

# Malaysia Property

# 2025, the year to deliver amid higher expectations

# Refocusing on fundamentals and execution strength

3Q24 earnings included significant one-offs, primarily driven by land sales. Meanwhile, the much-anticipated announcement of the details for JS-SEZ\* has been postponed again, this time to Jan 2025, from Dec 2024. Looking ahead, sector themes are expected to remain focused on Johor (JS-SEZ), data center developments and corporate exercises aimed at enhancing company value through asset crystallization initiatives. We downgrade the sector to NEUTRAL (from POSITIVE) as we believe most thematic drivers in the sector have already been in play for some time, with no new themes emerging at present. Our top BUY is SPSB, followed by SDPR.

# 3Q24 results review

Five developers under our coverage - SPSB, SDPR, TILB, SWB, UEMS - reported their 3Q24 profits in November. SDPR and SWB's core earnings exceeded our forecasts, SPSB and UEMS were in line, while TILB fell short due to project launch delays. SDPR's beat stemmed from higher margins, while SWB benefited from a lump-sum profit recognition from a Singapore project. Property sales-wise, SPSB and SWB are on track with their FY24E targets, while TILB lagged, and SDPR and UEMS surpassed internal targets.

# Data center and corporate exercises to anchor 2025

2025 is set to be eventful with corporate exercises like the listing of <u>SWB</u>'s healthcare business and <u>SPSB</u> MK, <u>WCT MK</u>, and probably <u>IOIPG MK</u>'s investment properties (source: various news articles, companies). Thematic drivers like data center (DC)-related investments/land sales are expected to sustain interests in property stocks which have the relevant exposure. SDPR has recently secured another 20-year lease with Google for its Elmina Business Park (77 acres), while ECW is pursuing more DC deals in its Selangor and Kulai industrial parks. Elsewhere, SPSB is expected to finalize its Tanjung Kupang industrial park JV by 1H25.

# JS-SEZ: From vision to reality

For JS-SEZ, we believe it has reached a point where investors are looking to monetization of expectations, as much have already been priced in, given that the JS-SEZ theme has been in play since July 2023. According to an earlier <u>press article</u>, the JS-SEZ's location will cover an area governed by six authorities in Iskandar Malaysia and Pengerang, suggesting a level playing field for all landowners. As a result, strong track records and capable management will be critical for competitiveness, we believe.

# **NEUTRAL**

Downgrade 1

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Figure 1: Earnings/sales performance

Developers	3Q24 Earnings #	9M24 sales
SPSB MK*	In line	In line
SDPR MK*	Above	Above
SWB MK*	Above	In line
<b>UEMS MK*</b>	In line	Above
TILB MK*	Below	Below
ECW MK ^	In line	In line
ECWI MK ^	Below	Below

Source: Companies, \* latest quarterly Results, # vis-à-vis our expectations ^ECW and ECWI's 4Q24 results will be released on 12 Dec 2024 and 11 Dec 2024, respectively

Figure 2: Net gearing\*

Developer	-	Net gearing (x)
SPSB MK		0.35
SDPR MK		0.19
SWB MK		0.40
<b>UEMS MK</b>		0.43
TILB MK		Net cash
ECW MK		0.21
ECWI MK		Net cash

Source: Companies, \* latest quarterly results

Stock	Bloomberg	Mkt cap	Rating	Price	TP	Upside	P/E	(x)	P/B	(x)	Div y	ld (%)
	code	(USD'm)		(LC)	(LC)	(%)	24E	25E	24E	25E	24E	25E
Sunway	SWB MK	6,293	Hold	4.85	4.78	(1)	32.7	31.7	2.0	1.9	1.1	1.1
Sime Darby Prop.	SDPR MK	2,385	Buy	1.55	1.66	7	19.5	15.9	1.0	1.0	2.3	2.9
SP Setia	SPSB MK	1,528	Buy	1.39	1.64	18	10.2	19.9	0.4	0.4	2.1	1.1
Eco World Dev	ECW MK	1,361	Buy	2.04	1.96	(4)	21.1	14.4	1.2	1.2	3.4	3.4
<b>UEM Sunrise</b>	<b>UEMS MK</b>	1,116	Hold	0.98	1.05	8	49.8	45.4	0.7	0.7	1.0	1.1
Eco World Int'l	ECWI MK	171	Hold	0.32	0.27	(14)	nm	nm	0.6	0.7	46.7	20.0
Tambun Indah	TILB MK	92	Hold	0.93	0.93	0	8.6	7.8	0.5	0.5	4.6	5.2

<sup>\*</sup>Johor-Singapore Special Economic Zone (JS-SEZ)



# 3Q24 results review

# Mixed earnings delivery

Malaysian listed developers (with FYE in December) under our coverage delivered mixed results for 3Q/9M24. Compared to our forecasts, 40% of them (SDPR, SWB) exceeded expectations, 40% (SPSB, UEMS) were in line, and 20% (TILB) fell short.

TILB's underperformance was due to delays in launching new projects. For SDPR and SWB, the beat was driven by higher-than-expected profit margin (SDPR) and lump-sum profit recognition from a Singapore project (SWB). SPSB's earnings are expected to normalize in 4Q24 following the recognition of c.MYR480m in net land sale gains in 9M24, while UEMS's 9M24 results were supported by non-core land sales. UEMS is currently seeking EPU approvals for the sale of car park bays in Mont Kiara. Any delay in recognizing the sale in 4Q24 could reduce our FY24E net profit forecast by 24%, but will positively impact FY25E earnings.

On property sales, all developers under our coverage met or exceeded their own internal sales targets for the year. Against our sales assumptions, locked-in sales of 40% of our coverage (ECW, SPSB, SWB) were in line, while SDPR and UEMS outperformed (40%) and TILB fell short (20%). Following the 3Q24 results, we have raised our FY24E sales assumptions for SDPR and UEMS by +8% and +14%, respectively, but cut TILB's FY24 sales assumption by -41% to factor in the delay in launching new projects.

During the 3Q24 results season, we have upgraded SDPR to BUY (from HOLD) due to its more stable and recurring income stream from investment properties starting FY26E. Meanwhile, we downgraded TILB and SWB to HOLDs (from BUYs) due to TILB's weaker earnings outlook and SWB's limited upside potential (share price +46% YTD), while maintaining BUY on SPSB, and HOLD on UEMS.

Fig 3: 3QFY24 Results round-up for developers under our coverage

Company	FYE	Quarterly results	Latest results: Below/in line/above MIBG's sales assumptions	FY24 sales target - corporates' sales targets (MYRm)	YTD actual sales (MYRm)	Remarks
ECW	0ct	4QFY10/24	To be announced on 12 Dec 2024	3,500	3,503^	Unbilled sales stood at MYR4.5b at end Aug 24 (1.3x FY25E revenue).
ECWI	0ct	4QFY10/24	To be announced on 11 Dec 2024	850	549^	-
SDPR	Dec	3QFY24	Above	3,500	3,154	Unbilled sales stood at MYR3.7b at end-Sep 24 (0.9x FY25E revenue).
SPSB	Dec	3QFY24	In line	4,400	3,197 (including non- core land sales)	Unbilled sales stood at MYR3.5b at end-Sep 24 (0.6x FY25E revenue).
SWB	Dec	3QFY24	Above	2,600	1,850	MYR4.5b at end-Sep 24 (4.2x FY25E revenue).
TILB	Dec	3QFy24	Below	150	147	MYR101m at end-Sep 24 (0.4x FY25E revenue).
UEMS	Dec	3QFY24	In line	1,000	928	MYR2.9b at end-Sep 24 (1.9 x FY25E revenue).

<sup>^ 10</sup>MFY24 sales. ECW and ECWI are expected to release their 4QFY24 results on 12 Dec and 11 Dec, respectively

Source: Maybank IBG Research



# JS-SEZ: From vision to reality

# Signing of JS-SEZ is now expected in Jan 2025

The JS-SEZ agreement, initially scheduled to be signed in Sep 2024 and later Dec 2024, has been postponed to the new year (*source*: <u>The Edge Singapore</u>). While the JS-SEZ location is known to encompass areas governed by six authorities in Iskandar Malaysia and Pengerang, investors are keen to see how both countries plan to attract business opportunities and unveil potential incentives or benefits to position Johor as a prime investment destination.

# Positive on JS-SEZ; from rising expectations to tangible results

We remain positive on the JS-SEZ initiative, which is expected to drive job creation through investments facilitated by Singapore, thus boosting demand for residential, commercial and industrial properties as the growing population requires housing. That said, we believe these positives have been largely priced in, and investors are now eagerly anticipating tangible results, given that the JS-SEZ theme has been in play since July 2023. With the impending JS-SEZ incentives likely to provide greater certainty for manufacturers, DC operators, and property investors; thereby, driving property demand higher, investors may hold even higher expectations for developers with exposure in Johor. Prior to July 2023 (the Johor boom), industrial land (with infrastructure) was trading at MYR70-90psf (source: UEMS) in the Iskandar Puteri area, compared to MYRMYR120-140psf now, while the land price in Sedenak has increased to MYR80psf, from MYR10psf ten years ago (source: JLand).

#### Could UEMS be the dark horse in 2025?

Since July 2023, developers have been actively acquiring land in Iskandar Malaysia, while landowners such as Tropicana (TRCB MK, CP: MYR1.19, Not Rated) and Crescendo (CCDO MK, CP: MYR1.36, Not Rated) have been capitalizing on the increased demand for data center by aggressively divesting their landbanks in Iskandar Malaysia.

UEMS, as one of the major landowners in Iskandar Malaysia, holds strategic and sizeable landbank totalling 4,783 acres with a GDV of MYR61b (including JVs) in Iskandar Puteri - a prime location near Singapore, supported by strong infrastructure and a growing population, particularly among those commuting to Singapore. The JS-SEZ theme provides a compelling tailwind for UEMS.

While the revision of the Gerbang Nusajaya master plan (with a greater focus on industrial properties) offers promising long-term prospects, we have yet to see many activities in Gerbang Nusajaya in 2024 but do not discount the possibility of a pickup in activities in 2025. Separately, on ECW's *Quantum Edge* business park in Kulai, ECW acquired 404 acres of land in Sep 2023 and has secured two reputable data center operators - Microsoft and Princeton Digital Group - by mid-2024.

That said, the upcoming opening of UEMS' flagship show gallery in Iskandar Puteri, coupled with anticipated disclosures on the revised Gerbang Nusajaya master plan as well as the impending JS-SEZ incentives, position UEMS as a potential dark horse in 2025. It could capitalize on the JS-SEZ momentum, turning its strategic advantages into tangible success after a year of underperformance. We have a HOLD on UEMS. Key risk remains on its execution challenge and the ability to meet high investor expectations based on current pricing. UEMS currently trades at 0.71x CY25E PBV, compared to other GLCs namely SPSB (0.47x) and SDPR (0.98x).

#### Fig 4: Beneficiaries of JSSEZ

#### i) Sedenak - Kulai area

#### **Developers:**

- ECW MK (500.2 acres Eco Business Parks including 132.6 acres in Kulai)
- IOIPG MK [N.R., CP: MYR2.14]
- SCI MK [N.R., CP: MYR4.57]
- LAGENDA MK [N.R., CP: MYR1.34]
- AME MK [N.R., CP: MYR1.68]

#### Plantation estate owner:

- SDG MK [BUY, CP: MYR5.01, TP: MYR5.41]
- GENP MK [BUY, CP: MYR5.86, TP: MYR6.96]
- KLK MK [HOLD, CP: MYR21.80, TP: MYR21.30]
- JPG MK [N.R., CP: MYR1.33]

#### Unlisted landowner:

Johor Corporation (via Johor Land Bhd)

#### ii) Iskandar Puteri

#### Developers:

- UEMS MK (4,783 acres)
- SWB MK (1,770 acres)
- ECW MK (314 acres in Iskandar Puteri, 422.8 acres in Masai and Tebrau area)
- SPSB MK (1,129.8 acres in various location in Iskandar M'sia)
- EAST MK [N.R., CP: MYR0.985]
- 3905 MK [N.R., CP: MYR2.50]
- KSL MK [N.R., CP: MYR1.73]
- AME MK [N.R., CP: MYR1.68]

#### Plantation estate owner:

KLK MK

#### Unlisted land owner:

Iskandar Investment Berhad (IIB)

#### iii) Johor Bahru

#### **Developers:**

- IWCB MK [N.R, CP: MYR0.565]
- TRCB MK [N.R., MYR1.19])
- EKO MK [N.R., CP: MYR0.365]
- CCDO MK [N.R., CP: MYR1.36]

#### **Unlisted land owner:**

Johor Corporation (via Johor Land Bhd)

N.R. = Not Rated

Source: Maybank IBG Research



# Valuation and recommendation

While we are positive on upcoming/potential developments - JS-SEZ, data centers, and corporate exercises which can enhance corporate value further - we believe the positives have been largely priced in. We downgrade the property sector to NEUTRAL, from POSITIVE. We remain selective in our stock picking, focusing on companies with decent fundamentals, proven track record and growth prospects.

- We like SPSB for its undemanding valuation (0.5x FY25E P/B, versus industry average's 1.0x) and potential REIT-ing of its investment properties, which would help to reduce its debt level further (0.35x net gearing end-3Q24). SPSB aims to lower its net gearing to 0.3x by FY27E and achieve >MYR700m net profit target by FY29E supported by both local and Australia projects. SPSB also offers data center play. The company is expected to finalize its Tanjung Kupang industrial park (321 acres) JV by 1H25.
- We like SDPR for its substantial exposure to the booming industrial and data center activities through its industrial parks in Negeri Sembilan, Sepang and Klang, its stable bread-and-butter landed property segment, and its recurring income from investment properties, including two 20-year data center lease agreements.
- We also like ECW for its market leading position, hands-on management, proven track record and healthy balance sheet (0.21x net gearing in end-3QFY24). 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 actively seeking new landbank opportunities in Iskandar Malaysia and Klang Valley. We maintain our earnings forecasts and TP for now pending the release of 4QFY24 results on 12 Dec 2024.

Fig 5: PBV valuation of developers under our coverage

Charles	Share price	Market Cap	FY25E PBV <sup>^</sup>	Our valuation basis - PBV	Our target price
Stocks	(MYR)*	(MYRm)	(x)	(x)	(MYR/sh)
ECW MK	2.04	6,014	1.2	1.1	1.96
ECWI MK	0.32	756	0.7	0.6	0.27
SPSB MK	1.39	6,953	0.5	0.5	1.64
SDPR MK	1.55	10,540	1.0	1.2	1.66
SWB MK*	4.85	30,177	2.2	-	4.78
UEMS MK	0.98	4,932	0.7	0.8	1.05
TILB MK	0.93	409	0.5	0.5	0.93
Average			1.0		

Source: Companies, ^based on our FY25E BV, \* we use PRNAV to value Sunway to better reflect its diversified income stream

# Risk factors

Risks to our calls: i) weaker-than-expected property sales dragged by weaker economic outlook, ii) policy risks, iii) stricter 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.

<sup>\*</sup>Share prices as at 6 Dec 2024



Fig 6: Location of UEMS' Gerbang Nusajaya project in Iskandar Puteri SEELONG JOHOR PREMIUM OUTLETS 9 SKUDAI CHOH i-TechValley GELANG PATAH 2 nusajaya techpark ISKANDAR TANJUNG KUPANG TANJUNG BIN TANJUNG BIN SUNWAY CIT ISKANDAR PUTERI TANJUNG PELEPAS KAMPUNG CHOKOH KECHIL FOREST JURONG JURONG INDUSTRIA PARK KAMPUNG PERPAT TIMBUL FG PIAI MARITIME INDUSTRIAL PARK

Source: Ho Chin Soon



Fig 7: Location of IBTEC industrial park and ECW's Quantum Edge business park in Kulai-Sedenak area

Source: Ho Chin Soon



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