and Malaysia, the SEZ is set to focus on industries such as electrical and electronics, data centres, pharmaceuticals, tourism and food processing.

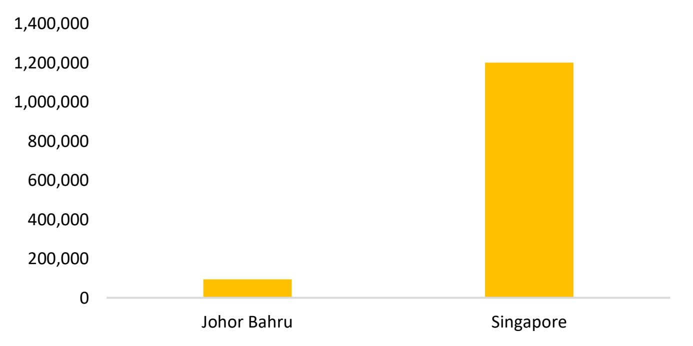
**Fig 21: Examples of renewable energy and data centre-related investment projects in Johor**

| Announcement Date | Project | Company | Country | Value | Sector | Details |
|---|---|---|---|---|---|---|
| Feb-24 | Solar-ready factory & green industrial township | Paragon Globe Bhd & Solarvest Holdings Bhd | Malaysia | - | Renewable Energy & Property | Combination of commercial & industrial, end-use energy & electric vehicle charging facilities |
| Jan-24 | Maharani energy gateway projects | Maharani Energy Gateway Sdn Bhd (MEG) & China Energy International Group (CEIG) Sdn Bhd | Malaysia & China | RM 9.5bn | Renewable Energy | Combined cycle gas turbine (CCGT) power plant & a green hydrogen & green ammonia plant |
| Jan-24 | UEM 500 MW hybrid solar power plant | UEM Group Berhad; HEXA Renewable Malaysia Sdn Bhd & ITRAMAS Corp Sdn Bhd | Malaysia | - | Renewable Energy | Solar PV project |
| Jan-24 | Biomass power plant | Samaiden Group Bhd | Malaysia | - | Renewable Energy | Renewable energy |
| Dec-23 | AI infrastructure development- at data centre | YTL Corp & Nvidia | Singapore & US | US$4.3bn | Data Centres | Nvidia's GB200 NVL72 supercomputing equipment will be utilized at YTL Green Data Center Park in Iskandar. The YTL AI Supercomputer will be powered by its on-site 500MW solar energy facility. |
| Jun-23 | Biofuel production facility | EcoCeres Group | China | RM 1bn | Renewable Energy | Sustainable Aviation Fuel & Hydro-treated vegetable oil facility in Pasir Gudang |
| May-23 | 150 MW hyperscale data centre campus | Princeton Digital Group | Singapore | RM 2bn | Data Centres | Acquired 31 acres of land from JLand Group to build a 150MW data centre campus within the 700-acre Sedenak Tech Park in Johor. RM2bn and 60MW first phase will begin operations by 2Q 2024 |
| Apr-23 | Pekat solar power projects | Pekat Group Bhd | Malaysia | RM 29.1mn | Renewable Energy | Solar PV project |
| Aug-22 | 500 MW YTL Green data centre park | YTL Corp | Singapore | RM 1.5bn | Renewable Energy & Data Centres | Data Centre Park powered by solar energy |
| Aug-22 | Palm-fibre oil extraction plant | Kulim Bhd & Eonmetall Technology Sdn Bhd | Malaysia | - | Biofuel | Harnesses waste oil as feedstock for biofuels. Will produce red palm oil. |
| Jun-22 | Print circuit board assembly plant | Wiwynn Corp | Taiwan | RM 300mn | Data Centres | Print circuit board assembly plant for cloud data centres |

*Source: News articles, Maybank IBG Research*

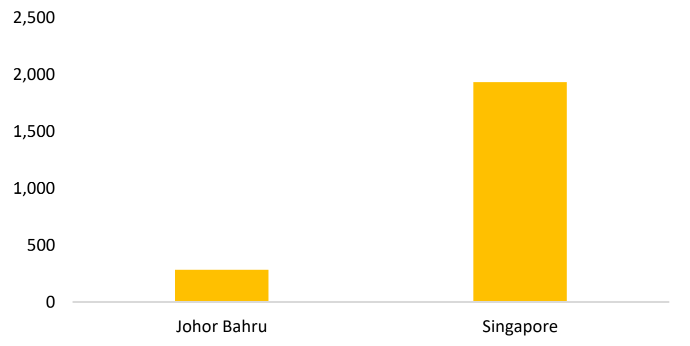
Singapore is increasingly focusing on accelerating its digital economy under the Digital Economy Framework for Action. This envisions upgrading the digital capabilities of businesses, enhancing competition through innovation, growing next generation digital industries such as AI, Blockchain etc., and cybersecurity. This is further complemented by the National AI Strategy 2.0 launched in 2023 to harness the power of this technology as a public good. These initiatives would require significant computing power and data centre capabilities.

**Fig 22: Johor and Singapore median home price (USD)**




*Source: PropertyGuru, Propertygenie, Maybank IBG Research*

**Fig 23: Johor and Singapore HDB median rent USD/month)**




*Source: PropertyGuru, Dot Property, Maybank IBG Research*

With Johor already building a strong data centre infrastructure, we believe the SEZ could accelerate the pace with better connectivity and a robust policy framework in areas such as data privacy and security. Singapore's own tightening of conditions for setting up data centre facilities locally should also drive cross-border demand, in our view.

The potential focus on multiple industries within the SEZ should create significant opportunities for investment and employment. This should also drive demand for housing as demand for staffing increases.

We think this should provide a boost to the rental as well as new build and resale market for property in Johor, which are at a material discount to Singapore housing (Figs 22 and 23).

Overall, potential developments here should be positive for the Malaysia property developers with landbanks in Johor as well as the construction and infrastructure players. Singapore and Malaysian REITs, especially with data centre, industrials, and commercial exposure could also benefit. The banks should also be beneficiaries of increased project-based lending as well as mortgage demand.

## 3.5 Broadening the SME economy

SMEs make up 99% of Singapore's businesses and 97% of Malaysia's. These account for a major proportion of employment as well.

In Singapore, SMEs are facing significant disruptions from costs, supply chains, labour availability and technology. The 2023 survey by the Singapore Business Federation points to increased costs, manpower availability and rentals are amongst the chief challenges for SMEs in Singapore (Fig 24).

**Fig 24: Top 5 current challenges amongst businesses (2023)**

| | SME | Large Company |
|---|---|---|
| Increase in business costs | 58% | 61% |
| Availability of manpower | 54% | 52% |
| Retention of manpower | 40% | 51% |
| Foreign workforce policies | 39% | 39% |
| Rental cost | 37% | 34% |

*Source: SBF, Maybank IBG Research*

The lower costs and larger manpower availability across the Causeway could go some way in reducing some of these challenges, we believe. The improved connectivity and integration of the SEZ should further catalyse growth here. Indeed, the MOU signed in 2023 between Enterprise Singapore and SME Corporation Malaysia for the development of the SME sector could facilitate SME integration within the SEZ. As part of this MOU, sectors including smart agriculture, electrical and electronics, aerospace, medical devices, halal, oil and gas, tourism and biomass industries will be prioritised for support. We note many of these sectors dovetail with key areas of development under the SEZ.

At the same time, the update to the Malaysia-Singapore Business Development Fund to fund SMEs to conduct pilots and pursue opportunities in both countries is further strengthened by the potential connectivity of the SEZ.

The integration of the digital payment networks of both countries – PayNow and DuitNow – should also help ease SME cross-border transaction friction. According to MAS, cross border remittance in 2022 was USD1.8b. This is for person-to-person transactions only. However, with the SEZ, SMEs may be incentivised to regionalise in the Singapore-Malaysia corridor.

As MNCs and large corporates potentially shift production and support services to the SEZ driving demand for ancillary services, plus a larger addressable market footprint, we think SMEs should see significant volume and margin upside.

Increased SME resilience and growth should benefit banks in both Singapore and Malaysia, especially those with a focus on the SME sector. The Malaysia property sector and Singapore/Malaysia REITs should also benefit from increased demand for office and production space from SMEs. Telcos should also be a beneficiary of higher demand for connectivity infrastructure. Malaysian consumer names could also see increased volumes from higher demand as staffing levels in the SEZ increase.

# 4. Malaysia-Singapore SEZ sector impact

## 4.1 Aviation – Singapore and Malaysia

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- **MRO industries of Malaysia and Singapore are already intertwined with significant investments from the latter to the former.**
- **With smoother flow of parts and people, the JB-SG SEZ may facilitate the transformation of Senai into another MRO hub.**
- **Potential beneficiaries are Capital A, SIA Engineering Company and ST Engineering.**

### MRO industries in Malaysia and Singapore already linked

Singapore and Malaysia are the largest and second-largest aerospace maintenance, repair and overhaul (MRO) hubs in Southeast Asia, respectively. While they compete for jobs and investments, there are also cases of cooperation. For example, SIA Engineering acquired 75% of SR Technics Malaysia (which was subsequently renamed Asia Pacific Aircraft Component Services) in May 2022. The acquisition added component repair and overhaul capabilities for more than 600 part numbers for Airbus and Boeing aircraft to SIAEC. SIAEC also acquired 49% of Pos Aviation Services, which has line maintenance operations at 10 stations in Malaysia, on Aug 2023. SIAEC also announced in Jul 2023 that it will JV with American power management company, Eaton, to set up an MRO centre in Malaysia. On another note, SIAEC also rents 2 hangars in Malaysia from Impeccable Vintage Properties Sdn Bhd, a 100%-owned subsidiary of Khazanah Nasional, Malaysia's sovereign wealth fund. That said, SIAEC's involvement in Malaysia has largely been concentrated in Selangor and not Johor.

### Will Malaysia's MRO hub migrate to Johor?

As stated above, the MRO industry in Malaysia is largely concentrated in Selangor at KLIA Aeropolis and Subang Aerotech Park (both managed by Malaysia Airports Holdings) and Serendah High Value Manufacturing Park (UMW Holdings manufactures Rolls-Royce Trent engine fan cases there). Only the Senai Aerospace Park has the potential to be located in the JB-SG SEZ. The only MRO operator operating there currently is Asia Digital Engineering, a 100%-owned subsidiary of Capital A. The 5,000 sqm hangar built on 107.4 acres is the first MRO facility at the Senai Aerospace Park. MRO centres require supporting industries like engineering workshops to be located near them. With the JB-SG SEZ, the flow of parts and people may be smoothened and thus allow, more MRO centres to be located in Senai or MRO centres there to expand as it will be easier for them to source parts and people from Singapore. Both resources remain in short supply in this post-COVID world as global aviation supply chains remain backlogged. MRO centres currently located in Singapore may also consider relocating or expanding their operations at Senai Aerospace Park to capitalise on cheaper land prices and labour. SIAEC has already exhibited that it is not averse to expand its operations in Malaysia. The JB-SG SEZ may encourage other MRO operators like ST Engineering to follow suit, we opine.

### CAPITALA, SIAEC & ST Engineering are potential beneficiaries

CAPITALA – its MRO centre at Senai Aerospace Park operated by Asia Digital Engineering may be able to expand and take on more jobs going forward. SIAEC and ST Engineering – as stated above, may both capitalise on cheaper land prices and labour at Senai Aerospace Park to expand their MRO operations.

## 4.2 Banks – Singapore

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- **Malaysia is already the largest overseas earnings generator for OCBC and UOB, outside Greater China. Closer integration through the SEZ should enhance prospects of multiple verticals.**
- **Cross-border trade and investment should drive improved wholesale banking income, especially in lending as well as trade, transaction and cash management fees.**
- **Retail banking should also get a boost, especially in areas such as credit cards and mortgages from more tourism and relocations.**

### Well-entrenched position in Malaysia, especially OCBC and UOB

Excluding Greater China, Malaysia is the largest overseas earnings generator for OCBC and UOB. They have had a long-standing, historical presence with a reasonable branch reach across Malaysia, including in Johor. In 2023, Malaysia accounted for 9% of pre-tax earnings for UOB and 12% for OCBC. DBS has a smaller presence with the whole of SE Asia and India generating 3.6% of pre-tax earnings. For UOB and OCBC, Malaysia is also a meaningful part of lending, accounting for 10% and 8% of total loans, respectively. Importantly, both banks have access to domestic MYR liquidity, with domestic currency loan-to-deposit ratios at 93% for UOB and 86% for OCBC.

### Regional integration investments set to pay off

The Singapore banks have been investing extensively in the past 5 years in regional integration. This has driven growth in cross-border income. For UOB, cross-border income accounts for nearly a quarter of wholesale banking. A large part of the growth is driven by network customers, whereby Singapore corporates direct investments overseas. We believe stronger integration between Singapore and the Johor SEZ should catalyse an acceleration of cross-border investments. This should open significant opportunities for Singapore banks. Moreover, all three banks have extensive North Asia businesses, accounting for a fifth to nearly a third of loan books. As supply chains shift southwards, especially to the Johor SEZ, with companies potentially attracted by special incentives and policy stability, the Singapore banks stand to gain a competitive advantage. New factories, facilities and other infrastructure could spur loan growth. Concurrently, nearly a third of deposits are in USD. This provides an additional strategic advantage as providers of USD liquidity for regional and international trade through the SEZ. As a result, we see multiple opportunities for the Singapore banks to enhance earnings through higher loan growth, as well as better fees from areas such as transaction banking, cash management and trade-related services. Separately, increased people movement across the border between Singapore and Johor, could give rise to more retail transactions driving up fees in credit cards. With relocations of employees and retirees etc to Johor, demand for mortgages could increase.

### OCBC and UOB Top Picks

We believe both OCBC and UOB should be key beneficiaries of closer integration between Singapore and Johor, especially with increased SEZ activities. Both banks should have critical advantages from their SME customer base as they look to take advantage of cost advantages and labour availability in the SEZ. UOB should also see improved retail traction following its integration with Citibank’s franchise in Malaysia and increased cross-border travel and tourism credit card spending.

## 4.3 Banks – Malaysia

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- **That Malaysia and Singapore's financial systems are closely inter-twined, is largely reflected in the cross-border banking presence of their domestic banks in the respective countries.**
- **Increased trade and investments into Johor bode well for local banks that stand to capitalize on increased lending and corporate advisory opportunities. Rising human capital flow will also benefit the consumer banking operations of the domestic banks.**
- **Our top 3 BUYs are AMMB, CIMB and Public Bank - CIMB derives about 10% of its pre-tax profit from its Singapore operations.**

### A cross-border presence

Financial services in Malaysia and Singapore are intricately intertwined for historical, geographical as well as prevailing trade & commercial reasons. UOB has 55 branches in Malaysia and OCBC 31, making them the largest foreign-owned banks in Malaysia. In 2023, Malaysian loans accounted for 8%/10% of OCBC/UOB's group loans, respectively. Conversely, Maybank Singapore has 21 branches and accounts for a very sizeable 26% of group loans. Other Malaysian banks with a presence in Singapore include RHB (12% of group loans), CIMB (10%) and HL Bank (5%).

### Increased banking opportunities

As it stands, Malaysian banks have almost as many bank branches in Johor (233 in 2022) as they do in Kuala Lumpur (273) and are well-positioned to benefit from increased economic activity down South. It is envisaged that the SEZ would make it easier and more attractive for Singapore companies to invest in Johor through reduced red tape and increased incentives. This is especially so in burgeoning new sectors such as renewable energy and data centres. Moreover, Johor's retail and tourism sectors look set to enjoy increased traffic flow from greater cross-border connectivity, particularly with the RTS. All these developments bode well for business loan demand from not just large corporates but retail SMEs as well. Moreover, there is a lot of scope for corporate advisory work as well, with increased FDIs in the State. On the consumer front, the economic zone looks set to drive Johor's property sector, as more Singaporeans look across the border for more affordable housing, while Malaysia's My Second Home programme could drive further interest. Coupled with increased labour force mobility, consumer lending is likely to be bolstered as well.

### Top 3 sector picks

Our top three sector picks are as follows – AMMB for its undemanding valuations, whereby the stock trades at a prospective CY24 PBV of just 0.7x for potential ROEs of close to 9%, coupled with the potential for higher dividend yields as its capital ratios improve. We like CIMB for its improving ROEs and attractive dividend yields, as well as better prospects for its Indonesian operations through CIMB Niaga. Moreover, CIMB derived 10% of its FY23 pre-tax profit from its Singapore operations. Public Bank is also a BUY for its impeccable fundamentals, through foreign shareholding levels and decent valuations, whereby it's trading at a prospective FY24 PER of just 11x, which below even -1SD to its historical forward mean of 12x.

## 4.4 Construction – Malaysia

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- **MY construction players are not new to SG; involvement is either in the supply of construction materials and/or E&C works.**
- **JB-SG SEZ will be catalytic in terms of drawing in FDIs/DDIs into Johor, in turn, necessitate new infrastructure developments.**
- **The sector as a whole stands to benefit from an anticipated higher level of construction activity in Johor; contractors with a current presence in Johor are SCGB, Ekovest, YTL Corp, amongst others.**

### Established presence of MY construction players in SG

Malaysian (MY) construction players are not new to Singapore (SG). Sunway Construction Group (SCGB) established its presence in SG in 1994; it has since been supplying precast concrete products to mainly Singapore Housing Development Board projects from its two plants in Johor and a 3rd plant in Pulau Punggol Barat, SG, commissioned in Dec 2022. Precast orders from SG made up 10% to SCGB's MYR5.3b end-FY23 outstanding orderbook. Pintaras Jaya expanded into SG in 2018, and since then, projects in SG have grown to become the main revenue driver, at 75-80% in FY19-23. Kimlun secured its first sales contract for the supply of concrete tunnel lining segments to SG's MRT project in 2005; manufacturing orders from SG made up 20% of its balance orderbook of MYR1.7b as at end-FY22. Gamuda meanwhile, has two outstanding engineering & construction (E&C) jobs in SG, which made up 5% of its MYR24b outstanding orderbook as at end-Oct 2023.

### JB-SG SEZ to drive new infrastructure demand in Johor

The JB-SG SEZ, in our view, will be catalytic in terms of drawing in FDIs/DDIs into Johor, which will in turn necessitate new infrastructure developments to support the higher economic activities ahead. Ahead of this, Malaysia's National Budget 2024 has several big-ticket allocations for Johor – to build additional lanes for the North-South (or PLUS) Expressway from Yong Peng Utara to Sedenak Phase 2 (MYR931m), and USM Teaching Hospital Phase 1 in Kota Tinggi (MYR938m). Meanwhile, the state government has identified three LRT lines totalling 30km in length in Johor Bahru to complement the JB-SG RTS Link, which would be operational by end-2026; a thorough study will be done before the Federal Government's approval is sought.

### Stock picks

The construction sector stands to benefit from an anticipated higher level of construction activity in Johor - for infrastructure, industrial buildings, data centres and warehouses, etc. Contractors with a current presence in Johor are Sunway Construction Group (SCGB MK, SELL), Ekovest (EKO MK, N.R.), and YTL Corp (YTL MK, N.R.), among others. Across the Causeway, the growth in SG's economic activities should continue to benefit players with an established presence there – Sunway Construction Group, Pintaras Jaya (PINT MK, HOLD), Kimlun (KICB MK, N.R.) and Gamuda (GAM MK, BUY).

## 4.5 Consumer – Malaysia

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- **Malaysia and Singapore have long-standing ties related to imports of food, agriculture, labour and other natural resources.**
- **The consumer sector as a whole stands to benefit from any enhancements in existing trade and investment opportunities in Johor through potential uplifts in consumer sentiment, household income and spending power.**
- **Our top consumer sector BUY picks are MRDIY, AEON and LHIB.**

### A co-dependent relationship

Malaysia and Singapore have long benefited from a unique symbiotic relationship between a nation with abundant land, labour and other natural resources, with access to investment capital and technology provided by its neighbour. Singapore relies on Malaysia as a major source of agricultural produce, e.g. chicken, eggs, seafood, fruit and vegetables, while broad-based consumer retail activities in the southern region of Malaysia have in the past been significantly driven by the inflow of Singapore visitors and their higher propensity to spend.

### The consumer wins

Through the JB-SG SEZ, any form of boost in economic activity will ultimately lift consumer sentiment down south. Tourism levels stand to benefit from further enhancements to mobility between the two countries. The creation of new jobs from increased investment opportunities in Johor will also aid employment and lift household disposable income, which bodes well for both the consumer staples and discretionary sectors. At present, Johor is already one of the key regions of focus for domestic retailers given its proximity to Singaporean consumers. For example, 18% of AEON's retail revenue in FY23, and 6 shopping malls (out of 28 malls) are located in the Southern region alone. The convenience store brands (7-Eleven, Family Mart, and Mynews) have also built a sizeable presence in Johor, as compared to other states outside of Selangor and Kuala Lumpur, due to its historically higher average store footfall and revenue/store.

### Top consumer BUY picks

Our top consumer sector picks are: 1) MRDIY for its potential consumer down-trading benefits, store expansion plans, mass-market appeal and low-priced point products amid a weak consumer sentiment environment; 2) AEON for its improving contribution from its property management services segment, which contributes >70% of group EBIT, and undemanding valuations of 11x FY24E PER, against its 5-year mean PER of 17x; and (3) Leong Hup International Berhad (LHIB) given stabilised poultry ASPs in Malaysia and potential cost savings from easing feed raw material costs from corn and soybean.

## 4.6 Gaming – Singapore

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- **Malaysians account for 20-30% of mass market gamblers and employees at both of Singapore's integrated resorts.**
- **The JB-SG SEZ may see more Malaysian mass market gamblers and employees at both integrated resorts.**
- **Main potential beneficiary is Genting Singapore.**

### Malaysians account for 20-30% of GGR

From our conversations with the Singaporean integrated resort (IR) operators, we understand that Malaysians account for 20-30% of Singaporean total gross gaming revenue (GGR). We think the aforementioned percentage is more or less symmetrical across the VIP and mass markets and both IRs. In 2023, the blended VIP: mass market GGR mix in Singapore was 36%:64% (Marina Bay Sands – 32%:68%, Resorts World Sentosa – 44%:56%). We understand that most of the Malaysian VIPs are high net worth individuals who have business and/or investment interests in Singapore. We also understand that most of the Malaysian mass market gamblers are part of the 250,000 to 300,000 Malaysians who live in Johor but cross the Causeway daily to work in Singapore. To be sure, there are also permanent residents of Malaysian origin living in Singapore, but we understand that most of them are not avid gamblers because, permanent residents of Singapore, they are subject to SGD150 per 24 hours or SGD3,000 per annum casino entry levies. On another note, we understand that Malaysians account for c.25% of the workforce at both IRs (Marina Bay Sands – 27%, Resorts World Sentosa – 24%).

### More mass market gamblers and labour for IRs?

To be sure, we do not expect more Malaysian VIPs to gamble at the IRs because of the JB-SG SEZ as infrastructure improvements traditionally favour mass market gamblers visitation only. Instead, we expect the JB-SG SEZ to have a positive impact on mass market gambler's visitation, especially if it will decongest the Causeway. The mass market is especially important as it yields much higher EBITDA margins of 40-50% (VIP market: 10-20%). Separately, post-Covid, we estimate that the average salary per employee at both IRs has risen by 20-30% compared to pre-Covid times as labour has been harder to come by. Lower border friction may somewhat ease labour pressure. Nevertheless we still expect both IRs to favour Singaporean citizens and permanent residents over Malaysians when hiring, as per Singaporean government policy.

### GENS a potential beneficiary

As stated above, GENS' Resorts World Sentosa may benefit from more Malaysian mass market gamblers and Malaysian workers, especially if the JB-SG SEZ decongests the Causeway.

## 4.7 Healthcare – Singapore and Malaysia

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- **Except for Raffles Medical, most SGX-listed healthcare operators already have some presence in Malaysia.**
- **But not all will benefit from the JB-SG SEZ given the potential cannibalisation effects.**
- **TMG should be the clear winner with its unique positioning and strong portfolio of healthcare assets.**

### Most healthcare players have a regional presence

Given the small and mature domestic market, most Singapore private healthcare operators typically have some presence in Malaysia due to its geographical proximity, as well as their familiarity with the rules and regulations. Among them, IHH is one of the largest private healthcare providers in the region, operating a wide range of healthcare services including private hospitals and ancillary services (Malaysia accounted for almost 18% of the group's revenue in FY23). Thomson Medical Group's 70.13%-owned Malaysian subsidiary, TMC Life Sciences Berhad (TMCLS) is a multi-disciplinary healthcare company listed on Bursa Malaysia. It operates Thomson Hospital Kota Damansara (THKD), a tertiary hospital with capacity of 554 beds, as well as TMC Fertility Centre, which is the industry leader in assisted reproduction in Malaysia (c.24% of turnover post-acquisition of FV Hospital in Vietnam). Meanwhile, smaller medical players such as Q&M Dental has 44 clinics in Malaysia (6-7% of revenue), with 16 in Johor.

### A double-edged sword due to cannibalisation

With the RTS Link scheduled to start operation in 2026, the improved transportation infrastructure is set to improve connectivity and ease of travel between the two countries. Notably, TMCLS owns the proposed Thomson Iskandar Medical Hub that will sit on a 1.6ha site in Johor Bahru. When fully operational, it will comprise a 500-bed tertiary hospital and 400 medical suites, as well as medical, allied health and nursing training/medical research facilities. Adjacent to the medical hub, the group has a 9.23ha prime freehold waterfront plot in Johor Bahru's city centre, with a long-term plan to build an integrated health & wellness development. With the increase of economic activity post Covid, the value of its property within the vicinity of the economic zone should rise along with keener interest from property developers and investors to invest in Johor. On the other hand, we think the net benefits of JB-SG SEZ is not so clear-cut for IHH and Q&M as this could potentially cannibalise their Singapore operations given relatively cheaper healthcare costs (partly due to strong SGD) across the Causeway.

### Prefer TMG for its growing ASEAN footprint

In our view, the biggest winner is Thomson Medical Group as it serves two different niche segments in both countries. While it primarily provides O&G and integrated healthcare services for women and children in Singapore, THKD has a wide array of specialities and is undergoing an expansion programme that will add another 847,430 sq ft. This comprises 14 centres of excellence, 154 outpatient clinics, 11 delivery suites and 10 operating theatres to cater to the robust demand for complex surgical procedures. In addition, the economic zone will serve as a catalyst for the real estate sector in Johor. TMG believes its huge plot of land in Iskandar is due for monetisation and/or value unlocking in the medium term (still carried at a historical cost of SGD176m in its FY23 balance sheet).

## 4.8 Industrials – Singapore

- **Malaysia and Singapore rank as each other's second-largest trading partners. Singapore is the second-largest foreign investor in Johor.**
- **Cheaper infrastructure, better connectivity and ample human capital in the SEZ benefit MNCs and SMEs. Pipeline of renewable energy projects in Johor may help Singapore's energy transition.**
- **Keppel Corp and Sembcorp Industries are likely to benefit from potential Singapore-Malaysia renewable energy cooperation.**

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### Existing linkages between Singapore-Malaysia

Malaysia and Singapore rank as each other's second-largest trading partners with bilateral trade reaching SGD153b in 2022, growing 18.9% YoY. Singapore is the primary source of Malaysia's FDI, contributing a substantial 20.5% to Malaysia's total FDI in 2022. Singapore is a major investor in Johor as well, supported by the proactive engagement by Jetco (Johor Economic, Trade and Cultural Office), the Malaysian Investment Development Board and Invest Johor. In 2022, Johor recorded MYR70.6b worth of investments. Singapore was Johor's second-largest foreign investor (after China) from Jan to Jun 2022, and contributed around 70% of Johor's total foreign direct investment in the manufacturing sector, mostly in the electronics and electrical and medical equipment sectors. Of particular note are investments in data centres. According to the Edge, Johor attracted MYR51.1b data centre investments in 2022 (72% of all investments) partly due to stricter criteria for data centres in Singapore due to sustainability considerations. Singapore-based ST Telemedia Global Data Centres set up a second data centre campus in Johor following the inaugural facility in Kuala Lumpur. SMEs such as Spindex (SPE SP, Not Rated), Nam Lee (NLPM SP, Not Rated), Koda (KODA SP, Not Rated), KTMG (KTMG SP, Not Rated), Allied Technologies (ALLI SP, Not Rated), etc., have well-established manufacturing/sales presence in Johor.

### Potential implications from a JB-SG SEZ

Notwithstanding the fact that the details of the new SEZ are limited, we believe the industrial sector should gain from cheaper physical infrastructure and better connectivity. The SEZ can also significantly help in Singapore's energy transition journey. Companies located in the SEZ will benefit from tax breaks and lower tariffs, a digitised process for cargo clearance at land checkpoints, a passport-free travel system that will expedite clearance of people at the border, and a one-stop business and investment centre to simplify application processes for approvals and business licences. These should lower the cost of doing business and enhance trade facilitation for MNC's who are looking to secure an uninterrupted supply chain in an era of heightened geopolitical uncertainty. Local SMEs can benefit from an abundant supply of land and human capital in Johor while benefiting from access to high-end technology and the vast pools of capital/financial network that Singapore offers. The SEZ will also facilitate Malaysia-Singapore renewable energy cooperation. Large-scale projects such as UEM Group's 1GW renewable energy industrial park and 450MW Sultan Ibrahim Solar Park in Johor can anchor such co-operation. As part of its push towards Net Zero emissions by 2050, Singapore plans to import 30% of its electricity supply from renewable sources by 2035.

### Stock beneficiaries

Singapore listed industrials such as Sembcorp Industries and Keppel Corp (KEP SP, Not Rated) are key listed players in Singapore's energy transition journey. With the proposed Singapore-Malaysia renewable energy cooperation, opportunities are likely in clean energy generation, distribution and power trading

## 4.9 Property Developers – Malaysia

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- **The location of the SEZ remains unknown, but based on our observation, the SEZ is likely to be located in the Sedenak or the Iskandar Puteri (IP) areas.**
- **We are positive about the SEZ, which will create more job opportunities and commercial activity in the Iskandar Malaysia region and eventually, drive demand for property.**
- **That said, we believe the positives have been priced in, and share prices of property stocks with landbanks in Johor have run ahead of their fundamentals. Our BUYs are SP Setia and Eco World Development. We have SELL on UEM Sunrise.**

### Awaiting the exact location of JSSEZ

The location of the SEZ remains unknown. While we suspect the SEZ could be located in Sedenak and/or Iskandar Puteri areas, there is a possibility that the SEZ could involve the entire Iskandar Malaysia (IM) region that spans 4,749km2 covering Johor Bahru, Kulai, Iskandar Puteri, Pasir Gudang and part of Pontian, benefiting all the landowners in these regions and levelling their playing field. Apart from developers, plantation estate owners sitting on cheap landbanks in these areas are set to benefit from rising land prices over the longer term.

### A positive and necessary move to lift the future of Johor

We are positive on the SEZ, viewing it a timely and necessary move to leverage the strengths of both countries. We expect the SEZ to create more job opportunities through investments from or via Singapore, which in turn, is likely to drive demand for both residential and commercial properties as the higher population will require housing over the longer term.

### Sector picks

We like SP Setia for its undemanding valuation (0.4x PBV vs. industry average of 0.8x), diversified product range, sizeable landbank and active de-gearing exercises through land sale and potential REIT-ing of its investment properties. SPSB aims to lower its net gearing to 0.3x by FY27E. We also like Eco World Development for its leading position in the industry, hands-on and creative management, as well as an attractive dividend yield of 40% (we believe investors cannot ignore this sector leader when seeking exposure to the property sector).

# 4.10 Property REITS – Malaysia

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- **Singaporeans and Malaysians working in Singapore have significantly influenced the Johor property market, driven by robust spending power and a strong Singaporean currency.**
- **The SEZ will increase business activities and tourism in Johor.**
- **Axis REIT, AME REIT and Al-Salam REIT are likely to benefit from higher economic activities.**

## Existing linkages between Singapore-Malaysia

As of 2023, the commercial and industrial subsectors' transaction volume in Johor grew by 68% and 39% YoY, respectively. Singaporeans and Malaysians working in Singapore have significantly influenced the Johor property market, driven by robust spending power and a supportive SGD. Malls have also shown encouraging footfall and occupancy levels, with F&B businesses as the key attraction for the crowds. The hotel sector also benefits from the influx of tourists from Singapore and business travellers. Meanwhile, the upcoming 4-km Rapid Transit System (RTS) connecting Singapore and Malaysia will also prompt business activities and tourism, as well as easing congestion on the Causeway. The RTS has an estimated capacity of 10,000 passengers per hour. The development of the RTS is about 68% completed as of Jan 2024 and we expect it to be fully completed by 2026.

## Potential implications of an SEZ

The SEZ will increase business activities and tourism in Johor. This creates opportunities for M-REITs to gain market share in Johor as it will boost demand for industrial and hospitality assets, as well as traffic footfall for retail assets. The SEZ will create new industrial hubs for manufacturing, logistics, and other related services. This in turn will also result in an increase in tourists from Singapore and business travellers into Johor, which will boost demand, retail spending and traffic footfall for hospitality and retail assets in Johor.

## Stock picks

We expect M-REITs with existing asset portfolios in Johor to benefit, such as the pure-play industrial REIT i.e. Axis REIT, AME REIT and retail REIT such as Al-Salam REIT. To note, IGB REIT's major unitholders, IGB Berhad (IGBB MK, Not Rated), also currently owns the Mid-Valley Southkey mall (where IGB REIT has the right of first refusal). The mall had its soft opening in April 2019, and could be injected into IGBREIT.

## 4.11 Property Developers and REITs – Singapore

- **Existing and growing linkages between the two nations.**
- **Developers can benefit from potential development opportunities in the SEZ. Industrial REITs can develop build-to-suit projects.**
- **Commercial and hospitality REITs can benefit from cross-border movement of people and demand for business services.**
- **Developers/REITs with Malaysian exposure such as Starhill Global, MLT, CLMT, Straits Trading and GuocoLand etc are likely to see interest.**

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### Existing linkages between Singapore-Malaysia

People and cultural linkages between the two nations are well documented. According to the Business Times newspaper, as of 2021, there were 1.2m Malaysians working in Singapore. About 350,000 Malaysians cross the Johor-Singapore Causeway daily to commute to work or school. This constitutes 20% and 6%, respectively, of the latest Singapore population of 5.92m. Some of the sponsors/controlling shareholders of listed REITs and property developers have historical roots/family lineage in Malaysia. More recently, Singapore's Temasek and Malaysia's Khazanah jointly developed projects in Marina Bay, Singapore. We will also surmise that Malaysian institutional and high net worth/retail investors are active in the Singapore residential and non-residential physical property market and listed property counters. That said, Malaysian exposure in terms of revenue/assets is relatively insignificant currently for most listed Singapore REITs and developers. Some of the listed REITs with Malaysian exposure are Starhill Global REIT (SGREIT SP, Not Rated), Mapletree Logistics Trust, Keppel DC REIT, CapitaLand Ascott Trust, Frasers Hospitality Trust, Parkway Life REIT (PREIT SP, Not Rated) and CapitaLand Malaysia Trust (CLMT SP, Not Rated). Listed developers include Straits Trading (STRTR SP, Not Rated), GuocoLand (GUOL SP, Not Rated), City Developments (CIT SP, Not Rated), UOL (UOL SP, Not Rated), Frasers Property (FPL SP, Not Rated), and Wing Tai Holdings (WINGT SP, Not Rated).

### Potential implications of a SEZ

While we are mindful that these are early days, details are scant and a SEZ exists in Iskandar Malaysia; the setting up of a one-stop business/investment service centre in Johor, and expeditious clearance of goods and people at land/sea checkpoints should facilitate investments, improve the ease of doing business and boost the region's economic growth. Singapore's developers will be able to participate in development projects across various sub-sectors. Quasi-backing from various government entities involved can also lower the project risks. Industrial tenants can benefit from lower cost of operations and industrial landlords can develop build-to-suit projects to support such shifts. Movement of people across the border can improve demand for retail and business services in the northern and western hubs of Singapore. As cross-border movement of goods becomes more efficient, we tend to think some lower-value/land-intensive logistics/industrial operations can shift out of Singapore. In turn, scarce land can be optimally allocated for various uses. In short, if the plan is properly executed with win-win for all involved stakeholders as opposed to a redistribution of the pie, the region may become the Pearl of the Asean.

### Stock beneficiaries

We expect counters with existing exposure in Malaysia to be of initial interest. These include names such as SGREIT, MLT, FHT, KDCREIT, PLIFE, CLAS, CLMT, Straits Trading, GuocoLand, etc. REITs with commercial assets in northern and western parts of Singapore such as FCT and LREIT may also benefit. Industrial or other REITs can potentially get build-to-suit/acquisition opportunities such as CLMT's deal in Nusajaya Tech Park. Broadly, economic growth should give developers opportunities across sub-sectors in the SEZ and its periphery.

## 4.12 Renewable Energy – Malaysia

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- **Malaysia and Singapore have affirmed commitment to collaborating on RE co-development and cross-border electricity trading.**
- **The SEZ provides opportunities for new solar asset ownership and EPCC (engineering, procurement, construction and commissioning) order book replenishment.**
- **Local solar EPCC players (Solarvest, Cypark, Sunview, Pekat, Samaiden) and RE asset owners (TNB, YTL Power) could potentially benefit from new RE capacity.**

### Facilitating cross-border RE trade

The Malaysian government announced the lifting of the ban on renewable energy (RE) exports in May 2023. Since then, the framework on RE export remains a work-in-progress, with Malaysia working towards the establishment of a RE exchange. Given land scarcity, Singapore is dependent on RE imports to achieve its carbon-reduction goals. Singapore has announced a target of up to 4GW of low-carbon electricity imports (c.30% of Singapore's electricity supply by 2035). Currently, the existing Plentong-Woodlands Interconnector can facilitate bidirectional electricity flow of c.1GW between Malaysia and Singapore, and an MoU is in place to explore the technical feasibility of a second interconnector.

### New RE capacity to power the SEZ?

We believe the SEZ would likely have easy access to RE, possibly through new RE capacity. Local solar EPCC players and RE asset owners could potentially benefit. Under the National Energy Transition Roadmap (NETR), Tenaga has been tasked to co-develop 5 x 100MW solar farms in several states, possibly including Johor. Solarvest has signed an MoU with Paragon Globe in Feb 2024 to collaborate on a major RE-focused industrial development involving a new, solar-ready factory and green industrial township in Johor. Longer term, improved bilateral relations could see cross-border RE trade eventually take off, creating more opportunities for EPCC players and RE asset owners.

### Stock picks

Local solar EPCC players like Solarvest,  Sunview (SUNVIEW MK, Not Rated), Pekat (PEKAT MK, Not Rated), Samaiden (SAMAIDEN MK, Not Rated) and RE asset owners Tenaga Nasional and YTL Power could potentially benefit from new RE developments in the SEZ.

## 4.13 Technology– Malaysia

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- **Malaysian tech players in the SEZ are largely concentrated amongst electronics manufacturing services (EMS) houses that serve as "feeder" plants for larger MNCs in Singapore.**
- **Aggressive "friend-shoring"/data centre-driven FDIs could lead to future MNC spin-offs and local bourse listings.**
- **Key EMS beneficiaries include non-rated NATGATE and EG. "Smart city" infrastructure providers like ITMAX also a clear winner.**

### Johor as an EMS-focused feeder hub for SG-based MNCs

The technology hardware sector in the state of Johor has historically focused on labour-intensive consumer electronics manufacturing (EMS). Benefiting from its strategic location across the Causeway from the international trading hub of Singapore, Johor offers MNCs access to cheaper labour and land costs. The traditional EMS players in Johor primarily serve as "feeder" plants for the larger MNCs in Singapore as well as Penang. However, as most of their manufacturing is done in-house, this often results in: (i) lower demand for ancillary services; and (ii) lagging technological capabilities vis-à-vis its peers in Penang that operate within an established end-to-end ecosystem. These "feeder" EMS houses are mainly concentrated in and around Senai Industrial Park, most notably VS Industry (VSI MK; SELL; TP: MYR0.71), Cape EMS (CEB MK, Not Rated), and SKP Resources (SKP MK; Not Rated).

### Data centres and "friend-shoring" to spur FDI growth

The potential establishment of the JB-SG SEZ has spurred the rapid growth of an AI-centric ecosystem in Johor, driven by foreign direct investments (FDI) in data centre infrastructure. The state has thus far been successful in attracting FDI from both major cloud service providers (Microsoft, Google, Meta) and server vendors (Wiwynn, Supermicro, and Tai-Tech). Although there are currently no clear local hardware PLC beneficiaries from the sector's rapid growth, we believe that a sustained trend could lead to spin-offs from foreign-owned MNCs and/or potential future listings on Bursa Malaysia, à la Penang in the past (e.g. PIE Industrial [PIE MK, Not Rated]; Uchi Technologies [UCHI MK, Not Rated]).

Conversely, we believe SEZ will be most conducive for MNCs seeking to establish feeder plants in Johor for more cost-effective operations. This could serve as a double-edged sword for home-grown EMS players already operating in the region, like the aforementioned VSI, SKP, and CapeEMS. While opportunities may emerge from collaborations with Singaporean partners to expand customer bases regionally, the competition for highly-skilled talent could also intensify from new MNC entrants looking to relocate their manufacturing hubs away from China amidst trade war considerations.

### Top picks: beneficiaries include "smart city" players

While it is premature to identify clear winners in the EMS sector, potential beneficiaries include players with exposure to the data centre/ server supply chain: (i) Nationgate (NATGATE MK, Not Rated), an Nvidia approved OEM for advanced chip servers that recently announced a partnership with Huawei's XFusion in Sept 2023 to manufacture Graphics Processing Unit (GPU) servers for the global market; and (ii) EG Industries (EG MK, Not Rated), the Malaysian EMS partner for US-based Cambridge Industries Group specialising in optical module design and manufacturing with direct exposure to top global hyperscalers.

In the software space, the SEZ has already catalysed “smart-city” players like ITMAX System for infrastructure upgrade work in the Greater JB metropolitan area. The metropolis encompasses the town councils of Johor Bahru, Iskandar Puteri, Pasir Gudang and Kulai – all likely to fall within the designated SEZ, in our view. Collectively, ITMAX has been awarded orders totalling MYR373.3m for the installation of 1,640 CCTVs and 100 traffic controllers across the four districts. We anticipate the momentum to snowball with further variations in the future once economic activity in the SEZ ramps up.

## 4.14 Technology Manufacturing– Singapore

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- **Many manufacturers listed in Singapore have been using Malaysia, i.e. JB/Penang, as their main manufacturing hub and this has intensified due to the US-China trade war .**
- **We think the SEZ will be extremely beneficial to manufacturers and will encourage more manufacturers to expand capacity and operations in Malaysia, which is also in line with more global tech names, especially in the semi-con industry diversifying their supply chain.**
- **We think the manufacturing names related to semi-con will benefit the most, ie, Frencken, AEM and UMS.**

### Cost of manufacturing in Malaysia is lower

Many manufacturers use Malaysia, aka JB/Penang, as one of their main manufacturing sites where about half or more of the production takes place due to cheaper costs in terms of labour, rental and utilities. The worsening of trade relations between the US and China has forced many companies, especially in the semi-con supply chain, to diversify their supply chains out of China, benefiting companies in Southeast Asia, as we have witnessed most of the companies under our coverage securing new blue-chip clients in the past 3-4 years, and they have also expanded their capacity in Malaysia to accommodate more clients and products.

### Incentives could help improve profitability

With the right tax incentives and free-passport travel, we think that it will incentivise manufacturers to expand more in JB instead of Penang. It might also encourage firms to move production over from Penang to JB instead, especially if the tax incentives are attractive. In addition, much of the R&D has been done outside of Singapore but with passport-free travel, more of the R&Ds could be potentially done out of JB, which could mean further cost savings, especially on rental as well as labour for the company. In addition, higher tax benefits could also lower the effective tax rate, which would also boost profits for companies. This could also lure more global MNCs to set up head quarters in JB instead of Penang, which could also be beneficial to these manufacturers.

### Beneficiaries: Frencken, UMS and AEM

We like manufacturing names that are semi-con related as we think these SEZ incentives will most likely benefit them in order to lure them to expand or set up factories there. These tax incentives will most likely help to boost net margins. In addition, as JB is much closer to SG, logistics will be eased with a shorter distance, as well as digitised processes for cargo clearance at the land checkpoints. As we have seen many semi-con blue chip names expand into Malaysia recently and shifted their supply chain especially to Penang, we believe this SEZ could help tilt the balance more in favour of JB. Companies like Frencken, UMS and AEM, who service customers in the semi-con sector, could likely expand manufacturing capacity in JB to benefit from this trend, we believe.

## 4.15 Telecommunication – Singapore and Malaysia

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- **Johor has emerged as a data-centre hub, mainly catering to the spill-over demand from Singapore.**
- **AI has created a new wave of demand for high-density data centres. The SEZ is set to benefit.**
- **Singtel, TM, TimeDotcom and YTL Power are potential beneficiaries.**

### Singapore & Johor are complementary in DC demand/supply

Singapore is the leading data centre market in Asia with ~53% of the ASEAN capacity. However, because of its land and power constraints, the government has rationalised new data centre builds (capped at 60MW of new capacity per year) with stringent specifications (PUE of <1.3) leading to higher capex per MW. On the other hand, driven by faster digitisation in ASEAN, demand remains elevated and is expected to increase at a CAGR of 19% over FY2021-26E. Given SG constraints, Johor and Batam (in Indonesia) are emerging as satellite data centre hubs to cater to the spill-over demand from Singapore due to their proximity to Singapore, availability of ample land and cheap power. As per Baxtel, Johor already has 13 data centres with an aggregate capacity of 47MW while 5 are under construction. Leading data centre operators such as Keppel (KEP SP, Not Rated), STT GDC (Unlisted), Princeton DC (Unlisted), Bridge DC (Unlisted), and VADS (part of TM MK) are operating in the region.

### Gen AI to speed up DC demand; SEZ to benefit

Generative AI requires high-performance computing systems designed to run large-scale, intensive workloads. Early-stage research estimates that a request using ChatGPT is 10x more power consuming than a simple Google search. As per BCG, US data centre power demand is expected to increase at a CAGR of 15% over 2022-30F. ASEAN with a 3-4x lower data centre capacities per capita (vs. US) should see an even more elevated demand. Given relative new capacity constraints in Singapore, we see Johor as a satellite market will be a bigger beneficiary of data centre demand on the back of gen AI. Assuming the regional DC demand expands at a 19% CAGR over 2022-30 given the under-capacities and SG demand only grows at 8% CAGR due to new-build constraints, we estimate Johor demand could expand at a CAGR of 43% over FY21-30E hitting 1.9GW by 2030E. Besides a better physical and connectivity infrastructure, potential tax breaks and easy permits (helped by SEZ initiative) could work more in favour of Johor compared to Batam. Three data centre hubs have thus far emerged in Johor, namely Sedenak, Nusajaya and Kulai.

### Singtel, TM, TimeDotcom, YTL Power are potential beneficiaries

We see Singtel, Telekom Malaysia, Time dotcom and YTL Power to be the potential beneficiaries. Singtel is already one of the largest data centre operators in Singapore with a total capacity of 70MW. It has a well-established track record of catering to hyperscalers and enterprise clients. The company is expanding in the region to build a data centre platform in partnership with Telkom Indonesia (TLKM IJ, IDR3250, BUY, TP: IDR5000) and AIS (ADVANC TB, THB202, BUY, TP: THB251). In Johor, the company is looking for a data centre campus (MW capacity not specified). TM and TIME being Malaysia's fixed-line incumbents, will potentially benefit from increased wholesale demand for fibre connectivity. Both also have existing data centre operations (TM in Nusajaya) similarly catering to hyperscalers and enterprise clients. YTL Power, meanwhile, has established a green data centre hub in Kulai (up to 500MW, potentially solar-powered). It will also be the first in Malaysia to own the latest Nvidia hardware for gen AI learning.

# 5. Top Picks

## 5.1 The MIBG SEZ Dozen

### 5.1.1 Axis REIT (AXRB MK, MYR1.84, BUY, TP: MYR2.18)

Axis' earnings are largely backed by its stable industrial focused portfolio. We understand that Axis has a weighted average lease expiry of 4.94 years as at end-2023. We are upbeat on Axis' active acquisition strategy and development of industrial assets. Johor currently accounts for 36% of its portfolio (by NLA) as at end-2023. We believe higher industrial subsectors transaction volume in Johor from the JB-SG SEZ should help it to capture the growth of current and future regional industrial hubs.

### 5.1.2 CIMB (CIMB MK, MYR6.48, BUY, TP: MYR7.40)

Under the current leadership, CIMB Group has seen a dramatic improvement in ROEs over the years, from as low as 2.1% in FY20 to 10.7% in FY23. This has largely been driven by increased cost efficiencies as well as a turnaround in its Indonesian operations, which today contributes about 25% of group earnings. Valuations are undemanding with the stock trading at a forward FY25E PBV of just 0.9x for prospective ROEs of about 10.6%, while dividend yields are attractive at over 6%.

### 5.1.3 Frasers Centrepoint Trust (FCT SP, SGD2.13, BUY, TP: SGD2.40)

Higher cross-border movement of people with eased friction at the Causeway could improve demand for retail and business services in the Northern and Western hubs of Singapore. FCT has flagship malls in the northern part of Singapore. In addition, a shift towards higher value added activities partly catalysed by the SEZ, should support overall income growth of Singapore households. This in turn should benefit FCT's prime suburban malls, in our view.

### 5.1.4 Frencken (FRKN SP, SGD1.52, BUY, TP: SGD1.77)

With the ongoing trade diversification out of China, many of Frencken clients have been shifting production to their Malaysia sites in JB and Penang. We believe that any potential tax incentives and easing of bottlenecks at the Causeway could potentially drive reductions in business and logistic costs for Frencken through the SEZ. In addition, the cluster effect of existing and potential customers also setting up facilities in the SEZ could drive synergies and more demand for Frenken's services.

### 5.1.5 Genting Singapore (GENS SP, BUY, SGD0.905, TP: SGD1.16)

We estimate Malaysians account for 20-30% of total gross gaming revenue (GGR) for the Group. This split is more or less symmetrical across the VIP and mass market. The SEZ is unlikely to boost Malaysian VIP volumes as infrastructure improvements typically favour mass market gamblers. If the JB-SG SEZ helps to decongest the Causeway, we expect a positive impact on mass market gaming with more visitations by gamblers. The mass market is especially important as it yields materially higher EBITDA margins of 40-50% (VIP market: 10-20%). Additionally, we estimate Malaysians account for c.25% of GENS' workforce. Easing border friction may improve labour availablity and address shortages, in our view.

### 5.1.6 ITMAX System (ITMAX MK, MYR2.19, BUY, TP: MYR2.65)

ITMAX is a “smart city” solutions provider, primarily to district councils within Peninsular Malaysia. Its suite of fully integrated services include the provision of CCTVs, traffic controllers, street lighting and automated parking solutions. ITMAX maintains significant cost, security and technical advantages over its peers in the “smart city” space domestically. To-date, it has been awarded contracts totaling MYR373.3m for the deployment of CCTVs and traffic controllers in all four Johor districts (Johor Bahru, Iskandar Puteri, Pasir Gudang, Kulai) that make up the Greater JB metropolitan area. When gazetted, we believe the JB-SG SEZ could likely encompass the entirety of the Greater JB metropolis, alongside part of Pontian district. Rollout of ITMAX’s smart parking solution is also currently underway in Iskandar Puteri, with full digitalisation expected by Jan-25.
Moving forward, we expect ITMAX to secure variation orders for additional scope of work from the four Greater JB districts once economic activity in the SEZ starts to ramp-up. Having already contracted ITMAX for 500 CCTVs to be deployed through to 4Q24, there is potential for 500 more units to be deployed going forward, according to the JB Mayor.

### 5.1.7 OCBC (OCBC SP, SGD13.51, HOLD, TP: SGD14.05)

OCBC already derives 12% of its pre-tax earnings from Malaysia. Plus its strong franchise in SMEs and banking network customers going overseas should open up opportunities as investments start to accelerate in the SEZ. Separately, OCBC’s integrated wholesale banking offering and strong positioning in North Asia should be a competitive advantage in gaining a share of the facilitation in the shift of the supply chain. In the near term, interest income may have peaked given the outlook for falling interest rates. However, improvements in wealth management and provision write-backs are catalysts.

### 5.1.8 Sembcorp Industries (SCI SP, SGD5.19, BUY, TP: SGD6.30)

As part of its push towards Net Zero emissions by 2050, Singapore plans to import 30% of its electricity supply from renewable sources by 2035. The proposed SEZ can facilitate Malaysia-Singapore renewable energy cooperation and help in the energy transition journey. For SCI, opportunities are likely in clean energy generation, distribution and power/carbon trading.

### 5.1.9 Singtel (ST SP, SGD2.32, BUY, TP: SGD3.05)

Singtel is currently building a data centre in JB mainly catering to the spill over demand from Singapore which is capacity constrained, while demand remains strong. Singtel is one of the largest data centre operators in a highly fragmented Singapore market (14% market share) serving hyperscalers and large enterprises. As hyperscalers and enterprises move to the SEZ, we think the Group could benefit on the back of its already established relationships with customers and its hyper connectivity infrastructure. Singtel is also expanding its data centre presence in Indonesia and Thailand. Regional presence provides a competitive advantage as it can project itself as a one-stop shop for hyperscalers and large enterprises data centre needs - multiple locations (needed to meet data residency regulations) and hyper connectivity in various markets through its associates.

### 5.1.10 Solarvest (SOLAR MK, MYR1.52, BUY, TP: MYR1.76)

Solarvest is a pure-play solar PV specialist, providing EPCC services for solar PV systems. It currently has an outstanding EPCC order book of MYR242m (end-Dec 23). We understand that management is currently pursuing potential EPCC project opportunities of c.443.4MW under the corporate green power program in Malaysia for order book replenishment in 4QFY24. Meanwhile, Solarvest has also secured potential local corporate PPAs for c.110MW under Powervest and overseas projects of 23.5MW. We expect Solarvest to continue growing its order book, capitalising on the growth on renewable energy demand in JB.

### 5.1.11 SP Setia (SPSB MK, MYR1.35, BUY, TP: MYR1.66)

SP Setia is on track to double earnings in FY24E from prospective land sales. The Group has 960-acres of land in JB. Pricing here is enjoying upward momentum as newsflow on the prospects of the SEZ gathers pace. A successful land sale is likely to unlock >MYR320m of gains, we estimate. Additionally, SPSB is in advanced negotiations with potential JV partners for a 16-acre commercial land in Setia Alam and a 307-acre industrial land in Tanjung Kupang. These could also result in land sales proceeds going forward. Separately, SPSB is looking to de-gear and unlock value through a REIT structure. This could serve as a vehicle to inject the Group's mature assets in the future enabling capital recycling. We believe this could be a positive catalyst in the medium term.

### 5.1.12 Telekom Malaysia (T MK, MYR6.00, BUY, TP: MYR6.80)

As families and industries move into the SEZ, we see TM (being Malaysia's fixed-line incumbent) potentially benefitting from increased retail and wholesale demand for fibre connectivity. Increased demand for data centre services is also a possibility, in our view. This could help raise utilisation at TM's Nusajaya facility (currently catering to both enterprises and hyperscalers). The incremental revenue from SEZ, coupled with management's ongoing cost-optimisation initiatives, should help sustain TM's earnings at relatively elevated levels over the medium term in our view.

# 6. Appendix A: MIBG coverage universe – Malaysia

| Name | Blbg Code | Mkt Cap (USDm) | 3mth ADTV (USDm) | Price (MYR) | Rating | TP (MYR) | Up/Downside (%) | PE (x) FY24e | PE (x) FY25e | PB (x) FY24e | PB (x) FY25e | DY (%) FY24e | DY (%) FY25e |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Public Bank | PBK MK | 16,682 | 16.9 | 4.10 | Buy | 5.05 | 23 | 11.4 | 10.9 | 1.7 | 1.5 | 4.9 | 5.1 |
| CIMB Group Holdings | CIMB MK | 14,563 | 24.0 | 6.48 | Buy | 7.40 | 14 | 9.5 | 9.0 | 1.0 | 0.9 | 5.8 | 6.1 |
| Tenaga Nasional | TNB MK | 13,835 | 11.7 | 11.48 | Hold | 11.00 | (4) | 18.3 | 15.4 | 0.9 | 1.0 | 4.0 | 4.0 |
| Petronas Chemicals | PCHEM MK | 11,348 | 4.9 | 6.80 | Sell | 5.05 | (26) | 28.2 | 24.4 | 1.8 | 1.4 | 1.8 | 2.1 |
| IHH Healthcare | IHH MK | 11,207 | 6.3 | 6.10 | Buy | 7.13 | 17 | 29.8 | 25.6 | 2.1 | 2.0 | 1.5 | 1.7 |
| CelcomDigi | CDB MK | 10,156 | 2.1 | 4.20 | Hold | 4.50 | 7 | 30.3 | 20.2 | 2.9 | 2.9 | 3.1 | 4.5 |
| Press Metal Aluminium | PMAH MK | 9,075 | 6.5 | 5.32 | Hold | 4.84 | (9) | 28.4 | 27.0 | 6.1 | 5.7 | 1.4 | 1.5 |
| Hong Leong Bank | HLBK MK | 8,709 | 2.9 | 19.30 | Buy | 23.00 | 19 | 10.2 | 9.5 | 1.4 | 1.2 | 3.6 | 3.6 |
| Petronas Gas | PTG MK | 7,413 | 4.9 | 17.98 | Hold | 18.00 | 0 | 19.9 | 19.5 | 2.6 | 2.5 | 4.0 | 4.0 |
| MISC Bhd | MISC MK | 7,244 | 3.9 | 7.79 | Hold | 7.77 | (0) | 14.5 | 13.4 | 0.9 | 0.8 | 4.3 | 4.3 |
| YTL Power | YTLP MK | 6,441 | 31.0 | 3.82 | Hold | 4.00 | 5 | 10.6 | 11.7 | 0.4 | 0.6 | 1.5 | 1.5 |
| Sime Darby Plantation | SDPL MK | 6,420 | 2.8 | 4.45 | Hold | 4.51 | 1 | 24.1 | 20.3 | 2.0 | 1.7 | 2.1 | 2.5 |
| Nestle (Malaysia) | NESZ MK | 6,007 | 2.9 | 122.90 | Hold | 123.60 | 1 | 35.4 | 32.5 | 52.4 | 40.9 | 2.7 | 2.9 |
| Maxis Bhd | MAXIS MK | 5,653 | 1.7 | 3.47 | Hold | 4.00 | 15 | 19.4 | 18.3 | 4.7 | 5.3 | 4.6 | 4.6 |
| Kuala Lumpur Kepong | KLK MK | 5,242 | 4.1 | 22.90 | Hold | 22.60 | (1) | 19.3 | 18.6 | 1.6 | 1.6 | 2.6 | 2.7 |
| IOI Corporation | IOI MK | 5,215 | 1.9 | 4.03 | Hold | 3.98 | (1) | 19.5 | 19.2 | 2.2 | 2.0 | 3.1 | 3.1 |
| RHB Bank | RHBBANK MK | 5,106 | 7.5 | 5.70 | Hold | 6.20 | 9 | 8.3 | 7.9 | 0.9 | 0.8 | 7.0 | 7.1 |
| Telekom Malaysia | T MK | 4,803 | 6.6 | 6.00 | Buy | 6.80 | 13 | 15.3 | 14.2 | 2.6 | 2.3 | 3.3 | 3.5 |
| Axiata Group | AXIATA MK | 4,769 | 3.9 | 2.50 | Buy | 3.50 | 40 | 32.9 | 18.1 | 1.2 | 1.0 | 4.0 | 4.0 |
| Hong Leong Fin. Grp | HLFG MK | 3,918 | 0.9 | 16.54 | Buy | 21.70 | 31 | 6.6 | 6.3 | 0.9 | 0.8 | 3.3 | 3.5 |
| Sime Darby Bhd | SIME MK | 3,853 | 8.1 | 2.72 | Hold | 2.79 | 3 | 13.5 | 10.5 | 0.9 | 0.8 | 3.7 | 4.8 |
| Sunway | SWB MK | 3,789 | 9.8 | 3.28 | Buy | 3.03 | (8) | 25.3 | 23.2 | 0.8 | 0.9 | 1.6 | 1.6 |
| Genting Bhd | GENT MK | 3,623 | 8.2 | 4.50 | Buy | 5.73 | 27 | 8.3 | 7.3 | 0.5 | 0.5 | 4.4 | 4.4 |
| Malaysia Airports | MAHB MK | 3,432 | 7.5 | 10.06 | Hold | 8.91 | (11) | 24.4 | 21.5 | 1.7 | 1.8 | 2.0 | 2.3 |
| QL Resources | QLG MK | 3,127 | 3.2 | 6.10 | Buy | 6.80 | 11 | 33.4 | 30.8 | 4.9 | 5.3 | 1.1 | 1.1 |
| Genting Malaysia | GENM MK | 3,074 | 5.3 | 2.60 | Buy | 3.16 | 22 | 20.4 | 15.3 | 1.2 | 1.2 | 5.7 | 6.5 |
| MR D.I.Y. Group (M) | MRDIY MK | 2,956 | 3.4 | 1.49 | Buy | 2.40 | 61 | 21.6 | 18.0 | 13.2 | 7.9 | 2.5 | 3.0 |
| Gamuda | GAM MK | 2,952 | 8.8 | 5.12 | Buy | 5.80 | 13 | 14.4 | 13.1 | 0.9 | 1.0 | 2.3 | 2.3 |
| AMMB Holdings | AMM MK | 2,842 | 7.1 | 4.10 | Buy | 5.05 | 23 | 8.4 | 8.0 | 0.7 | 0.7 | 4.8 | 5.0 |
| KLCCP Stapled Group | KLCCSS MK | 2,802 | 0.3 | 7.40 | Hold | 7.52 | 2 | 17.0 | 16.3 | 0.9 | 1.0 | 5.1 | 5.3 |
| Westports Holdings | WPRTS MK | 2,746 | 0.6 | 3.87 | Buy | 4.43 | 14 | 15.8 | 16.1 | 4.0 | 3.5 | 4.7 | 4.6 |
| Dialog Group | DLG MK | 2,684 | 11.8 | 2.35 | Buy | 2.43 | 4 | 23.6 | 22.4 | 2.4 | 2.1 | 1.5 | 1.5 |
| Inari Amertron | INRI MK | 2,423 | 6.1 | 3.09 | Hold | 3.18 | 3 | 35.3 | 29.4 | 4.0 | 4.0 | 2.4 | 2.9 |
| TIME dotCom | TDC MK | 1,998 | 2.0 | 5.20 | Hold | 5.60 | 8 | 20.5 | 19.6 | 2.9 | 2.4 | 4.9 | 5.1 |
| Hartalega | HART MK | 1,880 | 2.9 | 2.63 | Buy | 3.02 | 15 | 206.0 | 67.5 | 3.2 | 1.4 | 0.0 | 0.9 |
| IJM Corporation | IJM MK | 1,741 | 4.5 | 2.34 | Buy | 2.60 | 11 | 22.0 | 18.0 | 0.6 | 0.6 | 2.5 | 2.5 |
| KPJ Healthcare | KPJ MK | 1,693 | 4.0 | 1.87 | Hold | 1.57 | (16) | 26.2 | 25.0 | 2.0 | 2.7 | 1.8 | 2.1 |
| ViTrox Corp | VITRO MK | 1,524 | 0.8 | 7.75 | Hold | 7.90 | 2 | 36.8 | 32.5 | 8.3 | 7.0 | 0.7 | 0.8 |
| Yinson Holdings | YNS MK | 1,490 | 1.6 | 2.38 | Buy | 4.78 | 101 | 8.8 | 7.5 | 2.4 | 1.8 | 0.7 | 0.7 |
| Heineken Malaysia | HEIM MK | 1,434 | 0.9 | 22.50 | Buy | 28.20 | 25 | 17.3 | 16.9 | 15.6 | 15.9 | 5.8 | 5.9 |
| Top Glove | TOPG MK | 1,336 | 3.7 | 0.80 | Sell | 0.80 | 0 | na | 45.3 | 1.2 | 1.3 | 0.0 | 1.1 |
| IGB REIT | IGBREIT MK | 1,316 | 0.9 | 1.74 | Hold | 1.75 | 1 | 16.6 | 16.2 | 1.5 | 1.5 | 5.6 | 5.8 |
| SP Setia | SPSB MK | 1,275 | 5.8 | 1.35 | Buy | 1.66 | 23 | 7.6 | 16.6 | 0.2 | 0.2 | 3.8 | 1.0 |
| Sime Darby Property | SDPR MK | 1,270 | 4.1 | 0.89 | Hold | 0.86 | (3) | 13.6 | 14.1 | 0.3 | 0.4 | 3.3 | 3.2 |
| Frontken Corp. Bhd | FRCB MK | 1,250 | 3.5 | 3.79 | Buy | 4.75 | 25 | 36.0 | 31.5 | 9.1 | 9.2 | 0.8 | 1.0 |
| Bursa Malaysia | BURSA MK | 1,248 | 1.3 | 7.36 | Sell | 7.00 | (5) | 25.7 | 24.3 | 6.9 | 6.8 | 3.6 | 3.9 |
| My EG Services | MYEG MK | 1,206 | 5.4 | 0.77 | Buy | 1.24 | 61 | 12.5 | 12.6 | 3.4 | 2.8 | 2.2 | 2.3 |
| Alliance Bank | ABMB MK | 1,198 | 1.0 | 3.68 | Buy | 4.15 | 13 | 8.5 | 8.1 | 0.9 | 0.8 | 5.9 | 6.2 |
| Carlsberg Brewery (M) | CAB MK | 1,180 | 0.6 | 18.50 | Buy | 21.00 | 14 | 17.9 | 17.0 | 47.4 | 25.1 | 4.9 | 5.2 |
| Greatech Technology | GREATEC MK | 1,169 | 0.4 | 4.46 | Buy | 7.00 | 57 | 27.1 | 22.6 | 10.3 | 8.1 | 0.0 | 0.0 |
| Bank Islam Malaysia | BIMB MK | 1,168 | 1.2 | 2.43 | Hold | 2.75 | 13 | 9.5 | 8.9 | 0.9 | 0.7 | 6.9 | 7.3 |
| Genting Plantations | GENP MK | 1,129 | 0.6 | 6.05 | Hold | 6.21 | 3 | 18.9 | 17.5 | 1.1 | 1.0 | 3.9 | 4.3 |
| Kossan Rubber Ind. | KRI MK | 1,128 | 1.7 | 2.10 | Hold | 2.08 | (1) | 55.9 | 42.7 | 0.7 | 1.2 | 1.0 | 1.0 |
| UEM Sunrise | UEMS MK | 1,108 | 4.6 | 1.04 | Sell | 0.72 | (31) | 56.3 | 52.9 | 0.2 | 0.6 | 0.9 | 0.9 |
| Sunway REIT | SREIT MK | 1,086 | 0.5 | 1.52 | Hold | 1.60 | 5 | 15.9 | 14.2 | 1.0 | 1.0 | 5.7 | 6.3 |
| Pavilion REIT | PREIT MK | 969 | 1.4 | 1.27 | Buy | 1.47 | 16 | 17.7 | 15.9 | 0.9 | 0.9 | 5.4 | 6.0 |
| Gas Malaysia | GMB MK | 948 | 0.3 | 3.51 | Hold | 3.40 | (3) | 13.2 | 13.2 | 3.3 | 3.0 | 6.1 | 6.1 |
| Eco World Dev't | ECW MK | 872 | 1.7 | 1.42 | Buy | 1.83 | 29 | 14.6 | 13.5 | 0.4 | 0.6 | 4.2 | 4.2 |
| Mega First Corporation | MFCB MK | 844 | 0.5 | 4.35 | Buy | 4.70 | 8 | 9.0 | 10.3 | 1.1 | 1.1 | 2.1 | 2.3 |
| Allianz Malaysia | ALLZ MK | 775 | 0.2 | 20.88 | Hold | 20.00 | (4) | 7.3 | 7.0 | 1.2 | 1.5 | 4.1 | 4.1 |
| Sunway Construction | SCGB MK | 745 | 2.4 | 2.73 | Sell | 2.30 | (16) | 23.6 | 21.4 | 2.7 | 3.0 | 2.1 | 2.1 |
| Bumi Armada | BAB MK | 735 | 2.7 | 0.59 | Buy | 0.66 | 11 | 4.3 | 5.8 | 0.6 | 0.5 | 0.0 | 0.0 |
| Axis REIT | AXRB MK | 674 | 0.8 | 1.84 | Buy | 2.18 | 18 | 16.7 | 15.2 | 1.1 | 1.1 | 5.3 | 5.9 |
| V.S. Industry | VSI MK | 669 | 1.6 | 0.83 | Hold | 0.85 | 2 | 20.3 | 13.3 | 1.8 | 1.5 | 2.0 | 3.0 |
| DXN Holdings | DXN MK | 643 | 0.6 | 0.62 | Buy | 0.86 | 39 | 9.2 | 7.8 | na | na | 5.4 | 6.4 |

### MIBG coverage universe - Malaysia *(continued)*

| Name | Blbg Code | Mkt Cap (USDm) | 3mth ADTV (USDm) | Price (MYR) | Rating | TP (MYR) | Up/Downside (%) | PE (x) FY24e | PE (x) FY25e | PB (x) FY24e | PB (x) FY25e | DY (%) FY24e | DY (%) FY25e |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Malakoff Corporation | MLK MK | 642 | 0.2 | 0.64 | Sell | 0.55 | (13) | 8.7 | 8.1 | 0.5 | 0.6 | 5.7 | 6.1 |
| CTOS Digital Berhad | CTOS MK | 641 | 3.8 | 1.35 | Buy | 2.10 | 56 | 24.5 | 20.2 | 6.1 | 5.5 | 2.4 | 3.0 |
| Capital A | CAPITALA MK | 595 | 1.4 | 0.67 | Buy | 0.94 | 40 | na | 5.2 | na | na | 0.0 | 0.0 |
| Bermaz Auto Berhad | BAUTO MK | 587 | 1.4 | 2.42 | Buy | 3.48 | 44 | 8.6 | 8.3 | 3.2 | 3.5 | 8.7 | 9.0 |
| Farm Fresh Berhad | FFB MK | 578 | 0.8 | 1.47 | Buy | 1.60 | 9 | 45.5 | 27.1 | 5.0 | 4.4 | 0.5 | 0.9 |
| Sarawak Oil Palms | SOP MK | 567 | 0.2 | 3.03 | Buy | 3.18 | 5 | 10.6 | 10.1 | 0.7 | 0.7 | 2.8 | 3.0 |
| Lotte Chemical Titan | TTNP MK | 518 | 0.3 | 1.10 | Sell | 0.95 | (14) | na | 24.7 | 0.2 | 0.2 | 0.0 | 0.0 |
| ITMAX System Bhd | ITMAX MK | 479 | 1.1 | 2.19 | Buy | 2.65 | 21 | 26.9 | 21.7 | 5.1 | 5.5 | 0.7 | 0.9 |
| Padini | PAD MK | 476 | 0.2 | 3.47 | Hold | 3.65 | 5 | 14.6 | 10.8 | 2.4 | 2.5 | 2.9 | 2.9 |
| Velesto Energy Berhad | VEB MK | 463 | 3.5 | 0.27 | Buy | 0.35 | 30 | 13.4 | 9.3 | 0.5 | 0.8 | 1.5 | 2.1 |
| 7-Eleven Malaysia | SEM MK | 458 | 0.0 | 1.97 | Hold | 2.00 | 2 | 28.6 | 25.0 | 15.9 | 6.2 | 2.0 | 2.2 |
| Hibiscus Petroleum | HIBI MK | 453 | 1.2 | 2.72 | Buy | 2.99 | 10 | 5.0 | 5.1 | 0.9 | 0.6 | 2.7 | 2.7 |
| Leong Hup Int'l | LHIB MK | 430 | 0.9 | 0.57 | Buy | 0.93 | 65 | 7.9 | 7.0 | 0.9 | 0.9 | 3.8 | 4.3 |
| YTL Hospitality REIT | YTLREIT MK | 427 | 0.3 | 1.21 | Hold | 1.26 | 4 | 13.7 | 13.1 | 0.6 | 0.6 | 7.8 | 6.9 |
| RCE Capital Bhd | RCE MK | 407 | 0.8 | 2.62 | Hold | 2.44 | (7) | 13.6 | 13.1 | 1.6 | 1.7 | 6.0 | 6.2 |
| MBM Resources | MBM MK | 392 | 0.5 | 4.82 | Hold | 3.95 | (18) | 7.4 | 7.3 | 0.6 | 0.7 | 7.4 | 7.6 |
| Sports Toto | SPTOTO MK | 388 | 0.1 | 1.38 | Buy | 1.55 | 13 | 9.8 | 10.0 | 2.7 | 1.6 | 8.6 | 8.6 |
| Ta Ann | TAH MK | 384 | 0.6 | 4.17 | Hold | 3.67 | (12) | 10.3 | 9.8 | 1.0 | 0.9 | 5.8 | 6.1 |
| CapitaLand M'sia Trust | CLMT MK | 362 | 0.3 | 0.62 | Hold | 0.64 | 4 | 14.3 | 14.1 | 0.5 | 0.6 | 6.5 | 6.6 |
| Magnum Berhad | MAG MK | 339 | 0.2 | 1.15 | Buy | 1.34 | 17 | 9.1 | 9.2 | 0.8 | 0.6 | 7.9 | 7.9 |
| Astro Malaysia | ASTRO MK | 337 | 0.5 | 0.31 | Hold | 0.29 | (4) | 10.7 | 15.8 | 4.4 | 3.0 | 0.7 | 4.7 |
| TSH Resources | TSH MK | 325 | 0.8 | 1.11 | Sell | 1.00 | (10) | 12.5 | 12.2 | 0.8 | 0.7 | 2.4 | 2.5 |
| AEON Co. (M) | AEON MK | 322 | 0.3 | 1.10 | Buy | 1.74 | 58 | 10.9 | 10.1 | 1.1 | 0.8 | 3.6 | 3.6 |
| MNRB Holdings | MNRB MK | 276 | 0.6 | 1.69 | Buy | 1.70 | 1 | 5.7 | 7.0 | 0.3 | 0.3 | 2.6 | 2.6 |
| Ranhill Utilities | RAHH MK | 272 | 1.4 | 0.99 | Sell | 0.90 | (9) | 20.6 | 17.0 | 0.8 | 1.5 | 2.4 | 2.4 |
| Berjaya Food | BFD MK | 248 | 0.6 | 0.68 | Sell | 0.40 | (41) | na | 20.8 | 3.1 | 2.2 | 2.2 | 2.2 |
| Cahya Mata Sarawak | CMS MK | 226 | 0.8 | 1.01 | Buy | 1.28 | 27 | 8.1 | 6.4 | 0.4 | 0.4 | 1.9 | 1.9 |
| Solarvest Holdings | SOLAR MK | 215 | 0.7 | 1.52 | Buy | 1.76 | 16 | 31.7 | 24.0 | 3.1 | 3.0 | 0.8 | 1.0 |
| Aurelius Technologies | ATECH MK | 211 | 0.2 | 2.57 | Buy | 3.05 | 19 | 20.7 | 17.3 | 3.1 | 3.1 | 2.4 | 2.9 |
| Wasco | WSC MK | 207 | 0.4 | 1.29 | Buy | 1.55 | 20 | 10.4 | 9.9 | 0.8 | 1.1 | 0.0 | 0.0 |
| Sentral REIT | SENTRAL MK | 197 | 0.1 | 0.79 | Buy | 0.98 | 25 | 10.9 | 10.8 | 0.7 | 0.7 | 7.8 | 7.9 |
| Globetronics Tech | GTB MK | 186 | 0.9 | 1.29 | Sell | 1.05 | (19) | 27.0 | 22.3 | 2.6 | 3.5 | 3.0 | 3.6 |
| Eco World Int'l | ECWI MK | 175 | 0.3 | 0.36 | Hold | 0.29 | (18) | na | na | 0.3 | 0.5 | 41.4 | 17.7 |
| Cypark Resources | CYP MK | 168 | 0.7 | 0.97 | Hold | 0.86 | (11) | na | 32.2 | 0.7 | 0.8 | 0.0 | 0.0 |
| GHL Systems | GHLS MK | 145 | 0.2 | 0.61 | Buy | 0.93 | 52 | 19.8 | 17.8 | 1.9 | 1.5 | 0.0 | 0.0 |
| TH Plantations | THP MK | 124 | 0.8 | 0.67 | Sell | 0.58 | (13) | 16.6 | 15.1 | 0.7 | 0.6 | 3.0 | 3.3 |
| AirAsia X Bhd | AAX MK | 118 | 0.8 | 1.25 | Hold | 1.52 | 22 | 6.8 | 4.9 | na | 6.4 | 0.0 | 0.0 |
| Tan Chong Motor | TCM MK | 116 | 0.0 | 0.86 | Hold | 0.85 | (2) | na | na | 0.3 | 0.2 | 3.4 | 3.4 |
| Media Prima | MPR MK | 103 | 0.0 | 0.45 | Hold | 0.42 | (7) | 16.9 | 10.8 | 0.7 | 0.7 | 3.4 | 3.4 |
| Swift Haulage | SWIFT MK | 94 | 0.4 | 0.51 | Hold | 0.51 | 0 | 11.2 | 10.5 | 0.7 | 0.7 | 3.1 | 3.3 |
| Tambun Indah Land | TILB MK | 93 | 0.0 | 1.00 | Hold | 0.95 | (5) | 8.5 | 7.5 | 0.5 | 0.5 | 4.7 | 5.4 |
| Mynews Holdings | MNHB MK | 81 | 0.1 | 0.52 | Buy | 0.62 | 19 | 75.2 | 45.4 | 1.7 | 1.5 | 0.0 | 0.0 |
| Icon Offshore | ICON MK | 79 | 0.5 | 0.70 | Hold | 0.71 | 1 | 23.8 | 12.2 | 0.7 | 0.9 | 2.8 | 2.8 |
| Optimax Holdings | OPTIMAX MK | 73 | 0.1 | 0.64 | Buy | 0.86 | 34 | 27.1 | 21.5 | 7.3 | 5.4 | 2.6 | 3.3 |
| Pintaras Jaya Bhd | PINT MK | 55 | 0.0 | 1.58 | Hold | 1.70 | 8 | na | 41.7 | 1.0 | 0.7 | 1.2 | 1.2 |
| Al-Salam REIT | SALAM MK | 52 | 0.0 | 0.43 | Hold | 0.45 | 5 | 19.9 | 10.7 | 0.3 | 0.4 | 4.2 | 7.8 |
| InNature Bhd | INNATURE MK | 45 | 0.1 | 0.31 | Buy | 0.34 | 11 | 14.9 | 13.8 | 2.8 | 1.8 | 3.1 | 3.1 |
| Ramssol Group Bhd | RAMSSOL MK | 28 | 0.2 | 0.42 | Buy | 0.50 | 20 | 12.1 | 9.7 | 1.8 | 1.5 | 2.5 | 3.2 |

*Note: Share prices as at 16 Apr closing.*

*Source: Maybank IBG Research, Factset*

# 7. Appendix B: MIBG coverage universe – Singapore

| Name | Blbg Code | Mkt Cap (USDm) | 3mth ADTV (USDm) | Price (SGD) | Rating | TP (SGD) | Up/Downside (%) | PE (x) FY24e | PE (x) FY25e | PB (x) FY24e | PB (x) FY25e | DY (%) FY24e | DY (%) FY25e |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| DBS Group | DBS SP | 67,202 | 109.2 | 35.54 | Buy | 37.66 | 6 | 9.2 | 8.6 | 1.5 | 1.4 | 6.1 | 6.4 |
| OCBC Bank | OCBC SP | 44,549 | 53.7 | 13.51 | Hold | 14.05 | 4 | 8.4 | 8.1 | 1.0 | 1.1 | 6.3 | 6.5 |
| United Overseas Bank | UOB SP | 35,738 | 64.0 | 29.22 | Hold | 30.88 | 6 | 8.3 | 7.8 | 1.2 | 1.0 | 6.0 | 6.3 |
| Sea Ltd | SE US | 29,880 | 320.2 | 52.72* | Buy | 62.00 | 18 | 50.0 | 26.9 | 5.1 | 4.4 | 0.0 | 0.0 |
| Singapore Telecommunications | ST SP | 28,160 | 53.1 | 2.32 | Buy | 3.05 | 31 | 16.9 | 14.3 | 1.6 | 1.6 | 5.0 | 5.9 |
| Wilmar International | WIL SP | 15,407 | 13.0 | 3.38 | Hold | 3.99 | 18 | 8.5 | 9.4 | 1.0 | 0.8 | 6.0 | 5.8 |
| Grab Holdings | GRAB US | 13,059 | 79.9 | 3.31* | Buy | 4.50 | 36 | na | 130.9 | 1.8 | 2.0 | 0.0 | 0.0 |
| CapitaLand Investment Ltd | CLI SP | 9,408 | 20.9 | 2.53 | Buy | 3.15 | 25 | 14.1 | 10.4 | 1.2 | 1.1 | 4.6 | 5.3 |
| CapitaLand Int. Comm. Trust | CICT SP | 9,169 | 32.4 | 1.87 | Buy | 2.10 | 12 | 17.0 | 16.5 | 1.0 | 1.0 | 5.8 | 5.9 |
| ST Engineering | STE SP | 8,819 | 11.8 | 3.87 | Buy | 4.20 | 9 | 18.2 | 16.2 | 3.9 | 4.6 | 5.1 | 5.8 |
| CapitaLand Ascendas REIT | CLAR SP | 8,430 | 26.6 | 2.63 | Hold | 2.75 | 5 | 18.7 | 17.8 | 1.1 | 1.3 | 5.5 | 5.7 |
| Genting Singapore | GENS SP | 8,001 | 21.4 | 0.91 | Buy | 1.16 | 28 | 14.1 | 14.3 | 1.4 | 1.5 | 4.4 | 4.4 |
| Singapore Exchange Ltd | SGX SP | 7,010 | 12.9 | 8.94 | Hold | 10.09 | 13 | 19.2 | 19.0 | 6.6 | 6.1 | 4.0 | 4.1 |
| Sembcorp Industries | SCI SP | 6,723 | 15.0 | 5.19 | Buy | 6.30 | 21 | 10.9 | 10.5 | 1.5 | 2.1 | 1.5 | 1.5 |
| Mapletree Logistics Trust | MLT SP | 5,157 | 20.5 | 1.40 | Hold | 1.70 | 22 | 21.5 | 21.8 | 1.2 | 1.1 | 6.1 | 6.0 |
| Mapletree Pan Asia Comm. Trt | MPACT SP | 4,732 | 15.0 | 1.24 | Hold | 1.40 | 13 | 14.6 | 14.8 | 1.1 | 1.0 | 6.9 | 6.8 |
| Mapletree Industrial Trust | MINT SP | 4,711 | 9.9 | 2.27 | Hold | 2.30 | 1 | 17.6 | 17.8 | 1.4 | 1.2 | 5.7 | 5.5 |
| Venture | VMS SP | 3,028 | 7.2 | 14.25 | Buy | 15.80 | 11 | 14.7 | 13.8 | 1.7 | 1.4 | 5.2 | 5.2 |
| Frasers Centrepoint Trust | FCT SP | 2,820 | 6.1 | 2.13 | Buy | 2.40 | 13 | 18.1 | 17.5 | 0.9 | 0.9 | 5.5 | 5.7 |
| CapitaLand Ascott Trust | CLAS SP | 2,489 | 3.6 | 0.91 | Buy | 1.10 | 21 | 17.3 | 16.9 | 0.9 | 0.9 | 6.4 | 6.7 |
| Netlink NBN Trust | NETLINK SP | 2,426 | 1.8 | 0.86 | Buy | 0.97 | 13 | 31.4 | 30.5 | 1.4 | 1.3 | 6.2 | 6.2 |
| Keppel REIT | KREIT SP | 2,397 | 4.8 | 0.86 | Buy | 1.00 | 16 | 18.0 | 17.4 | 0.6 | 0.7 | 6.7 | 6.8 |
| ComfortDelGro | CD SP | 2,331 | 5.5 | 1.46 | Buy | 1.60 | 10 | 15.8 | 15.0 | 1.0 | 1.2 | 5.1 | 5.3 |
| Suntec REIT | SUN SP | 2,322 | 7.3 | 1.09 | Hold | 1.20 | 10 | 19.5 | 18.5 | 0.6 | 0.6 | 6.1 | 6.5 |
| ESR-LOGOS REIT | EREIT SP | 1,633 | 2.8 | 0.30 | Buy | 0.33 | 10 | 14.8 | 13.7 | 1.0 | 1.0 | 8.7 | 9.1 |
| First Resources | FR SP | 1,574 | 1.6 | 1.39 | Hold | 1.45 | 4 | 10.3 | 9.6 | 1.3 | 1.3 | 4.8 | 5.2 |
| StarHub | STH SP | 1,484 | 1.0 | 1.18 | Buy | 1.44 | 22 | 12.2 | 10.9 | 3.4 | 3.4 | 5.9 | 6.2 |
| Raffles Medical Group | RFMD SP | 1,358 | 1.1 | 1.00 | Hold | 1.15 | 15 | 27.0 | 25.5 | 2.6 | 2.0 | 1.9 | 2.0 |
| Thomson Medical Group | TMG SP | 988 | 0.2 | 0.05 | Buy | 0.08 | 57 | 67.3 | 36.8 | 3.4 | 2.7 | 0.8 | 0.8 |
| Bumitama Agri | BAL SP | 965 | 0.3 | 0.75 | Buy | 0.81 | 8 | 7.8 | 7.2 | 1.0 | 0.9 | 5.2 | 5.5 |
| Lendlease Global Comm REIT | LREIT SP | 949 | 2.2 | 0.54 | Buy | 0.70 | 30 | 13.9 | 13.7 | 1.0 | 0.8 | 7.5 | 7.6 |
| Far East Hospitality Trust | FEHT SP | 896 | 0.7 | 0.62 | Buy | 0.80 | 30 | 17.9 | 16.6 | 0.7 | 0.7 | 6.6 | 6.7 |
| CDL Hospitality Trusts | CDREIT SP | 872 | 1.5 | 0.96 | Buy | 1.10 | 15 | 17.2 | 15.5 | 0.9 | 0.7 | 6.2 | 6.3 |
| AIMS APAC REIT | AAREIT SP | 754 | 0.9 | 1.27 | Buy | 1.39 | 10 | 13.7 | 13.2 | 1.0 | 1.0 | 7.3 | 7.6 |
| UMS Holdings | UMSH SP | 671 | 4.8 | 1.30 | Hold | 1.41 | 8 | 13.0 | 10.6 | 2.3 | 2.6 | 4.3 | 4.3 |
| Frasers Hospitality Trust | FHT SP | 642 | 0.1 | 0.46 | Buy | 0.53 | 14 | 104.8 | 97.4 | 0.7 | 0.8 | 5.4 | 5.4 |
| Sasseur REIT | SASSR SP | 625 | 0.3 | 0.69 | Buy | 1.08 | 58 | 7.8 | na | 0.7 | 0.6 | 11.8 | na |
| Aztech Global | AZTECH SP | 546 | 0.8 | 0.97 | Buy | 1.14 | 18 | 6.9 | 6.2 | 2.3 | 2.1 | 8.7 | 9.6 |
| AEM Holdings | AEM SP | 532 | 4.6 | 2.38 | Buy | 2.78 | 17 | 15.8 | 10.2 | 2.2 | 2.3 | 1.6 | 2.4 |
| Food Empire Holdings | FEH SP | 516 | 0.9 | 1.32 | Buy | 1.68 | 27 | 8.6 | 8.2 | 0.9 | 1.6 | 11.2 | 11.7 |
| HRnetGroup Ltd | HRNET SP | 511 | 0.1 | 0.71 | Hold | 0.80 | 13 | 13.4 | 13.1 | 2.2 | 1.9 | 5.6 | 5.6 |
| PropNex Ltd | PROP SP | 496 | 0.2 | 0.91 | Hold | 0.94 | 3 | 14.7 | 14.0 | 4.5 | 5.5 | 6.5 | 6.5 |
| Frencken Group Ltd | FRKN SP | 466 | 4.4 | 1.52 | Buy | 1.77 | 16 | 13.1 | 11.0 | 1.0 | 1.4 | 2.3 | 2.7 |
| Dyna-Mac | DMHL SP | 318 | 2.2 | 0.42 | Buy | 0.46 | 10 | 14.7 | 11.8 | 4.5 | 6.0 | 2.4 | 3.0 |
| Civmec Ltd | CVL SP | 290 | 0.1 | 0.77 | Buy | 1.05 | 36 | 7.2 | 7.0 | 0.8 | 1.0 | 5.8 | 6.3 |
| Marco Polo Marine | MPM SP | 184 | 0.5 | 0.07 | Buy | 0.09 | 29 | 8.5 | 6.6 | 1.0 | 1.0 | 1.5 | 1.5 |
| Valuetronics | VALUE SP | 172 | 0.2 | 0.58 | Hold | 0.50 | (13) | 9.7 | 8.7 | 1.0 | 1.0 | 5.1 | 5.8 |
| Q&M Dental Group | QNM SP | 159 | 0.0 | 0.24 | Hold | 0.31 | 32 | 17.8 | 15.8 | 3.1 | 2.4 | 3.3 | 4.3 |
| LHN Ltd | LHN SP | 99 | 0.1 | 0.33 | Buy | 0.45 | 36 | 5.6 | 5.1 | na | 0.6 | 6.1 | 6.1 |

*Note: Share prices as at 16 Apr closing. * denotes in USD*

*Source: Maybank IBG Research, Factset*

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|---|---|
| **BUY** | Return is expected to be above 10% in the next 12 months (including dividends) |
| **HOLD** | Return is expected to be between 0% to 10% in the next 12 months (including dividends) |
| **SELL** | Return is expected to be below 0% in the next 12 months (including dividends) |

### Applicability of Ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

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