

# Malaysia Property

# NEUTRAL

[Unchanged]

## Exciting ... but largely priced in

### JSSEZ, DC, corporate deals to drive interests

JSSEZ and data centers will continue to be the sector's focus into 2H 2024. Additionally, corporate exercises such as the listing of investment properties or other businesses could continue to drive investors interest. Industrial property segment will remain in the spotlight, benefitting from investment diversion from China. Surprises from major infrastructure projects like KL-SG High-Speed Rail (HSR) could provide short-term trading opportunities. We maintain NEUTRAL on the sector. Our top BUY is ECW.

### JSSEZ details to be announced in Sep 2024

The Johor-S'pore Special Economic Zone (JSSEZ) agreement is expected to be inked in Sep 2024 and details such as investment (and tax) incentives are expected to be announced in Oct 2024 during Budget 2025. The JSSEZ area will likely cover the entire Iskandar Malaysia (IM) region rather than just one area within IM. It is likely to cover Johor Bahru, Iskandar Puteri, Pasir Gudang, Kulai (including Sedenak), Pengerang and Pontian. While a larger area might dilute the positive impact on developers, it ensures more balanced growth across the different regions of IM.

### Sustained momentum in DC play

Data center (DC) investments should stay in focus due to favorable Government policies and increasing demand from AI, machine learning, e-commerce, and cloud computing. While owning DC assets can provide recurring income or potential profit upon sale of the assets, we prefer outright land sale which transfers the construction and take-up risks to the buyers. Elsewhere, corporate exercises such as the listing of investment properties (by SPSB, IOIPG, WCT) or other businesses (by SWB) could continue to sustain investors interest in those stocks.

### Largely priced in, maintain NEUTRAL

While we are positive on upcoming/potential developments (JSSEZ, DCs, infrastructure plays), we believe the positives have been largely priced in and hence, we are NEUTRAL on the sector. We like ECW for its hands-on management, proven track record and healthy balance sheet. We also like SPSB for its undemanding valuation and potential REIT-ing of its investment properties. Both stocks offer exposure to the DC sector.

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Our picks for different thematic in the property sector (for beneficiaries of each theme, please see the following pages)

#### i) JSSEZ

##### Developers:

ECW MK, SPSB MK

##### Plantation estate owner:

SDG MK [BUY, CP: MYR4.47, TP: MYR4.96]

#### ii) Data center

##### Developers:

ECW MK, SPSB MK, SDPR MK

##### Plantation estate owner:

SDG MK

#### iii) Major infrastructure: Mutiara LRT in Penang and KL-Spore HSR

##### Developers:

Mutiara LRT: SPSB MK, IJM MK, TILB MK

HSR: SDPR MK

##### Plantation estate owner:

HSR: SDG MK

Source: Maybank IBG Research

Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x)		P/B (x)		Div yld (%)	
							24E	25E	24E	25E	24E	25E
Sunway	SWB MK	5,190	Hold	4.28	3.78	(12)	32.2	29.4	1.8	1.7	1.3	1.3
Sime Darby Prop.	SDPR MK	2,339	Buy	1.61	1.40	(13)	22.3	21.7	1.1	1.0	2.0	2.1
SP Setia	SPSB MK	1,627	Buy	1.71	1.66	(3)	9.1	19.7	0.5	0.5	3.2	0.9
UEM Sunrise	UEMS MK	1,308	Sell	1.21	1.00	(17)	61.9	58.2	0.9	0.9	0.8	0.9
Eco World Dev	ECW MK	1,057	Buy	1.68	1.96	17	17.1	12.0	1.0	1.0	4.2	4.2
Eco World Int'l	ECWI MK	177	Hold	0.35	0.28	(19)	nm	nm	0.6	0.7	42.6	18.3
Tambun Indah	TILB MK	106	Buy	1.13	1.24	10	7.5	6.8	0.6	0.6	5.3	5.9

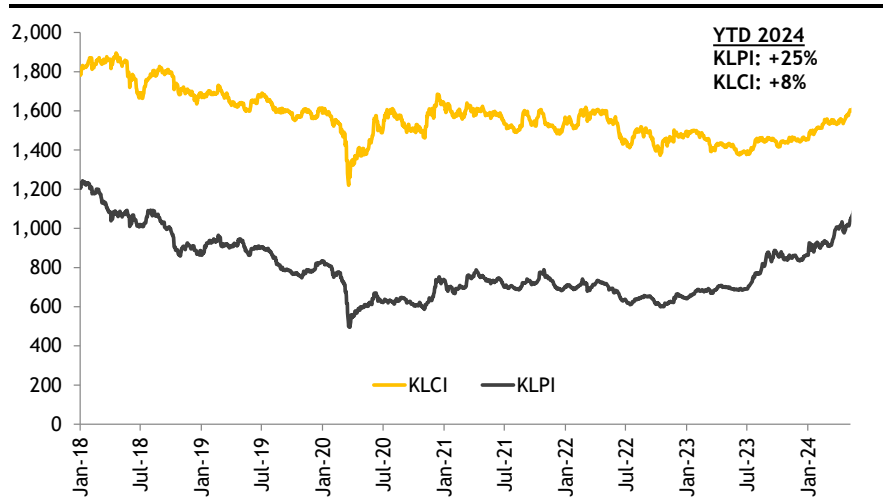
# 1H 2024 review

## 1. Boosted by JSSEZ and DC newsflow

The KL Property Index (KLPI) continued to outperform the broader market by 17% (KLPI +25% vs. KLCI +8%) in YTD 2024 (@ 19 July). The gains were particularly strong for those with exposure in Iskandar Malaysia (IM), especially those with landbank in Iskandar Puteri and Kulai-Sedenak with their share price run-up preceding the announcement of Johor-Singapore Special Economic Zone (JSSEZ) exact location. Additionally, stocks involved in data centers (DCs), whether through outright land sale (ECW, SWB, UEMS, AME Elite [AME MK; CP: MYR1.67; Not Rated], Crescendo Corp [CCDO MK; CP: MYR3.73; Not Rated]) or as asset owner/co-owner (SDPR, UEMS and Mah Sing [MSGB MK; CP: MYR1.89; Not Rated) also saw a surge in share prices.

Elsewhere, developers which are undergoing corporate exercises, such as the listing of their investment properties (SPSB, IOI Property Group [IOIPG MK; CP: MYR2.11, Not Rated], WCT [WCT MK: CP: MYR1.25; Not Rated]) or other businesses like healthcare (SWB) also experienced rise in share prices. The run-up in SWB's share price was first supported by news of JSSEZ, then boosted by its plan to list its healthcare business by end 2025/2026 as well as land sale to a DC in July 2024 (64 acres; MYR380m sale proceed).

**Fig 1: KLPI continued to outperform the broader market in 1H 2024**



Source: Bloomberg

## 2. Property sales - so far so good

On the corporate front, two developers under our coverage (SDPR, TILB) reported stronger-than-expected sales and earnings in 1Q24, while the rest (ECW, ECWI, SWB, UEMS, SPSB) were within expectations. Earnings are expected to pick up strongly in 2Q-3Q24 (for SPSB) and 2H24 (UEMS) driven by land sale/stake disposal.

- **SPSB** has finally completed the sale of a sizeable 960-acre land in Johor for MYR564m (or MYR13.50 psf) in June 2024, in line with its de-gearing strategy. The estimated MYR332m net land sale gain is expected to be recognized in the 2Q24 results (to be announced in Aug 2024).
- **UEMS** has also entered into a Share Sale Agreement with KLK Land to dispose off its remaining 40% stake in a 40:60 JV (with KLK Land) for MYR386.2m (or MYR8.87psf). The JV owns 2,500 acres of agricultural land in Kulai.
- Elsewhere, backed by a healthy balance sheet (0.23x net gearing in end-1Q24), **SDPR** is venturing into the data center business to expand its recurring income. SDPR is building and leasing a hyperscale data center to Pearl Computing (linked to Google) for 20 years, with a total lease value of up to MYR2b. The data center is slated for construction completion by 1Q 2026.
- **ECW** is ramping up its land acquisition activities. It has proposed to acquire 240 acres of freehold land in Iskandar Puteri for MYR450m (implied land cost is MYR570m or MYR54psf) in early 2024. The land will be developed into Eco Botanic 3 with an estimated GDV of MYR3.9b. ECW is still looking for landbank in Iskandar Malaysia and Klang Valley. Net gearing was healthy at 0.24x in end-Apr 2024.
- As for **SWB**, in Feb 2024, it purchased another piece of land in Singapore, together with its long-time JV partner, Hoi Hup. The JV company acquired a 5-acre land parcel at Plantation Close, Tengah, which could yield a total GDV of SGD676m. Sunway has a 35% stake in the JV project.

**Fig 2: 1QFY24/2QFY24 Results round-up for developers under our coverage**

Company	FYE	Quarterly results	Results: Below/in line/above	2024 sales target (MYRm)	Latest sales: Below/in line/above	Remarks
ECW	Oct	2QFY24	In line	3,500	In line	Unbilled sales stood at MYR4b in end- May 24 (1.2x FY25E revenue).
ECWI	Oct	2QFY24	In line	850	In line	-
SDPR	Dec	1QFY24	Above	3,000	Above	Unbilled sales stood at MYR3.6b at end Mar 24 (0.9x FY25E revenue).
SPSB	Dec	1QFY24	In line	4,400	In line	Unbilled sales stood at MYR5.4b at end Mar 24 (1x FY25E revenue).
SWB	Dec	1QFY24	In line	2,600	In line	Unbilled sales stood at MYR3.7b at end Mar 24 (3.4x FY25E revenue).
TILB	Dec	1QFY24	Above	150	Above	Unbilled sales stood at MYR0.14b at end Mar 24 (0.5x FY25E revenue).
UEMS	Dec	1QFY24	In line	1,000	In line	Unbilled sales stood at MYR2.6b at end Mar 24 (1.8x FY25E revenue).

Source: Companies

### 3. NAPIC statistics - seasonally weaker in 1Q

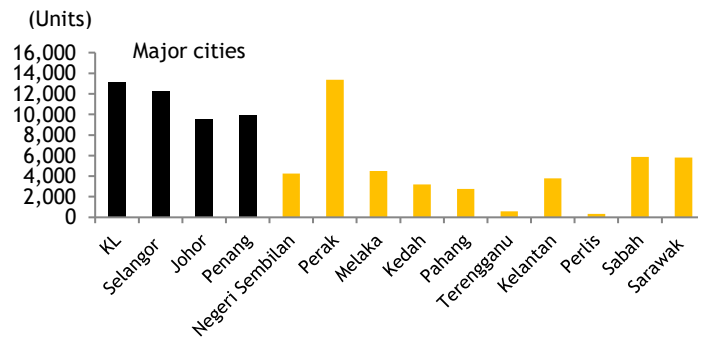
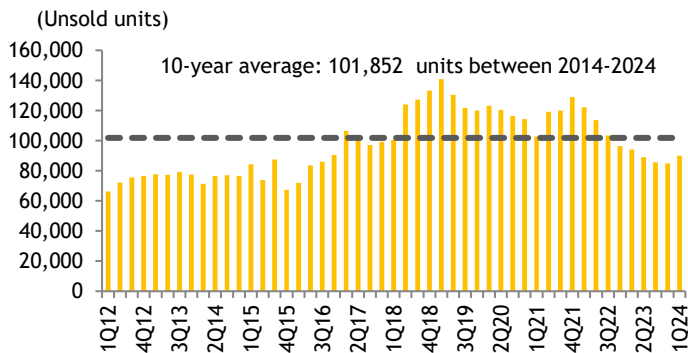
1Q24 residential property sales improved by +21% YoY but declined by -9% QoQ to MYR25.2b (4Q23: MYR27.8b; 1Q23:MYR20.9b) even though some of the 1Q24 sales were converted from bookings secured in Dec 2023. However, the slower QoQ sales is not a major concern as 1Q sales are usually/seasonally weaker and would start to pick up in the 2H when more new property projects are launched.

Unsold residential stocks declined by -4.2% YoY but increased by +6.2% QoQ to 90.1k units as at end-1Q24 (4Q23: 84.9k units; 1Q23: 94.1k units). A closer look at NAPIC statistics revealed that most major cities experienced a QoQ increase in unsold units in 1Q24, especially KL and Penang (KL: +94% QoQ, +48% YoY; Selangor: +5.6% QoQ, -14.5% YoY; Johor: +4.6% QoQ, -6.5% YoY; Penang: +20.7% QoQ, +19.5% YoY). While the increases in KL and Penang could be attributed to strong supply of high-rise units, it is surprising that unsold stocks in landed property-dominated states like Perak and Negeri Sembilan also increased significantly to 13,350 units (+13.7% QoQ, +3.3% YoY) and 4,259 units (+11.9% QoQ, -0.7% YoY), respectively. We will closely monitor for further increases in unsold stocks in these states - KL, Penang, Negeri Sembilan and Perak - in the coming quarters.

Elsewhere, nationwide House Price Index (HPI) weakened by -1.9% QoQ but was up +0.5% YoY to 216.9 in 1Q24 (KL: -2.2% QoQ, -1.0% YoY; Selangor: -2.5% QoQ, +0.8% YoY; Johor: -1.1% QoQ, +3.7% YoY; Penang: -1.2% QoQ, -2.0% YoY).

**Fig 3: Unsold residential properties declined by -4% YoY, +6% QoQ in 1Q24**

**Fig 4: Unsold residential properties in major cities in 1Q24**

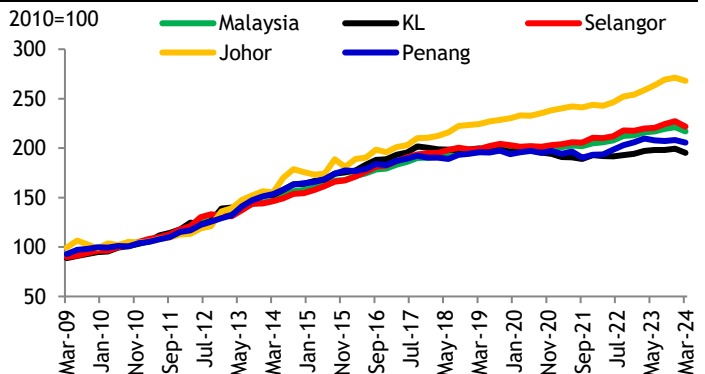
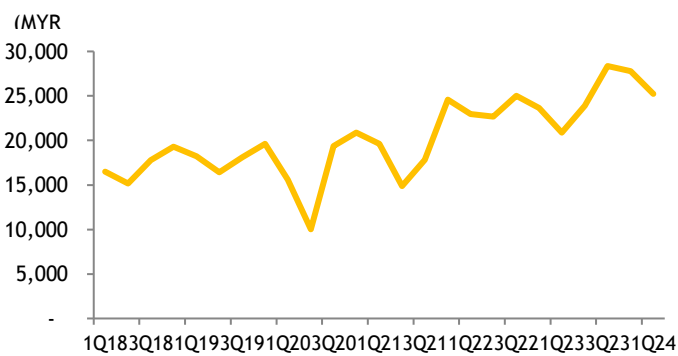


Source: NAPIC, CEIC, Maybank IBG Research (Chart)

Source: NAPIC, CEIC, Maybank IBG Research (Chart)

**Fig 5: Property sales improved +21% YoY (-9% QoQ) in 1Q24**

**Fig 6: HPI up 0.5% YoY, down 1.9% QoQ in 1Q24**



Source: NAPIC, CEIC, Maybank IBG Research (Chart)

Source: NAPIC, CEIC, Maybank IBG Research (Chart)

## 2H 2024 lookouts

### 1. Details of JSSEZ to be known soon

The coming months will see the Johor-Singapore Special Economic Zone (JSSEZ) agreement inked (likely in Sep 2024) with details such as investment (and possibly tax) incentives to be announced in Oct 2024 during Budget 2025. To recap, Malaysia and Singapore signed a MoU in Jan 2024 to work on the JSSEZ, which targets sectors related to electronics, financial services, business-related services and healthcare, and to strengthen economic connectivity between Johor and Singapore.

While there has been no official announcement from the Federal Government on the proposed JSSEZ location, it is likely to include the entire Iskandar Malaysia (IM) and Pengerang area, covering a size of 3,505 km<sup>2</sup>, and involving six local authorities, namely Johor Baru City Council, Iskandar Puteri City Council, Pasir Gudang City Council, Kulai Municipal Council (including Sedenak), Pontian Municipal Council and Pengerang Municipal Council (*source: Malay Mail*).

Fig 7: Proposed JSSEZ in Johor



Source: Financial Times, Maybank IBG

#### ▪ On fairer ground, more balanced growth

We are positive on the JSSEZ, which is expected to create more job opportunities through investments from/via Singapore. This will help to drive demand for both residential, commercial and industrial properties, with the higher population requiring housing. While a larger area of the JSSEZ - 3,505 km<sup>2</sup>, if an earlier press article is correct - might dilute the positive impact on developers and level the playing field for all landowners, it ensures more balanced growth across different regions of IM.

## ▪ Key beneficiaries of JSSEZ

In our view, the biggest beneficiaries of JSSEZ are the unlisted **government-owned developers** and listed **plantation groups**. These include:

- i) **Johor Land Berhad (Jland)**, the property arm of Johor Corporation, in turn a Johor state principal development institution. Jland's flagship project includes the 7,290-acre *Ibrahim Technopolis (IBTEC)* in Sedenak. The later stage of IBTEC will include residential and commercial properties, in addition to industrial properties. Jland's other projects include the 180-acre *Arena Larkin* urban regeneration project.
- ii) **Iskandar Investment Bhd (IIB)**; owned by Khazanah, EPF and Kumpulan Prasarana Rakyat Johor), which has 5,000-6,000 acres of land in Iskandar Puteri. From our previous meeting with IIB, we understand that IIB is looking to launch its maiden residential project, namely *WAWARI*, in Iskandar Puteri by 4Q24. Phase 1 of *WAWARI* comprises 248 units of townhouses, commercial hub, and apartments.

In the past, IIB and Johor Corporation (via Jland) mostly focused on land sale. However, we expect them to be more involved in property development going forward (instead of outright land sale) amid an improved outlook for Johor's property market due to the JSSEZ and enhanced infrastructure (Johor-S'pore Rapid Transit System [RTS] and Autonomous Rapid Transit [ART] system), and an expanded property development team by both IIB and Jland. This could raise competition to the existing property developers in the region.

Listed plantation groups with sizeable landbank in Iskandar Malaysia would also benefit from the JSSEZ due to demand for development land by the property developers or data center players. **SDG, KLK, Johor Plantations (JPG MK, CP: MYR0.94, Not Rated)** and **GENP** are now the top 4 largest landowners in Kulai district (see our [thematic report](#) on JSSEZ beneficiaries in Kulai dated 19 July 2024). In addition to KLK and GENP which have been involved in property development for over a decade, SDG has recently made known its intention to develop green industrial parks (supported by large-scale solar) on its own or with JV partner(s). Nonetheless, we believe SDG is also not adverse to monetize some of its landbank in Kulai to other township developers at the right price. Other sizeable landowners/developers in IM are **IOIPG, UEMS, SWB, SPSB** and **ECW**.

On the other hand, the booming property market in Johor, especially for industrial properties, may pose a challenge to smaller specialist developers like **AME Elite (AME MK, CP: MYR1.67, Not Rated)**, to expand on their landbank at cheaper cost. The addition of new property developers in the industrial property segment also makes it challenging for AME to secure prime located land and attract potential buyers/tenants.

**Fig 8: Beneficiaries of JSSEZ**

<p><b>i) Sedenak - Kulai area</b></p> <p><b>Developers:</b></p> <ul style="list-style-type: none"> <li>▪ ECW MK</li> <li>▪ IOIPG MK [N.R., CP: MYR2.11]</li> <li>▪ SCI MK [N.R., CP: MYR4.27]</li> <li>▪ LAGENDA MK [N.R., CP: MYR1.22]</li> <li>▪ AME MK [N.R., CP: MYR1.67]</li> </ul> <p><b>Plantation estate owner:</b></p> <ul style="list-style-type: none"> <li>▪ SDG MK [BUY, CP: MYR4.47, TP: MYR4.96]</li> <li>▪ GENP MK [HOLD, CP: MYR5.80, TP: MYR6.21]</li> <li>▪ KLK MK [HOLD, CP: MYR21.36, TP: MYR22.60]</li> <li>▪ JPG MK [N.R., CP: MYR0.94]</li> </ul> <p><b>Unlisted landowner:</b></p> <ul style="list-style-type: none"> <li>▪ Johor Corporation (via Johor Land Bhd)</li> </ul>
<p><b>ii) Iskandar Puteri</b></p> <p><b>Developers:</b></p> <ul style="list-style-type: none"> <li>▪ UEMS MK</li> <li>▪ SWB MK</li> <li>▪ ECW MK</li> <li>▪ SPSB MK</li> <li>▪ EAST MK [N.R., CP: MYR0.985]</li> <li>▪ 3905 MK [N.R., CP: MYR2.50]</li> <li>▪ KSL MK [N.R., CP: MYR1.93]</li> <li>▪ AME MK [N.R., CP: MYR1.67]</li> </ul> <p><b>Plantation estate owner:</b></p> <ul style="list-style-type: none"> <li>▪ KLK MK</li> </ul> <p><b>Unlisted land owner:</b></p> <ul style="list-style-type: none"> <li>▪ Iskandar Investment Berhad (IIB)</li> </ul>
<p><b>iii) Johor Bahru</b></p> <p><b>Developers:</b></p> <ul style="list-style-type: none"> <li>▪ IWCB MK [N.R., CP: MYR0.765]</li> <li>▪ TRCB MK [N.R., MYR1.71]</li> <li>▪ EKO MK [N.R., CP: MYR0.56]</li> <li>▪ CCDO MK [N.R., CP: MYR3.73]</li> </ul> <p><b>Unlisted land owner:</b></p> <ul style="list-style-type: none"> <li>▪ Johor Corporation (via Johor Land Bhd)</li> </ul>

N.R. = Not Rated

Source: Maybank IBG

Fig 9: Public listed groups with large tracts of land in the Iskandar region

No	Company	Location	Type of land	Type of land	Landbank (hectare/ acre)
1	SD Guthrie	Kulai	Freehold	Oil Palm	-5,197 ha (~12,842 ac)
				Total	-3,130 ha (~7,733 ac)
2	Kuala Lumpur Kepong	Kulai (94%), Tanjung Kupang (6%)	Freehold	- Oil palm	-2,927 ha (~7,233 ac)
				- Held for development	-203 ha (~500 ac)
3	Johor Plantations	Sedenak	Freehold	Oil palm	-2,808 ha (~6,938 ac)
				Total	-2,536 ha (~6,266 ac)
4	Genting Plantation	Kulai	Freehold	- Oil palm	-2,427 ha (~5,997 ac)
				- Held for development	-109 ha (~269 ac)
5	UEM Sunrise	Iskandar Puteri	Freehold	Held for development	-1,790 ha (~4,423 ac)
6	IOI Properties	Kulai (98.5%), Tebrau (0.7%), Pulai (0.4%), Plentong (0.4%),	Freehold	Held for development	-1,701 ha (~4,204 ac)
7	Keck Seng	Pulai (30%), Pasir Gudang (70%)	Freehold/ Leasehold	Held for development, & golf course	-805 ha (1,990 ac)
8	Crescendo	Pulai (21%), Plentong (7%), Tebrau (72%)	Freehold	Held for development	- 412 ha (~1,018 ac)
9	Mulpha Int'l	Tanjung Kupang	Freehold	Held for development	-365 ha (~903 ac)
10	Sunway	Iskandar Puteri	Leasehold/ Freehold	Held for development	704.5 ac
11	Eco World Dev	Iskandar Puteri, Tebrau, Kulai	Freehold	Held for development	1,529 acres
12	SP Setia	Iskandar Puteri, Tebrau, Pontian, Kulai	Freehold	Held for development	1,103 acres

Source: Company (based on latest Annual Report), Maybank IBG (note: the above lists may not be exhaustive)



## 2. Unlocking land value via data centers

### ▪ Expediting land monetization

The data center (DC) sector should remain in focus into 2H 2024. Demand for DC will remain strong from both global and local players due to more accommodative Malaysia government policies, affordable power and land costs, and rising demand from AI, machine learning, e-commerce, and cloud computing. According to Savills Research, 36% of DC transaction volume took place in Malaysia in 1Q 2024, followed by Japan (23%), Hong Kong (16%) and Indonesia (14%). Strong demand for DCs can expedite land monetization by the property developers, especially in less prime locations. We have seen increasing land transactions related to DC since end-2023 and these transactions were well-received by investors.

### ▪ Balancing outright land sale and asset ownership

While venturing into data center asset ownership can provide recurring income or the opportunity to sell the asset for a profit at a later stage, we prefer outright land sale where the risks (construction, take-ups, etc.) are transferred to the buyers. This is particularly pertinent given concerns about oversupply and limited resources as well as payment collection issues, unless the property developers partner with strong, experienced DC players or are backed by reputable, reliable offtakers. For instance, SDPR's DC venture is backed by a 20-year lease valued at up to MYR2b with Pearl Computing Malaysia S/B (100%-owned by Raiden APAC Pte Ltd, which is linked to Google).

### ▪ Potential beneficiaries for data center plays

Listed plantation owners (SDG, KLK, JPG) and unlisted GLCs i.e. **Johor Corporation (via JLand)** and **Iskandar Investment Berhad (IIB)** are poised to be primary beneficiaries of the growing data center industry, thanks to their extensive land holdings in IM. Developers with substantial landbank in IM (**UEMS, SWB, SPSB, ECW, IOIPG**), alongside those in the Klang Valley (**SDPR, ECW, MSGB**) are also set to gain significantly. Access to essential utilities (power, water) are paramount for the landowners to capitalize on the increasing demand for DCs.

**Fig 10: Data center plays**

#### i) Sedenak - Kulai area

##### Developers:

- ECW MK, IOIPG MK, AME MK

##### Plantation estate owner:

- SDG MK, GENP MK, KLK MK, JPG MK

##### Unlisted landowner:

- Johor Corporation (via Johor Land Bhd)

#### ii) Iskandar Puteri

##### Developers:

- UEMS MK, SWB MK, SPSB MK, AME MK,

##### Plantation estate owner:

- KLK MK

##### Unlisted landowner:

- Iskandar Investment Berhad (IIB)

#### iii) Johor Bahru

- CCDO MK

#### iii) Klang Valley

##### Developers:

- SDPR MK
- ECW MK
- Mah Sing Group (MSGB MK, Not Rated, CP: MYR1.89)
- Glomac (GLMC MK, Not Rated, CP: MYR0.435)

N.R. = Not Rated

**Fig 11: Notable transactions for data centers in Malaysia**

Landowners	Date	Buyer	Land size (acre)	Location	Transaction value (MYRm)	Land price (MYR/psf)
Crescendo (CCDO MK)	Nov-23	STT GDC Malaysia 2	22.4	Pulai	117.0	120
Crescendo (CCDO MK)	Nov-23	Yu Ao	20.4	Pulai	111.0	125
Crescendo (CCDO MK)	Nov-23	Microsoft Payments	60.4	Pulai	315.2	120
Crescendo (CCDO MK)	Nov-23	Microsoft Payments	25.3	Pulai	132.5	120
Crescendo (CCDO MK)	Jun-24	Digital Halo	20.5	Pulai	115.9	130
AME Elite (AME MK)	May-24	Digital Hyperscale Malaysia	35.0	Iskandar Puteri	210.3	138
Eco World Development (ECW MK)	Jun-24	Microsoft Payments	123.1	Kulai	402.3	75
UEM Sunrise (UEMS MK)	Jun-24	Undisclosed	28.9	Iskandar Puteri	144.9	115
Mah Sing Group* (MSGB MK)	May-24	JV with Bridge DC	17.55	Bangi	-	160
River Retreat (80% owned by IIB)	Jun-24	ST Dynamo	41.7	Iskandar Puteri	178.2	98
Sunway Iskandar (SWB MK)	Jul-24	Equalbase Pte Ltd	64.0	Iskandar Puteri	380.0	136

\* Land is injected at an estimated land cost of MYR160psf

Source: Bursa Malaysia, various media reports



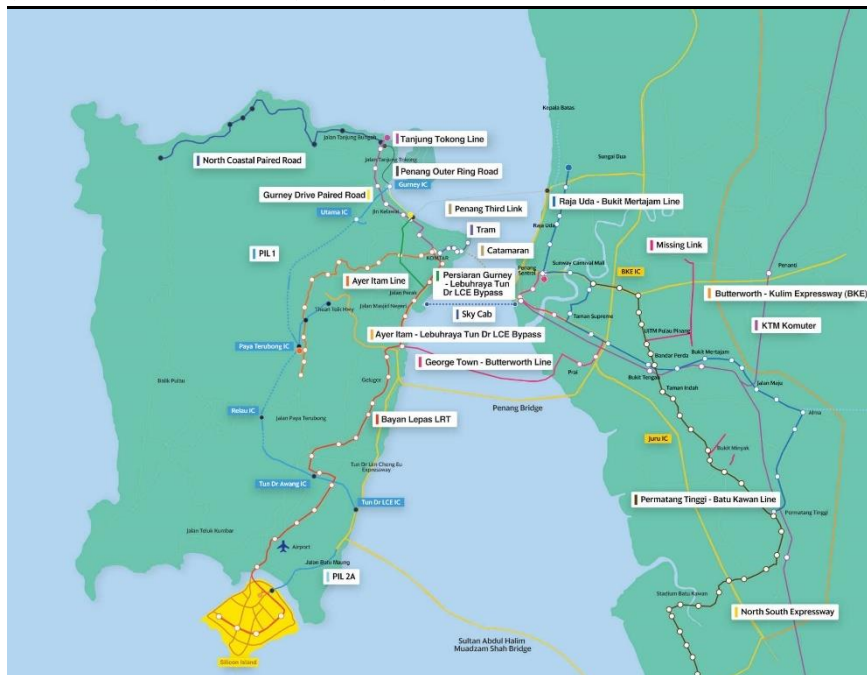
### 3. Major infrastructure projects boost

▪ **Mutiara LRT, a game changer for Penang**

Penang’s Mutiara LRT (MLRT) project, with its multiple impact on land supply and property development, is a game changer set to revolutionize the Penang property market. In addition, a new catalytic project namely *Silicon Island* involving 2,300 acres of land reclamation at the south of Penang island, will reshape the landscape of Penang’s property market. From our Invest ASEAN Conference in June 2024, we understand from the Penang government that the track alignment will extend to Penang Sentral Butterworth on the mainland and be linked to the national rail network. Construction, expected to cost MYR10b-13b, will commence in 2H24. The LRT line ought to have its construction completed by 2029 and operational by 2030.

To partly fund the project, transit-oriented (property) development (TOD) and transit-oriented area (TOA) would likely be introduced. TODs/TOAs are new in the Penang state. Given increasing traffic congestion on the island, TOD/TOA property products should receive strong demand due to their convenience and excellent accessibility, making this an interesting space to watch.

**Fig 13: Penang Transport Master Plan, which features the original Mutiara (Bayan Lepas) alignment (in 2020)**



Source: Penang Infrastructure Corporation

**Potential beneficiaries.** The MLRT track alignment has since been finalized - very similar to the original, earlier known as the “Bayan Lepas LRT” [link]. Based on the original LRT track alignment and station stops, property developers whom are potential beneficiaries include SPSB (SPICE station stop) and IJM (The Light stop). MRCB (MRC MK, CP: MYR0.655, Not Rated) is a beneficiary with the MLRT track to be extended to Penang mainland, ending at Penang Sentral Butterworth.

**Fig 12: Beneficiaries for major infrastructure projects**

i) Mutiara LRT and catalytic projects in Penang:

**Developers:**

**Penang island:**

- EAST MK (N.R., CP: MYR0.985)
- IJM MK
- IDEAL MK (N.R., CP: MYR3.85)

**Penang mainland:**

- SPSB MK
- ECW MK
- TILB MK
- MRC MK (N.R., CP: MYR0.655)
- IDEAL MK
- PAR MK; N.R., CP: MYR1.13)

ii) KL-Singapore High Speed Rail (HSR)

**Developers:**

- SDPR MK
- MCH MK (N.R., CP: MYR1.92)
- IOIPG MK
- UEMS MK

**Plantation estate owners:**

- SDG MK
- GENP MK
- KLK MK

N.R. = Not Rated

Source: Maybank IBG

**E&O (EAST MK, CP: MYR0.985, Not Rated)**, the largest listed landowner in Penang island, will also benefit from rising FDI/DDIs in Penang and improved connectivity and transportation if the MLRT alignment extends to Tanjung Bungah. **Ideal Capital Bhd (IDEAL MK, CP: MYR3.85, Not Rated)**, known for affordable high-rise apartment in Penang Island, will also benefit from a better transportation system.

A future phase of the MLRT network to Simpang Ampat on Penang mainland could benefit **Tambun Indah (TILB MK)**.

- **KL-Singapore High Speed Rail (HSR) decision by YE**

Newsflow on the HSR revival has gained momentum of late. Malaysia's Transport Minister was quoted as saying that the Malaysia Cabinet will decide on the project by end-2024. The Edge had earlier reported on three out of seven consortiums that had submitted their proposals following a Request for Information (RfI) had been shortlisted (*source: Malay Mail*). To recap, the RfI exercise which was supposed to close in Nov 2023 was extended to Jan 2024 to solicit private sector's interest in constructing the HSR via a public-private partnership.

The KL-SG HSR will improve accessibility and reduce travel time between the Malaysia and Singapore capitals. This will spur economic activities and demand for properties, especially near its station stops along its track alignment. Elsewhere, property demand pattern could also shift from the urban areas to the suburban or even to the rural areas due to the shorter travel time.

**Potential beneficiaries.** We believe the presence of a HSR station stop will catalyse development potential as it enhances the commercial value of its surrounding land. Nonetheless, we expect the benefits to accrue over a longer time horizon, more so upon or near completion of the HSR construction. That said, newsflow on the HSR revival will continue to spur interests in listed players that have landbank along the track alignment and around/near the station stops.

Under the previous HSR track alignment (Fig.13), developers who were potential beneficiaries include **SDPR** (at Labu and Pagoh stops), **Matrix Concept (MCH MK, CP: MYR1.92, Not Rated)**, at Labu stop), **UEMS** (at Gerbang Nusantara stop) and **IOI Properties (IOIPG MK, CP: MYR2.11, Not Rated)**, at Ayeh Keroh stop). The HSR revival could also signal the revival of the Bandar Malaysia project (486 acres at Sungai Besi, KL), the final station stop under the previous rail alignment.

We have also identified **plantation estate owners** as potential beneficiaries due to the close proximity of their estates to some of the HSR stops such as **GENP MK** (at Batu Pahat stop), **KLK MK** (at Gerbang Nusajaya stop) and **SDG MK** (with large tracts of estate land around Labu and Pagoh stops).

Fig 14: The previous proposed KL-SG HSR alignment (2016 - Jan 2021)



Source: myHSR.com.my

#### 4. Corporate exercises to sustain interest

We anticipate a surge in corporate deals in 2025-2026E (medium-term), which will drive value creation in property stocks. Corporates are increasingly seeking opportunities to 1) optimize their portfolios, unlock synergies and de-gear via the REIT-ing of their investment properties, 2) crystalize value by listing growing businesses or selling land. These potential corporate deals could continue to sustain investors’ interests in the property stocks.

Some of these potential corporate deals:

- i) The listing of **SWB’s** healthcare business, namely Sunway Healthcare Group, by end 2025 (at the earliest) or 2026. Currently, SWB has 3 hospitals in Subang, KL and Penang with a total 1,158 beds. Sunway Healthcare Group is 84% owned by SWB and 16% held by GIC Pte Ltd, Singapore. The company is looking to double its total beds to 2,200 by 2026;
- ii) Potential REIT-ing of **SPSB’s** investment properties, which may involve retail malls, hotels and offices.
- iii) **WCT (WCT MK; Not Rated; CP: MYR1.27)** plans to REIT its retail properties currently owned by its subsidiaries or JV companies.

- iv) Potential REIT-ing of **IOI Properties' (IOIPG MK, CP: MYR2.11, Not Rated)** investment properties, probably by 2025-2026. The REIT, which is said to have an AUM of MYR20b, may involve offices, hotels and retail malls in Malaysia and Singapore;
- v) *Land sale/ asset sales.* Potential asset sale from highly-g geared developer, **YNH Property (YNHB MK, CP: MYR0.48, Not Rated)**. YNHP has proposed to sell its 163 Retail Park for MYR215m to SREIT (HOLD, CP: MYR1.60, TP: MYR1.60) in end-Jan 2024 for MYR215m.

## Valuation and recommendation

While we are positive on upcoming/potential developments - JSSEZ, data centers, infrastructure plays - we believe the positives have been largely priced in and hence, we are NEUTRAL on the sector. We remain selective in our stock picking, focusing on companies with decent fundamentals and growth prospects.

- **ECW** is our top BUY call for the sector. We continue to like ECW for its hands-on management, proven track record and healthy balance sheet (0.24x net gearing in end-2QFY24). ECW's ability to secure Microsoft for its upcoming Eco Business Park VI (via a MYR402m land sale) is testament to management's capability. With industrial land in Johor and Klang Valley, ECW offers DC play. Backed by a healthy balance sheet, ECW is looking to pay at least 6 sen DPS in FY24E (3.6% yield). Meanwhile, it is actively seeking new landbank opportunities in Iskandar Malaysia and Klang Valley.
- We like **SPSB** for its undemanding valuation (0.5x P/B, versus industry average's 0.9x) and potential REIT-ing of its investment properties, which would help to reduce its debt level further (0.45x net gearing end-1Q24). SPSB aims to lower its net gearing to 0.3x by FY27. SPSB also offers DC play. It is exploring the feasibility of a data center and is now in talks with DC operators, investors and potential JV partners for its industrial land in Tanjung Kupang (321 acres), Iskandar Puteri.
- We also like **TILB** for its exposure to the booming industrial activities in the Batu Kawan area in Penang. TILB is backed by an attractive 5% FY25E net yield. It could benefit from the potential extension of the Mutiara LRT to Simpang Ampat in the future.

Fig 15: PBV valuation of developers under our coverage

Stocks	Share price (MYR)*	Market Cap (MYRm)	FY25E PBV^ (x)
ECW MK	1.64	4,835	1.0
ECWI MK	0.35	828	0.7
SPSB MK	1.68	8,000	0.5
SDPR MK	1.55	10,540	1.0
SWB MK	4.12	23,447	1.6
UEMS MK	1.17	5,918	0.9
TILB MK	1.13	496	0.6
<b>Average</b>			<b>0.9</b>

Source: Companies, ^based on our FY25E BV

\*Share prices as at 22 July 2024

## Risk factors

Upside/downside risks to our calls: i) Stronger-than-expected property sales driven by better economic outlook, ii) more data center-related deals which would help to quicken the crystallization of asset/land value, iii) policy risks, iv) easing of lending measures by the banks, v) higher-than-expected Liquidated Ascertained Damages (LAD) compensation following latest ruling by the Federal Court, and vi) rising building material costs and labour issues.

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<b>BUY</b>	Return is expected to be above 10% in the next 12 months (including dividends)
<b>HOLD</b>	Return is expected to be between 0% to 10% in the next 12 months (including dividends)
<b>SELL</b>	Return is expected to be below 0% in the next 12 months (including dividends)

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