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MALAYSIA THEMATIC | SEPTEMBER 2023

MARKET DATELINE
PP19489/04/2022 (035080)

Johor

Transitioning Into A Supercharged Growth Phase



18 September 2023

Property & Construction | Real Estate & Infrastructure

Property and Construction

Overweight (Maintained)

Johor: Transitioning Into a Supercharged Growth Phase

"Greater Johor Bahru should be positioned as the nation's second metropolitan region after the Klang Valley..."

YB Liew Chin Tong, Iskandar Puteri MP

- **Maintain OVERWEIGHT on the property and construction sectors.** We believe the Government-led catalytic developments as well as influx of foreign and domestic direct investments will not only spur job flows for the construction sector, but also have a positive spillover on the property market. Announcements on the Johor-Singapore special economic zone and updates on the proposed Kuala Lumpur-Singapore high-speed rail (HSR) will be key upcoming events.
- **Tier-1 developers remain confident on Iskandar Malaysia (IM).** Although the IM property market went through a challenging period in 2015-2021, major developers remain confident on the long-term outlook for the region. Just recently, both Sunway and Eco World (ECWI MK, NR) expanded their presence in IM. While Sunway acquired the remaining 40% stake of its 1,071-acre land in Pendas, Eco World bought 404 acres of land in Kulai for industrial development. Given its landbank exposure and growing property sales, IM has been an important market for many developers.
- **RTS to ramp up cross-border traffic.** Work progress on the Johor Bahru-Singapore Rapid Transit System (RTS) Link project has significantly boosted buyers' confidence, given the visibility of growth prospects. The RTS is a game changer, as increased cross-border traffic and the powerful "SGD factor" should benefit the local real estate sector, including housing, retail, and hospitality. Demand for rental and houses in the central region of Johor is likely to grow more significantly in the coming years, while the influx of new investments is expected to lift the state's GDP per capita over time, translating into higher affordability for housing in the long run.
- **Johor is bustling with construction activity.** The state's value of construction work done on a quarterly basis reached MYR3.8bn in 2Q23 – the highest in 13 quarters, and the second largest among all the states. Concurrently, Johor saw MYR9.6bn worth of construction projects awarded as of end-Aug 2023, spread across 913 projects. In terms of the value of projects awarded YTD August, Johor is just behind Selangor (MYR16bn worth of construction projects, spread over 1,423 projects).
- **Contractors are well equipped to ride on Johor's growth.** With favourable labour conditions and more manageable building material price trends, contractors are in a sweet spot to leverage on Johor's infrastructure revolution. Notable opportunities available for contractors in Johor include the remaining packages of the RTS project, Iskandar Rapid Transit (IRT), and data centres in industrial parks. Spillover effects from the growth in IM will benefit residential property contractors.
- **Johor thematic stock ideas:** We like UEM Sunrise (UEMS) and Sunway in the property space. For construction, we prefer Sunway Construction, Kerjaya Prospek, and Malaysian Resources Corp (MRCB), with Ekovest (EKO MK, NR) as a non-rated idea.

Top Picks

	Target Price
UEM Sunrise (UEMS MK) – BUY	MYR0.92
Sunway (SWB MK) – BUY	MYR2.65
M'sian Resources Corp (MRC MK) – BUY	MYR0.55
Sunway Construction (SCGB MK) – BUY	MYR2.22
Kerjaya Prospek (KPG MK) - BUY	MYR1.50

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Flight routes to Senai International Airport



Source: MMC Corporation

Company Name	Rating	Target (MYR)	% Upside (Downside)	P/E (x) Dec-24F	P/B (x) Dec-24F	ROAE (%) Dec-24F	Yield (%) Dec-24F
IOI Properties	Buy	2.10	32.3	10.9	0.4	3.5	3.9
Kerjaya Prospek	Buy	1.50	22.3	9.9	1.2	12.3	6.9
LBS Bina	Buy	0.80	39.3	6.9	0.6	9.3	4.4
Mah Sing	Buy	0.98	21.9	8.5	0.5	6.1	4.5
Malaysian Resources Corp	Buy	0.55	20.3	33.3	0.4	1.3	2.2
SP Setia	Buy	0.93	5.3	12.9	0.3	2.0	1.8
Sunway	Buy	2.65	30.5	15.5	0.9	6.0	2.7
Sunway Construction	Buy	2.22	17.6	15.3	2.9	19.3	3.9
UEM Sunrise	Buy	0.92	25.5	42.8	0.5	1.2	-

Source: Company data, RHB

Johor – The Southern Gateway Of Malaysia

Overview of the state

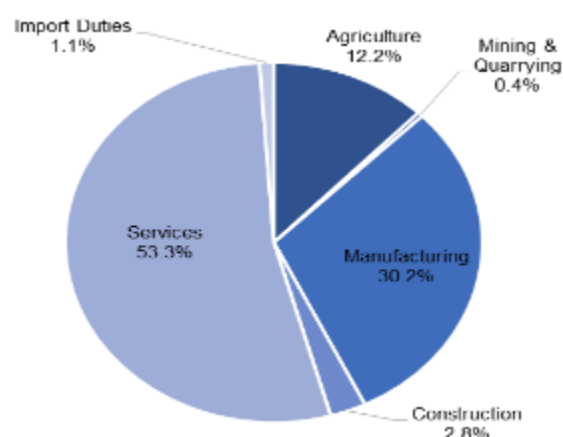
Johor, which is located at the southern tip of West Malaysia, is the fifth largest state of Malaysia (19,210 sq km). However, Johor is one of the major contributors to Malaysia's GDP. In 2022, Johor's GDP grew 8.2% to MYR142.1bn (contributing 9.4% to the country's GDP) – the sixth highest among all the states in Malaysia.

Key facts about Johor:

- State size: 19,210 sq km
- Population: 4.02m (2022)
- Labour force: 1.881m (2022)
- GDP contribution to the country: MYR142.1bn (9.4%) in 2022

Figure 1: Population distribution in Johor in 2020 ('000)

Figure 2: Johor's 2022 GDP breakdown (%)



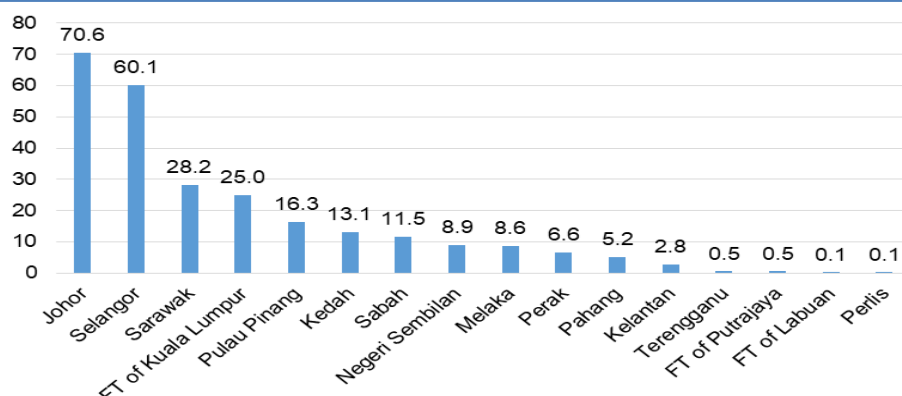
Source: Bahagian Perancang Ekonomi Negeri Johor

Source: Department of Statistics Malaysia

Johor has been one of the preferred destinations for foreign investors and multinationals. The state provides various logistics infrastructure, including the Senai International Airport, Port of Tanjung Pelepas, Port of Tanjung Langsat, and Johor Port. Apart from the North-South Highway, major roads include the Eastern Dispersal Link, Johor-Singapore Causeway, Senai-Desaru Expressway, and the Second Link Expressway.

According to recent media reports, given the post-pandemic influx of foreign and domestic direct investments, Johor emerged as the biggest contributor to Malaysia's total trade, raking in MYR247.6bn from Jan to Apr 2023. This makes up 30% of the country's total trade. Johor was also the state that received the most approved investments in 2022, totalling MYR70.6bn, followed by Selangor (MYR60.1bn), Sarawak (MYR28.2bn), Kuala Lumpur (MYR25.0bn), Pulau Pinang (MYR16.3bn), Kedah (MYR13.1bn), Sabah (MYR11.5bn), Negeri Sembilan (MYR8.9bn), Melaka (MYR8.6bn), Perak (MYR6.6bn), Pahang (MYR5.2bn), Kelantan (MYR2.8bn), Terengganu (MYR0.5bn), FT of Putrajaya (MYR0.5bn), FT of Labuan (MYR0.1bn), and Perlis (MYR0.1bn).

Figure 3: Approved investments for each state in 2022 (MYRbn)



Source: Malaysian Investment Development Authority

The close ties between Johor and Singapore

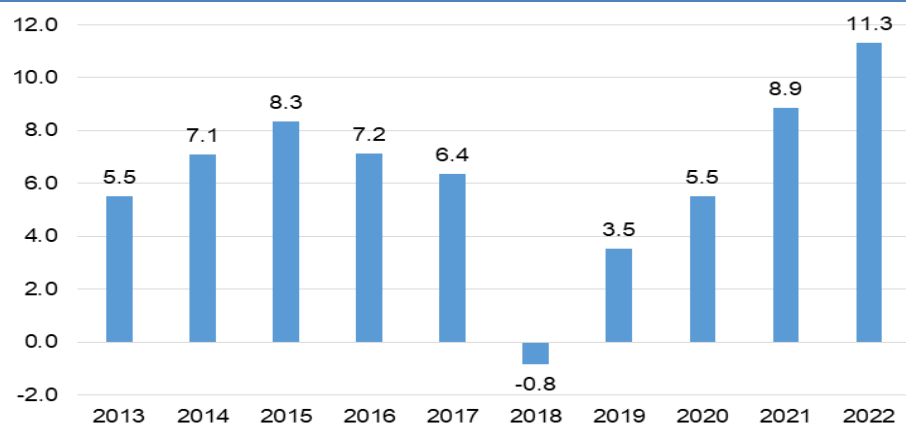
Singapore is home to many Malaysians, with 300-350k daily commuters crossing the Johor-Singapore causeway – making it one of the busiest border crossings in the world. As of 2019, there were nearly 1m Malaysians residing in Singapore. Based on data from the [UN's Department of Economic and Social Affairs](#), the number of Malaysian migrants in Singapore rose from 195,072 in 1990 to 952,261 in 2019. It is worth noting that these numbers do not include Malaysians who have become Singaporean citizens.

The COVID-19 lockdown saw a temporary breakdown in trade between Singapore and Malaysia, as well as a halt in commuters crossing the causeway. The local and cross-border travel restrictions made transport and logistics more costly, while tourism and recreational sectors in both countries contracted significantly.

Many companies faced interruptions in operations as staff were not able to travel to work, and unable to return home to be with family members. Hence, alternative connectivity and decentralised operations become increasingly important after the pandemic. This makes Johor a preferred location, given the close proximity to Singapore, cheaper land resources, and ample labour supply.

Foreign direct investment (FDI) flowing from Singapore to Malaysia continued to increase even during the lockdown period. While the dip in FDI in 2018 could be due to the change of government post the 14th General Election, FDI rebounded rapidly and surged to MYR11.3bn in 2022 – the highest level recorded in the last decade. Some industry players attributed this to the central bank's investor-friendly policies that allow repatriation of capital, the availability of labour supply, and the absence of language barriers.

Figure 4: Net FDI flows from Singapore to Malaysia from 2013-2022 (MYRbn)



Source: statista.com

The close geographical proximity between Malaysia and Singapore also enables greater bilateral trade. Integrated circuits, refined petroleum, palm oil, rubber apparel, and petroleum gas are amongst Malaysia's top export products, mostly sold to Singapore (USD49.6bn), China (USD47.9bn), the US (USD42.9bn), Hong Kong (USD19.2bn) and Japan (USD19bn). As for Singapore, integrated circuits, refined petroleum, gold, packaged medicaments, and machinery having individual functions are exported mostly to China (USD56.8bn), Hong Kong (USD54.5bn), the US (USD28.1bn), Malaysia (USD27.7bn), and Indonesia (USD18.4bn). According to the Observatory of Economic Complexity, the exports from Malaysia to Singapore have increased at an annualised rate of 4.5% in the last 26 years, from USD15.8bn in 1995 to USD49.6bn in 2021, while exports from Singapore to Malaysia have grown at an annualised rate of 2.58%, from USD14.3bn to USD27.7bn during the same period.

Also significant was Malaysian Prime Minister Datuk Seri Anwar Ibrahim's first official visit to Singapore after the 15th General Election. During the meeting with Singapore's Prime Minister Lee Hsien Loong, two agreements were signed to further strengthen bilateral cooperation and jointly seize opportunities in the digital economy and green economy. We believe both Malaysia and Singapore Governments will make further announcements and updates on the potential collaboration in the next meeting in 4Q23.

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Special zones to spur economic growth

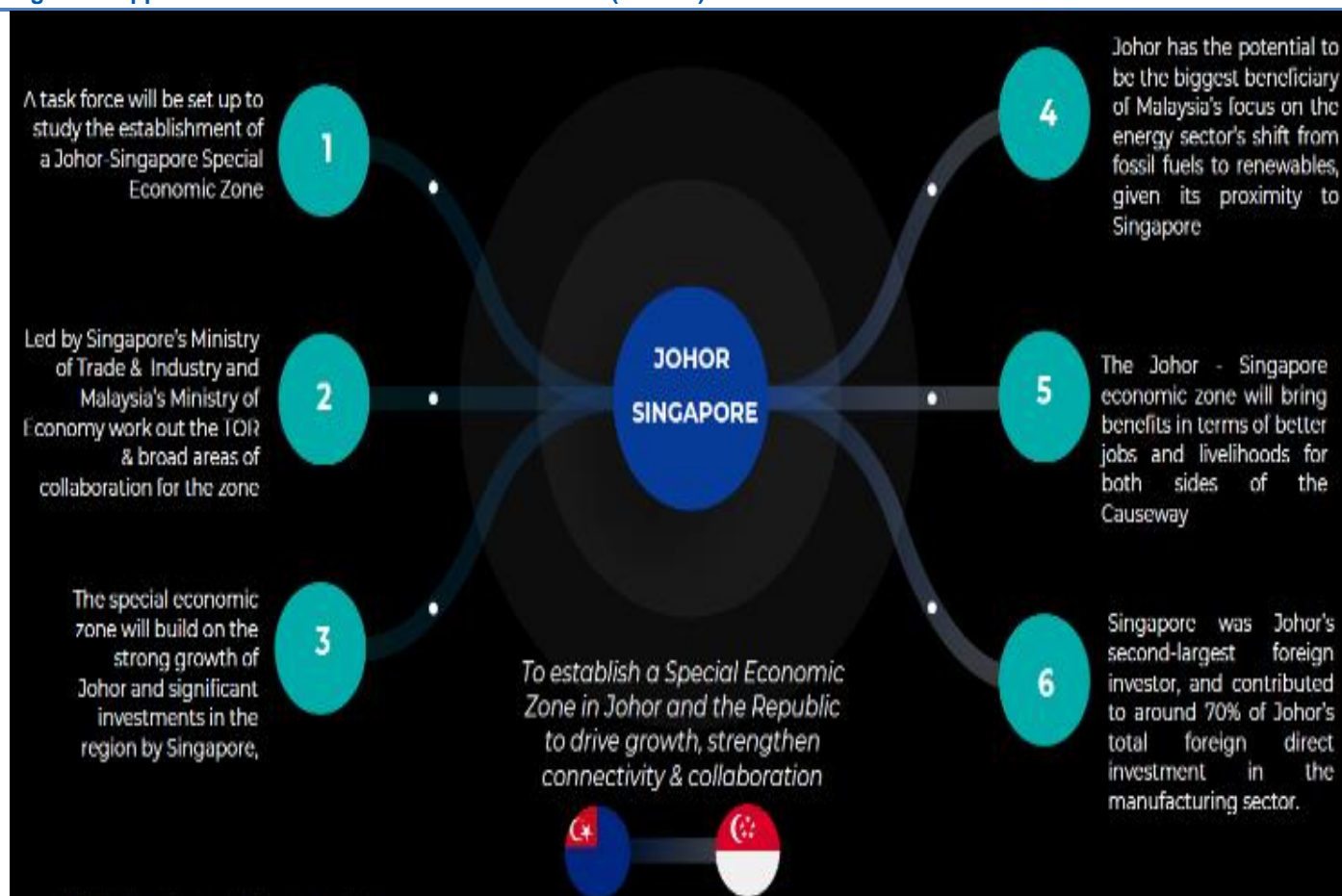
Malaysia and Singapore have agreed to set up a special task force under the Malaysia-Singapore Joint Ministerial Committee for Iskandar Malaysia (JMCIM) to study the establishment of a Johor-Singapore special economic zone (SEZ). Special economic zones refer to geographically delimited areas within a country's borders that offer well-developed industrial spaces with special legal regimes, rules, institutional environments, and incentives. The special task force will report its progress to the leaders when they meet at the 10th Malaysia-Singapore Leaders' Retreat in October this year. On the timeline and focus areas for the formation of the SEZ, Singapore's National Development Minister, Desmond Lee said the first task of the special task force was to draft the terms of reference and areas of collaboration.

More importantly, the JMCIM has begun studying initiatives related to transport connectivity, business ecosystem, tourism, and technical training skills. Therefore, the JMCIM would not be starting from a blank canvas to formulate the Johor-Singapore SEZ. Potential areas of cooperation may include transport connectivity, innovation, business ecosystem, environment, tourism, technical and skills training, as well as renewable energy.

Additionally, Prime Minister Anwar Ibrahim has planned to designate Forest City as a special financial zone (SFZ) to spur the economy in the IM region. Some of the incentives may include multiple entry visas, fast track entry for those working in Singapore, and a flat income tax rate of 15% (vs a 30% tax rate elsewhere) for knowledge workers. Such a zone will attract Singapore firms seeking lower labour, utility, and land costs while benefitting Malaysian businesses through partnerships and knowledge sharing.

We view all these positively, as it indicates that both the Malaysia and Singapore governments are working well together, and Johor may be able to capture a stronger inflow of investments from Singapore going forward.

Figure 5: Approved investments for each state in 2022 (MYRbn)



Source: Johor Corporation

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Rail transport to be further enhanced in Johor

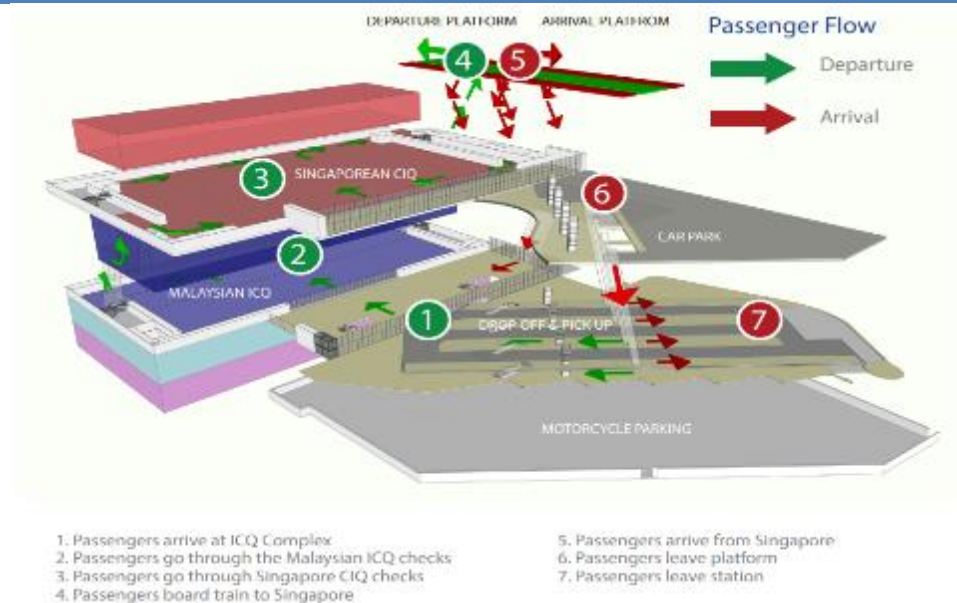
An ongoing major rail project in Johor at the moment is the RTS project (estimated investment of MYR3.7bn), which was 41% completed as of Jun 2023 and remains on track to begin operations by early 2027. The RTS is a cross-border rail service spanning 4km (2.7km in Malaysia and 1.3km in Singapore) with a large capacity of up to 10,000 passengers per hour, per direction, with a journey time of about five minutes between the Bukit Chagar and Woodlands stations.

Another important feature of the RTS is the co-location of an immigration, customs, and quarantine (ICQ) complex for Malaysia and Singapore in one building – enabling passengers to only undergo clearance once at their point of departure (see Figure 7). Upon arrival, passengers will just leave the station without needing to go through border crossing formalities again. This ICQ Complex is built adjacent to the RTS Bukit Chagar Station.

Figure 6: RTS alignment



Source: MRT Corp

Figure 7: Passenger flow at the ICQ Complex near Bukit Chagar Station

Source: MRT Corp

MyHSR Corporation is currently carrying out the request-for-information exercise for the Kuala Lumpur-Singapore HSR project, from July until November, to get concept proposals from interested contractors. Contract rollouts for the HSR may take place in the next two years or so, based on our estimates. Nonetheless, the Government's move to revive the HSR project, entirely funded by the private sector, provides a potential continuous flow of infrastructure projects for the country, in addition to spillover multiplier benefits.

Under the previous alignment of the HSR, there were three proposed stations in Johor – Muar, Ayer Keroh, and Iskandar Puteri. If these three HSR stations remain as per the previous plan, the project should provide multiplier effects for the surrounding areas.

Figure 8: Alignment and stations for the HSR under the previous proposal

Source: MRT Corp

Johor's pathway to becoming an industrial powerhouse

State-owned Johor Corporation is developing the 7,290-acre Ibrahim Technopolis (IBTEC) (estimated development period of 25 years) – an integrated industrial smart township project, comprising of technology-driven developments such as data centres, advanced

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electrical & electronic (E&E), logistics and warehousing, biotech, medical robotics, and automation machinery hubs, among others (see Figure 9).

The IBTEC includes the 700-acre Sedenak Technology Park (STeP) phase 1 and 676-acre STeP phase 2. We gather that the take-up rate for STeP phase 1 has reached 95% and the master plan for the 640-acre STeP phase 2 has received approval from the state government authorities.

One of the few notable data centre investors within STeP phase 1 include the Yondr Group, a global developer, owner, operator, and service provider of data centres. Yondr Group announced its entry into the Malaysian market in Mar 2022. Its hyperscale campus will be developed across multiple phases and deliver a total capacity of 200MW when fully completed, with the first phase scheduled for delivery in 2024. Another data centre provider is Princeton Digital Group, which plans to invest MYR2bn in Malaysia to develop a modern data centre campus with a 150MW capacity. The first phase of 60MW is expected to be ready to commence operations by the 2Q24. With access to at least 600MW of capacity, dark fibre connectivity, scalable utilities, and infrastructure, STeP is home to some of the largest data and cloud players within the South-East Asian region.

Figure 9: IBTEC Master Plan



Source: Johor Corporation

Figure 10: Data centre investors in STeP phase 1



Source: Johor Corporation

Property: Greater Johor Bahru In The Making

Overweight

Revival of the Iskandar property market

We think the Iskandar property market has moved on from the supply glut issue and the “scare” of Forest City. Since we last visited in 2019, we feel that things have changed and the momentum has picked up significantly in Johor, especially in areas surrounding the RTS station at Bukit Chagar. However, not all areas are blossoming, as some completed projects are still seeing prices going at 40% below the initial launching price. Hence, only projects that are strategically located, and commercial properties that are well-managed are popular among property buyers, investors, and tourists.

The RTS will be a game changer. The overall Iskandar property market is expected to benefit from the return of property buyers and investors – both locals and foreigners. This will further be boosted by increased spending from visitors from Singapore, which should benefit the retail and hospitality sectors in Johor. The completion of RTS at end 2026 will not only see more intense cross-border human traffic, but may also attract Malaysians from other states to relocate to Johor and work in Singapore in the future.

Currently, there are about 11 projects (Sky Suites, V Summer, Sky Habitat, Meldrum Heights, R&F Princess Cove Phase 1 & 2, Tri Tower, Twin Tower, Bukit Chagar Luxurious Apartment, SKS Pavilion, and Paragon Suites) surrounding the RTS station at Bukit Chagar, going at an ASP of MYR1-1.3k per sq ft. This is already on par with the prices of many condominiums in the KLCC area (aside from the branded ones). While some projects were launched in 2016-2018, some of the newer projects are seeing a strong take-up, mostly by Johor locals.

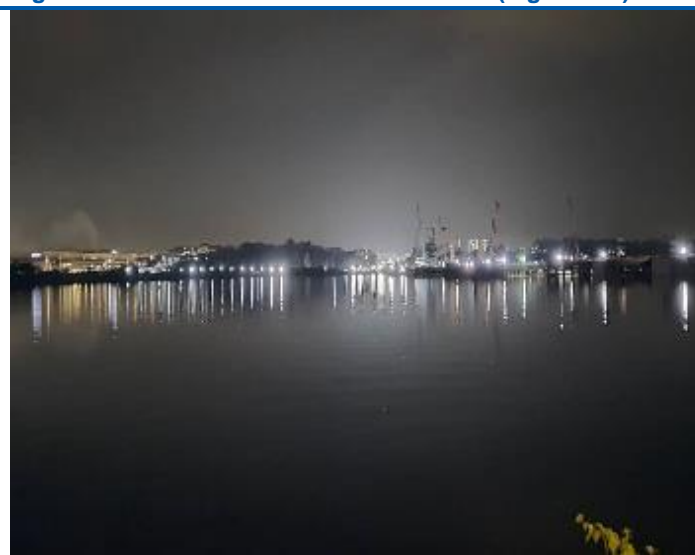
During our trip in July, we gathered that some Malaysians working in Singapore are already renting units near the RTS station, and the commuting time is two hours, one way. We note that, upon the completion of the RTS, the commuting time will be cut significantly to only five minutes. According to a news release by Singapore’s Land Transport Authority, the CIQ facilities of both countries will be co-located at the Woodlands North and Bukit Chagar stations, which means passengers only need to clear immigration authorities once (at their point of departure).

Figure 11: RTS across the Straits of Johor



Source: RHB

Figure 12: RTS across the Straits of Johor (night view)



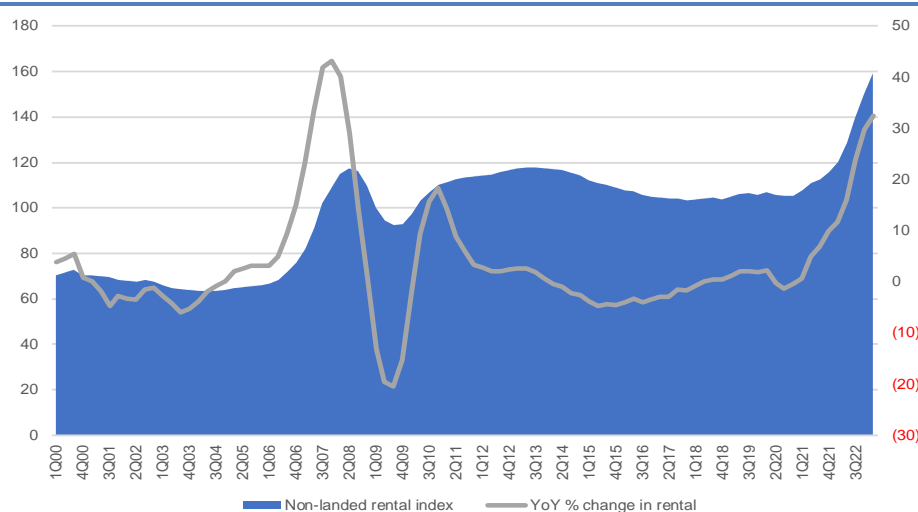
Source: RHB

Additional positive spillover from expensive rental and house prices in Singapore

Apart from the positive news flow, the expensive rentals and house prices in Singapore are also becoming a push factor for many Malaysians and expats working in Singapore to relocate to Johor, given the proximity and price differentials. Rentals for condominiums in Singapore saw a surge post pandemic – largely due to the delays in the construction works and completion of many housing projects – as well as pent-up demand due to the work-from-home trend (as the younger population opted to live separately from their parents in order to have personal space for a home office). In addition, the Singapore government significantly hiked the additional buyer's stamp duty (ABSD) for foreigners, from 30% to 60% at the end of April this year, mainly targeting foreign purchasers and local investors.

Therefore, we think houses near the Johor Bahru city centre (causeway), and perhaps the Second Link, will see increasing demand for rentals over the near term – given the price and rental gaps – while the completion of RTS and the upcoming HSR should drive demand for property in the Iskandar region over the longer term.

Figure 13: Rentals in Singapore surged post COVID-19



Source: URA

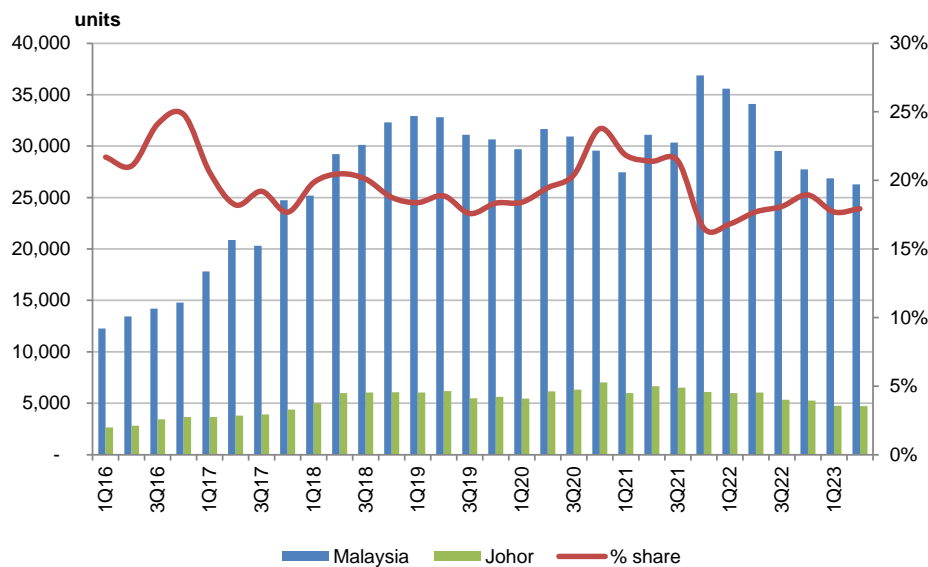
Is the property overhang still a major concern in IM?

While most investors are upbeat on the Johor thematic idea that we have been marketing since July, some expressed their concerns over the supply glut issue in IM. Admittedly, the IM region experienced a period of overbuilding in 2012-2014, and hence, the overhang units surged. Subsequently in 2018-2021, the glut gradually eased, in line with the overall trend for Malaysia. According to NAPIC data, the number of overhang units in Johor peaked at 7,030 in 4Q20, and has since eased to 4,717 in 2Q23.

We believe the overhang units will continue to trend lower in the coming years, given that:

- i) The Johor state government issued a freeze on new applications to construct serviced apartments in 2015, possibly only applied to certain locations (and not across the board);
- ii) many major listed developers have been aggressively winding down their completed unsold inventory since 2017;
- iii) developers cut down their launches during the property market slowdown in 2015-2020.

Therefore, with new catalysts from the completion of major transport infrastructure such as the RTS, we think that not only will the overhang units fall further, new demand can also be created, supported by the influx of foreign and domestic direct investments.

Figure 14: Residential overhang units for Malaysia and Johor are trending down

Source: NAPIC

Property sales in Johor picking up

The growing property sales in Johor recorded by major developers is strong evidence that the IM property market is not as bad as initially perceived. Other than UEMS, which was temporarily diversifying away from the Johor market with its other major launches in the Klang Valley, many tier-1 developers have experienced increasing sales from the Johor region over the last three years. We also note that the sales that these developers secured were very much from the landed residential as well as commercial products from their respective ongoing township projects. New launches of high-rise residential developments have been scarce in the recent years.

In our opinion, demand for high-rise apartments is still largely concentrated in the Johor Bahru city centre, in anticipation of the expected increase in rental demand in the coming years. We think the size of the city centre will expand in the longer run, given the scarcity of land, mirroring the trend seen in Kuala Lumpur (from the Kuala Lumpur city centre to Greater Kuala Lumpur).

Figure 15: Increasing property sales from IM reported by major developers

Company	Property Sales (MYRm)				
	FY20	FY21	% change	FY22	% change
UEM Sunrise	684	419	-39	368	-12
Sunway	63	78	24	111	42
Eco World	608	1,109	82	1,302	17
SP Setia	415	556	34	615	11
IOI Properties	359	515	43	772	50
Mah Sing	175	157	-10	366	133

Source: Company

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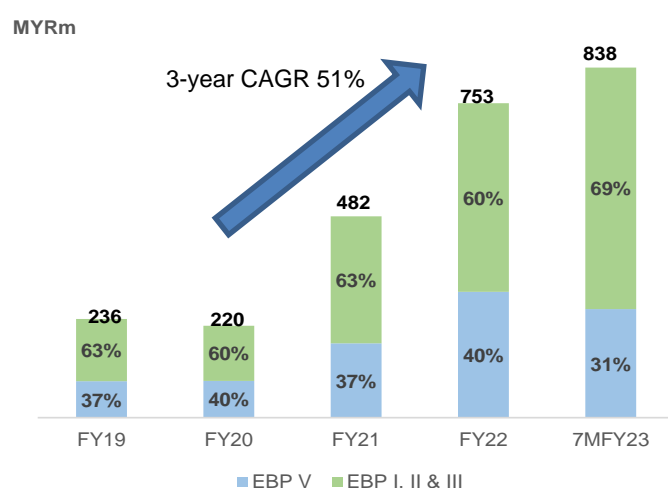
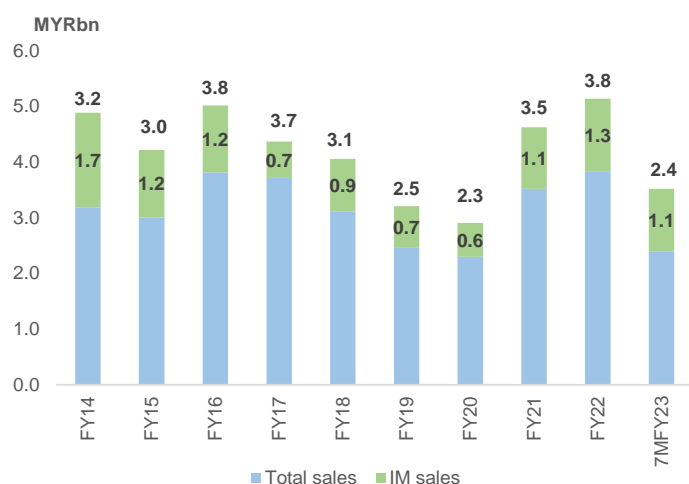
IM an important market for Eco World

Eco World has seven ongoing projects in IM, comprising four township projects and three business parks, spread across the eastern, central/northern, and western parts of Johor. Since its first project in IM in 2013, the company has sold more than 10,700 units of properties worth MYR10.45bn, despite the slowdown in the overall property market. From FY14 to FY22, Eco World, on average, sold over MYR1bn worth of properties in IM every year. For 7MFY23, it has already raked in MYR1.1bn worth of sales from this region alone.

As shared by Eco World president and CEO Dato' Chang Khim Wah during our recent Johor thematic virtual corporate day, the company saw a strong pick-up in industrial properties in recent years. Sales from all of Eco World's business park projects recorded a 3-year CAGR of 51% from FY20-22 (MYR220m to MYR753m), and the three business parks in Johor contributed 60-70% of the total sales from all business parks. Chang attributed the success to the well thought-out designs, good infrastructure in place (including sufficient water and electricity supply), as well as various assistances to customers, including pre-assessment tests for the Department of Environment, incentives and financing facilitation, business licensing, renovation and fit-out advice, manpower recruitment, and moving-in assistance.

Figure 16: Eco World's annual sales and contribution from IM

Figure 17: Sales contribution from Eco Business Parks I, II, & III in Johor vs Eco Business Park V in the central region



Source: Company

Source: Company

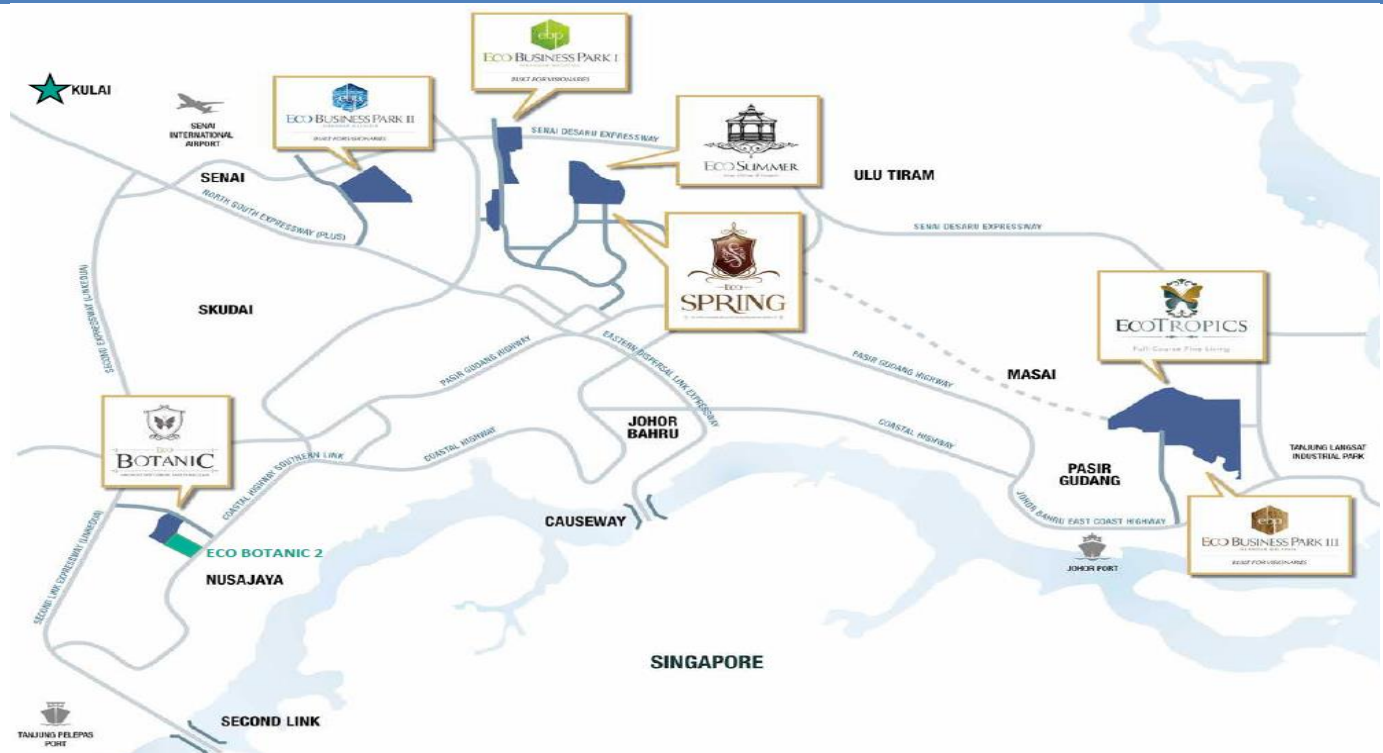
He also highlighted that Haitian Group, a leading industrial equipment manufacturer from China, has bought 92 acres of industrial land at Eco Business Park II (EBP II), Senai, in March this year. Haitian is expected to invest more than MYR1.5bn in the new plant, and management indicated this will have a highly catalytic effect in helping to draw in other upstream and downstream businesses going forward by creating value for the remaining land at EBP II.

The company's recent acquisition of 404 acres of land in Kulai echoes management's confidence in the IM property market. The purchase consideration of MYR211m translates to a land cost of MYR12psf, which is reasonable for a big raw agricultural parcel. The land is intended for another industrial development called Eco Business Park VI, with an estimated GDV of MYR1.58bn. Chang stated that the land is located near the Senai International Airport and surrounded by old industrial areas, with little new competition in the vicinity and immediate manpower supply. Management targets to launch this new business park in 2024.

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Figure 18: Eco World's footprint in IM (including new land in Kulai)



Source: Company

IIBD to transform Johor Bahru Central Business District

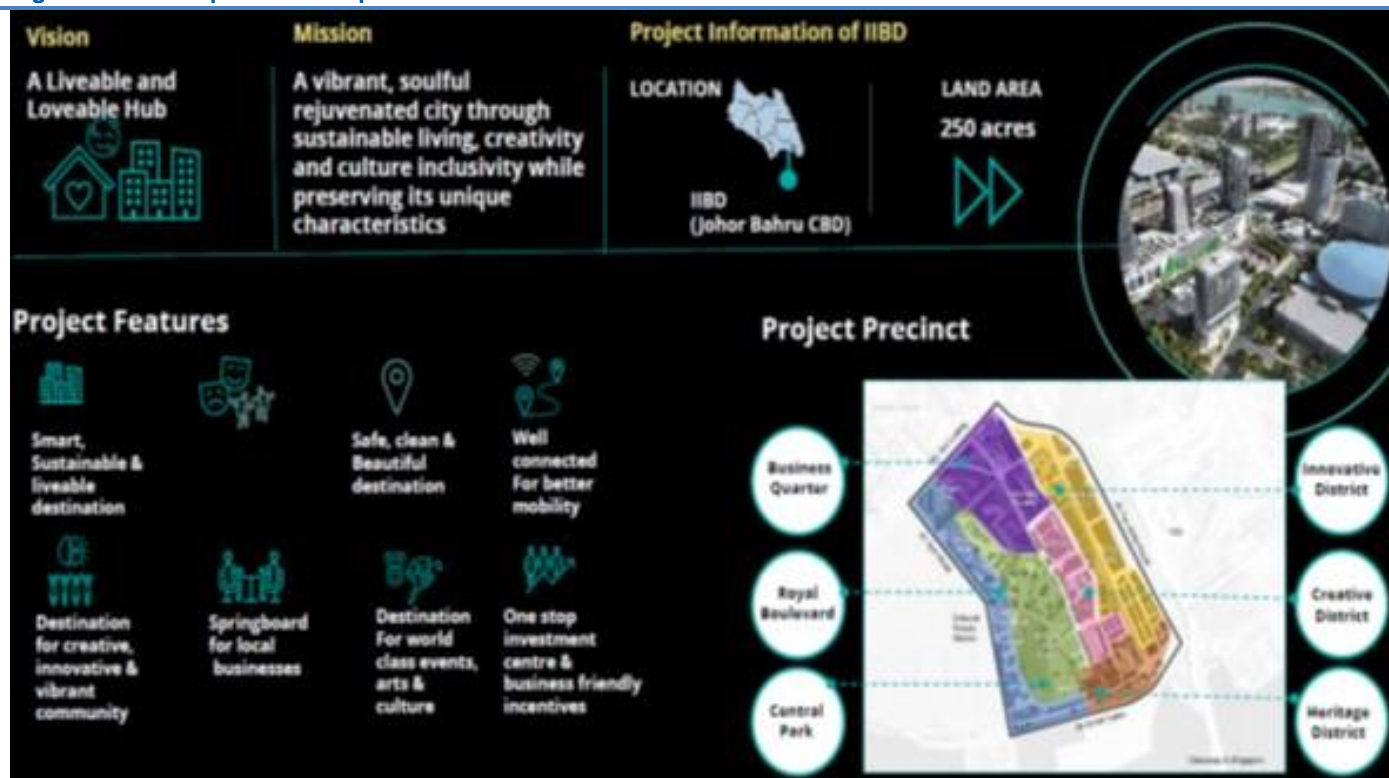
During our Johor thematic virtual corporate day, Johor Corporation shared with us the development plan for the Ibrahim International Business District (IIBD). The 250-acre IIBD is bordered by Jalan Ayer Molek, Jalan Tun Sri Lanang, Jalan Tun Abdul Razak, and Jalan Sultan Ibrahim, and is a transformation plan developed by Johor Corporation to turn Johor Bahru into a “metropolis of international standards”. It was reported in the media that IIBD has an estimated GDV of MYR20-25bn. However, no timeline was given on the completion.

There are six districts in IIBD – Business Quarter, Royal Boulevard, Central Park, Innovative District, Creative District, and Heritage District. Coronation Square sits on a 6.3-acre site in IIBD.

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Figure 19: Development concept for IIBD



Source: Johor Corporation

Developers with landbank near causeway/RTS and second link will do well

While there are many landowners in Johor, we think developers with landbank at strategic locations will be the initial winners. The subsequent performances of the projects will depend on the developers' ability to nurture the areas.

We believe that the RTS and HSR projects will be key catalysts for the Iskandar property market to grow, and the connectivity and convenience at CIQ will be the major factors driving the long-term growth. UEMS is the best proxy for Iskandar property market recovery, given that 92% of its landbank in the portfolio is located in Johor, and its 2,461 acres of land in Gerbang Nusajaya is expected to benefit from the upcoming HSR as the proposed Iskandar Puteri station (under the previous plan) will be located there. Likewise, Sunway should also benefit, given its 1,600 acre landbank near the second link. Other developers with landbank further away from the second link will likely have more visible growth in the longer run, as the HSR project works progresses and more foreign and local investments flow into Johor.

Given the scarcity of land in the Johor Bahru city centre area, none of the developers under our coverage have exposure to the RTS station at Bukit Chagar, except for LBS. The company has a 5.5-acre land at Jalan Dato' Dalam (the previous Rasa Sayang Hotel site), and plans to inject into a consortium as part of the proposed development of LRT – an inter-city transport system that will connect to the RTS station. We expect more news flow to surface next year as a feasibility study is currently ongoing.

Figure 20: Developers' exposure to the Johor property market

	Total remaining land in Johor (acres)	Total landbank portfolio (acres)	% exposure
UEMS	7,877	8,533	92%
IOIPG	5,448	8,827	62%
Mah Sing	1,120	2,342	48%
Eco World ^	1,404	3,460	41%
SP Setia	2,189	7,903	28%
Sunway	1,632	3,063	53%
Sime Prop	3,200	19,811	16%

Note: ^ Included the new acquisition of 404 acres in Kulai

Source: Company, RHB

The vision for Johor

Deputy Minister of International Trade and Industry, Liew Chin Tong, whose parliamentary and state seats are Iskandar Puteri and Perling, cited that Greater Johor Bahru should be positioned as the nation's second metropolitan region after the Klang Valley (*from The Edge Malaysia's 4 Sept 2023 report*). If done well, it will power Malaysia's second economic take-off.

During several media interviews in the past, Liew has repeatedly mentioned that companies currently based in Singapore could set up an office in Johor while continuing to maintain a presence in Singapore. By stationing some parts of their business operations in Johor, these companies can save on other operation costs while paying their workers at least two-thirds of the pay in Singapore. This, in turn, will help to shift the wage structure of Johor. When more Malaysian workers receive a better pay in Johor, fewer will need to travel to work in Singapore. Meanwhile, consumption in Johor will thrive further through integration, creating a population with better income level.

In our opinion, this is not an unrealistic vision. Unlike 20 years ago, we think both Malaysia and Singapore Governments have better cooperation today. While there could be some level of competition for FDIs, both Johor and Singapore can complement each other in economic, infrastructure, energy, connectivity, housing, and trade aspects. Apart from the collaboration on Johor-Singapore special economic zone, both Governments are already in discussions to launch additional ferry services between Johor and Singapore (Tanjung Pengelih-Singapore, Desaru-Singapore) and have agreed to access the viability of a potential new service between Puteri Harbour and Tuas.

With better connectivity and smoother process in the CIQ in future, long-term housing demand will come from: i) Population growth in Johor; ii) workers or retirees from Singapore; iii) return of talents; and iv) relocation of Malaysians from other states to work in Johor or Singapore.

Construction: Pockets of Opportunities Await In Johor

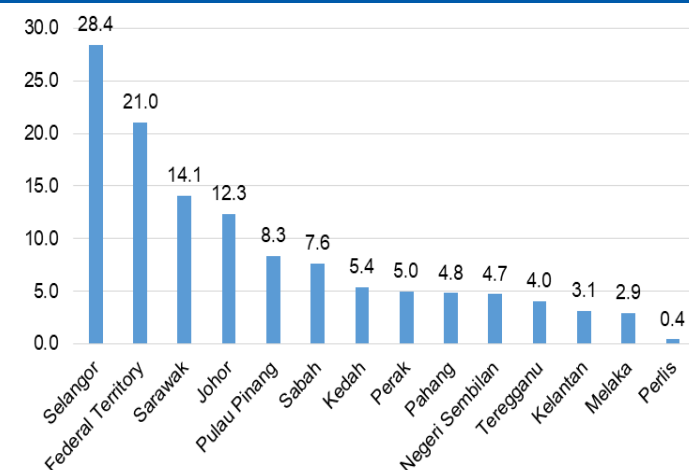
Overweight

Ramping up construction activities in Johor

Keep OVERWEIGHT, Top Picks: Gamuda, SunCon, and Kerjaya Prospek. The construction sector contributed 2.8% to Johor's GDP in 2022 as other sectors, ie agriculture and manufacturing, saw higher levels of GDP contribution. In the same year, Johor recorded MYR12.3bn in value of construction work done – the fourth largest after Selangor, Federal Territories, and Sarawak. The value of construction work done in Johor reached MYR3.8bn in 2Q23 – the highest in 13 quarters. It is notable that the MYR3.8bn in value of construction work done in Johor during 2Q23 was the second largest in the country – only behind Selangor's MYR7.5bn.

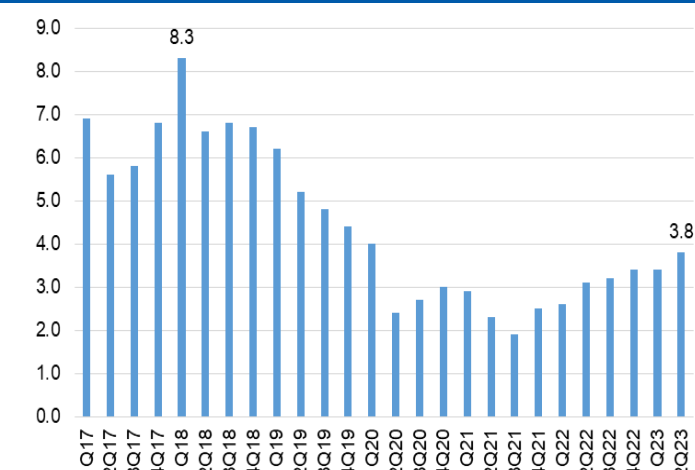
Industrial buildings saw the highest value of work done in Johor. The non-residential sub-sector contributed the most to Johor's value of construction work done in 2Q23 at MYR1.4bn (+46% YoY) or 36% – indicating the robust demand for industrial and commercial properties in the state. The civil engineering subsector was the second largest contributor to Johor's value of construction work done in 2Q23 at MYR1.3bn (+32% YoY) or 34% – in line with various infrastructure projects in the state.

Figure 21: Value of construction work done by states in 2022 (MYRbn)



Source: Department of Statistics Malaysia

Figure 22: Value of quarterly construction work done in Johor (MYRbn)

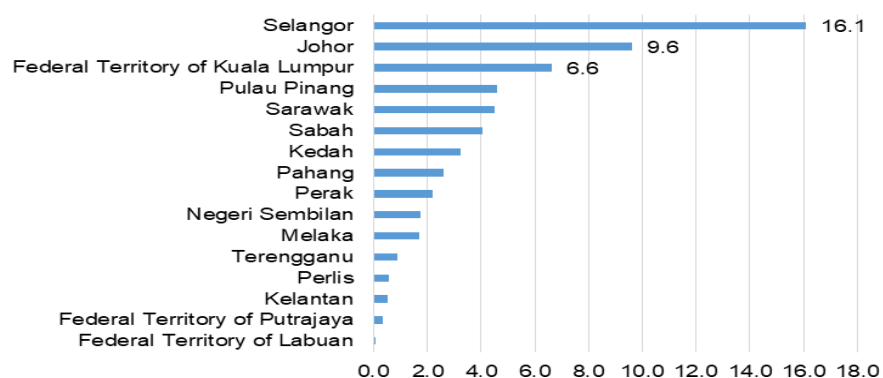


Source: Department of Statistics Malaysia

Johor is also the state with second largest value of projects awarded for 8M23. Based on data from the Construction Industry Development Board (CIDB), Johor has seen MYR9.6bn worth of construction projects awarded as of end Aug 2023 – spread across 913 projects. Johor is just behind Selangor, which saw the largest value of projects awarded YTD23 worth MYR16bn – spread over 1,423 projects. This coincides with the boom in industrial buildings such as data centres, warehouses, and infrastructure projects, ie RTS.

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Figure 23: Value of projects awarded in states (MYRbn) as of end Aug 2023

Source: CIDB

Johor Bahru-Singapore RTS Link offers opportunities for contractors

The most active big ticket infrastructure project being constructed in Johor at the moment is the RTS project. Ekovest's wholly-owned subsidiary (Ekovest Construction) was appointed by Malaysia Rapid Transit System (MRTS) as the collaborative partner to Adil Permata (APSB) – the main contractor of the RTS project. Subsequently, Ekovest was later awarded a MYR2bn contract by APSB for the engineering, procurement, and construction (EPC) of the RTS project.

Besides Ekovest, other contractors also had the chance to secure work packages under the RTS project. Several notable ones include Sunway Construction, Gadang (GDG MK, NR), and Econpile (ECON MK, SELL, TP: MYR0.14) that have clinched contracts worth a total project value of c.MYR1.4bn to date. As of June 2023, the RTS project is 41% completed and we gather that there are still some work packages yet to be awarded – spelling opportunities for contractors. For instance, SunCon is participating in the tenders for packages 2A and 2B for the ICQC.

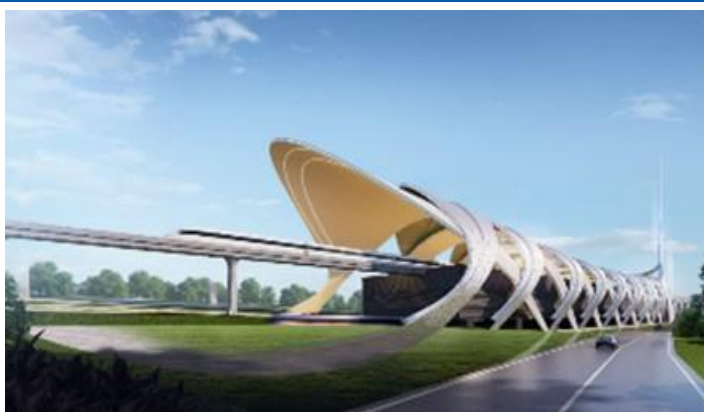
Figure 24: Contractors involved in JB-SG RTS Link (completion expected by end of 2026)

Contractor	Remarks	Contract value (MYRm)
Ekovest	Awarded by APSB, with Ekovest appointed as EPC contractor	1,980
Sunway Construction	Awarded by APSB for package 2A (piling works for ICQC)	111.5
Sunway Construction	Awarded by Mass Rapid System for package 1B (advance station works) and package 5 (terrestrial viaducts and ancillary structures)	604.9
Gadang Holdings	Awarded by APSB for package 4 (Bukit Chagar station and operation control centre) and package 6 (depot and power supply system)	680
Econpile	Awarded by Ekovest for package 2A (piling works for ICQC)	40

Source: Various media

Figure 25: Bukit Chagar Station RTS site

Source: Aldenisme Youtube Channel

Figure 26: Artist impression of Bukit Chagar Station

Source: MRT Corp

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Figure 27: Wadi Hana depot site

Source: Southern Corridor Malaysia Youtube Channel

Figure 28: RTS Link bridge from Johor Bahru

Source: Aldenisme Youtube Channel

Contractors getting a slice of the pie from data centres

The blooming data centre space in Johor (as mentioned in the earlier section) has also benefitted contractors. Suncon appears to be the biggest beneficiary after securing a MYR1.7bn project to construct a data centre campus in STeP. Data centre projects often have a shorter turnaround time due to the higher industrialised building system (IBS) component. This particular JHB1X0 project of MYR1.7bn has an estimated timeframe of 24 months compared to normal construction jobs of MYR400-500m, which has a tenure of between two to four years on average. This translates into faster billing recognition from data centre projects, and enables contractors like SunCon to venture into new data centre jobs – especially within STeP, which has seen an influx of data centre providers.

Figure 29: Artist impression of JHB1X0 data centre by Yellowwood Properties and SunCon

Source: Sunway Construction

Figure 30: Project site of JHB1X0 data centre in STeP

Source: Sunway Construction

We are also cognisant of other contractors being involved in data centre projects, not just in Johor, but also in Cyberjaya, Selangor. It is worth noting that AIMS Data Centre awarded Gamuda's subsidiary, Gamuda Engineering, with a MYR170m job to construct a data centre in Cyberjaya in Feb 2023, according to CIDB's database, with an estimated completion target by end CY23. While no exact details were mentioned in CIDB's database, we believe that the data centre could be the AIMS Cyberjaya Block 2 with a capacity of 8MW – in which Gamuda will be utilising its "Next-Gen Digital IBS" solution via Industrial Revolution 4.0 technology.

While this job may not appear material at less than 1% of its MYR21.5bn outstanding orderbook, Gamuda's foray into data centres may provide a source of diversification to enable the group to gain a foothold to be in the running to win larger jobs in data centre growth areas, eg STeP.

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Figure 31: Contractors involved in data centres (not just limited to Johor)

Contractor	Remarks	Contract value (MYRm)
Sunway Construction	Awarded by Yellowwood Properties to be the general contractor for Project JHB1X0 in STeP (Dec 2022)	1,700
HSS Engineers (HSS MK, NR)	Awarded by Yellowwood Properties to provide project management services for a data centre campus and its electrical substation at STeP, Johor. (Jan 2023)	8.8
HSS Engineers	Awarded by China State Construction Engineering for the provision of professional engineering design and consultation services in respect of the proposed data centre at Cyberjaya for Infinaxis Data Centre. (May 2023)	8.9
MN Holdings (MNHB MK, NR)	Awarded by Rentak Segar for the installation, testing and commissioning of 33KV aluminium cross-linked polyethylene and 132KV copper XLPE single core underground cables and accessories from transmission main intake in Gelang Patah to AirTrunk Data Centre, Johor. (Jul 2023)	11.2
PMX Malaysia	Main contract for project Butterfly 03 (MY06 Phase 03) – a new 53MW IT, Greenfield Data Centre (Phase 3) for Bridge Data Centres Malaysia III in Kulai Johor	510
Gamuda	Construction of AIMS Data Centre in Cyberjaya (Feb 2023)	170

Source: Various media

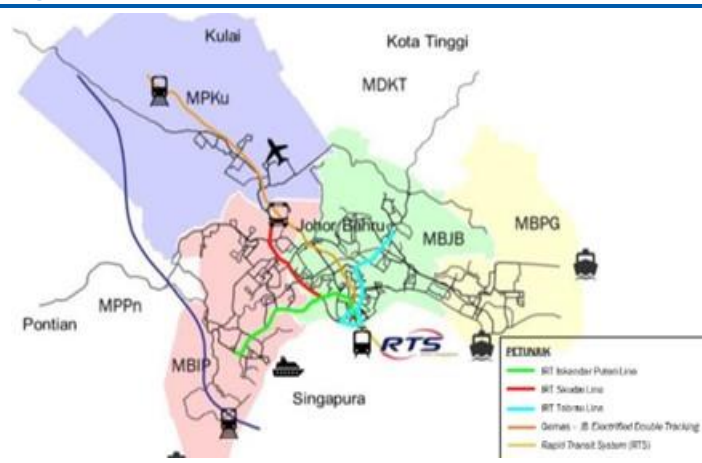
Iskandar Rapid Transit – promoting seamless mobility for IM

Another major infrastructure project in Johor, particularly within the IM region, is the Iskandar Rapid Transit (IRT) project – a planned bus rapid transit system. The project has received a MYR1.1bn allocation via government development funds in the 11th and 12th Malaysia Plan. The IRT is planned to cover three main trunk lines, which extends to Skudai, Tebrau, and Iskandar Puteri (Figure 32).

The IRT provides extensive coverage. In addition, the three IRT trunk lines are complemented by 46 feeder- and 33 direct-line services (Figure 33), bringing the total network coverage to 1,633km – approximately 90% of the populated area of IM. These are planned to be served by c.8m midibuses and c.12m regular buses. The implementation of Bus Rapid Transit (BRT) will also complement and offer transfers to/from other transport infrastructure projects in the Johor region, ie RTS (Figure 34), and the Gemas-Johor Bahru double-tracking project.

Figure 32: Three IRT trunk lines

Source: Iskandar Region Development Authority (IRDA)

Figure 33: Direct and feeder lines of IRT

Source: IRDA

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Figure 34: Proposed types of buses for IRT



Source: IRDA

Figure 35: Strategic connection between IRT and RTS Link at KOMTAR station



Source: IRDA

Opportunities for contractors under IRT

Back in 2019, HSS Engineers bagged a MYR71m contract from IRDA to provide detailed design and construction supervision services for the first BRT in Johor, which is now known as IRT. Meanwhile, there are six civil construction packages for the IRT, with one already awarded to NZ Bina, according to IRDA. Construction of the IRT is expected to begin in Oct 2023 – with operations of the Iskandar Puteri Line targeted to commence by 2Q25 while the Skudai and Tebrau Lines set to begin by 4Q26.

We gathered that MRCB has submitted a tender for a construction package for the IRT project at more than MYR400m. This project will not be MRCB's first in Johor as it was the contractor for the Larkin Indoor Stadium for Johor Land worth MYR58.9m in 2017. Another contractor with experience in BRT-related projects is SunCon as it was involved in the BRT Sunway Line (5.4km) – the first BRT project in Malaysia for a contract value of MYR452m. The BRT Sunway Line was implemented under the public-private partnership programme between Prasarana Malaysia and Sunway.

Separately, there are opportunities to construct and develop transit-oriented developments (TOD) at the three hubs in order to encourage ridership. Mixed-income TOD concept of urban planning will attract people to live, work, and play around and along IRT alignments. TOD is MRCB's forte – backed by its track record in developing Kuala Lumpur Sentral and Penang Sentral.

IM's population currently stands at approximately 2.4m, of which 844,000 people are projected to benefit from the IRT. The IRT is also expected to pave the way for the creation of up to 35,000 new job opportunities and 30-35% in savings for those using public transport. Hence, it is a project of high importance for Johor.

HSR – a major catalytic development for Johor's construction space

The HSR project is a potential opportunity as there were three stations (Muar, Batu Pahat, and Iskandar Puteri) under the previous plan. If the plan remains the same, contractors may not only benefit from constructing the infrastructure elements, but also the spillover effects from the property sector. MyHSR Corporation is currently carrying out the request for information (RFI) exercise, whereby interested contractors may purchase the RFI document and submit a concept proposal by Nov 2023 to be shortlisted for the detailed proposal stage.

From the civil construction front, note that two consortiums were previously appointed as the project delivery partner for the northern and southern portion of the HSR project in 2018. The northern portion was awarded to the consortium comprising Syarikat Pembinaan Yeoh Tiong Lay and TH Properties – covering the first standard viaduct pier on the south side of Melaka station to the international boundary between Malaysia and Singapore.

Figure 36: Contracts previously awarded under HSR prior to cancellation in 2021

Consortiums	Section	Remarks
MRCB and Gamuda	PDP for northern portion	Bandar Malaysia station to the contract boundary, which is the first standard viaduct pier on the Melaka station's south side.
TH Properties and Syarikat Pembinaan Yeoh Tiong Lay	PDP for southern portion	First standard viaduct pier on the south side of the Melaka station to the international boundary between Malaysia and Singapore.

Source: Various media

From the property segment front, contractors that have a strong foothold in building projects, particularly in IM, may have a high chance of securing more property construction jobs in the said area. It is still uncertain if the stations and alignment under the previous proposals will be maintained, but we think the project is very likely to yield positive economic impact to both Johor and KL. In our view, the Iskandar Puteri station should be kept, as both countries will be able to boost the economic growth in new areas near the second link – Gerbang Nusajaya in Johor as well as Jurong East in Singapore. SunCon is a clear winner, with Sunway having 1,632 acres of land in Sunway Iskandar (GDV: MYR29bn) near the second link.

Even before SunCon's foray into the data centre space via the MYR1.7bn contract in STeP and the packages for the RTS project worth MYR605m – it was already involved in a variety of projects there. SunCon has previously completed c.MYR1.7bn worth of projects in Johor spread over 12 contracts – mostly residential and commercial but also some industrial and infrastructure works. Out of the c.MYR1.7bn worth of completed projects by SunCon in Johor – c.62% was awarded by Sunway and is related to the Iskandar region (Figure 37).

Figure 37: Projects undertaken by SunCon in Johor (excluding data centre project in STeP and the RTS project – not exhaustive)

Work Packages	Value (MYRm)
Sunway Big Box Office, Sunway City Iskandar Puteri	51
Sunway Big Box Hotel, Iskandar	99
Emerald Residence, Iskandar	174
Sunway Big Box Retail, Johor	200
Emerald Boulevard 88, Iskandar	56
Coastal Highway Southern Link	170
Sunway Citrine, Iskandar	212
Sunway Iskandar International School	27
Sunway Lenang Heights	95
Urban Wellness project	282
Legoland Malaysia	257
Bio-Xcell plant	121
Total	1,744

Source: Company

Another contractor with exposure in Johor – particularly IM – is Kerjaya Prospek, which has a contract value of c.MYR1.3bn of residential projects in Johor (Figure 38). Although most of Kerjaya Prospek's orderbook comes from the Klang Valley and Penang, we do not discount the possibility of Johor being the next contributor for job replenishment.

Figure 38: Johor-related projects of Kerjaya Prospek

Project awardee	Remarks	Contract value (MYRm)
Nuri Merdu Building Communities & Beyond	Avira Garden Terraces Phase 1A @ Medini Iskandar	150
SP Setia	The Elysia Park Residences @ Medini Iskandar	313
SP Setia	Sky Peak Residences @ Johor Bahru	118
SP Setia	Sky 88 -Sora & Nube@ Johor Bahru	298
SP Setia	Sky 88 –Altus @ Johor Bahru	165
Teguh Harian Build-Tech S/B	Residential Development Project @ Kampung Bendahara	258

Source: Company

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Figure 39: Property and construction valuations table (as at 12 Sep 2023)

Property sector	FYE	Price (MYR/s)	Target (MYR/s)	Mkt Cap (MYRm)	P/E (x)		EPS Growth (%)		P/BV (x)	P/CF(x)	ROE (%)	DY (%)	Rec	ESG
					FY23F	FY24F	FY23F	FY24F	FY24F	FY24F	FY24F	FY24F		
Sunway	Dec	1.93	2.65	9,562	15.9	14.7	5.5	7.8	0.9	14.3	6.0	2.8	Buy	3.4
Sime Darby Property	Dec	0.69	0.93	4,659	16.2	15.3	4.6	6.1	0.5	13.6	3.1	2.6	Buy	3.1
UEM Sunrise	Dec	0.68	0.92	3,414	41.5	39.6	11.0	4.9	0.5	20.3	1.2	0.0	Buy	2.9
Mah Sing	Dec	0.78	0.98	1,881	9.2	8.2	13.4	12.4	0.5	4.9	6.1	4.6	Buy	3.0
Matrix Concept ^A	Mar	1.49	1.88	1,865	7.9	7.4	13.3	6.1	0.8	8.2	11.7	7.0	Buy	3.1
LBS Bina	Dec	0.55	0.80	847	7.0	6.6	(3.0)	5.8	0.6	23.5	9.3	4.6	Buy	3.0
IOI Prop	Jun	1.60	2.00	8,810	10.1	11.5	60.4	(11.8)	0.4	8.2	3.4	3.8	Buy	2.9
SP Setia	Dec	0.86	0.93	3,510	12.8	12.5	0.8	2.3	0.2	3.5	2.0	1.9	Buy	3.0
Eastern & Oriental ^A	Mar	0.58	0.55	983	16.8	13.8	176.9	21.6	0.4	4.4	3.0	0.0	Buy	2.9
UOA Dev	Dec	1.72	1.86	4,284	19.4	17.5	(6.6)	11.0	0.8	25.1	4.6	5.8	Neutral	2.9
Tambun Indah	Dec	0.84	1.03	369	7.2	6.2	(15.9)	16.1	0.5	5.4	7.7	7.7	Neutral	3.0
Sector Avg					12.9	12.5	20.8	1.1						
Construction sector														
Gamuda ^A	Jul	4.32	5.27	11,647	13.7	12.6	(2.0)	9.1	1.0	13.6	8.5	2.8	Buy	3.1
Sunway Construction	Dec	1.82	2.22	2,347	17.4	14.8	(6.1)	17.8	2.7	11.4	19.3	4.1	Buy	3.3
MRCB	Dec	0.44	0.55	1,966	41.5	32.2	1.5	29.1	0.4	2.6	1.3	2.3	Buy	3.0
Kerjaya Prospek	Dec	1.21	1.50	1,526	11.3	9.7	16.4	17.0	1.2	9.1	12.3	7.0	Buy	3.0
KKB Engineering	Dec	1.44	1.90	416	14.7	12.9	114.2	14.1	1.0	7.1	7.7	3.9	Buy	3.0
Pintaras Jaya ^A	Jun	1.54	1.94	255	n.m.	33.5	(130.2)	188.7	0.6	10.6	1.9	1.3	Buy	2.9
MGB	Dec	0.70	1.10	414	9.5	7.1	193.8	33.1	0.7	5.6	9.7	2.8	Buy	3.0
Gabungan AQRS	Dec	0.37	0.43	201	4.1	4.4	60.9	(8.0)	0.3	2.1	6.9	2.7	Buy	2.9
IJM Corp ^A	Mar	1.74	1.74	6,101	19.3	18.1	15.5	7.0	0.6	8.9	3.4	3.3	Neutral	3.0
Advancecon	Dec	0.30	0.26	170	74.6	44.9	108.1	66.0	0.8	(7.7)	1.8	0.4	Sell	2.9
Econpile ^A	Jun	0.27	0.14	376	n.m.	26.5	18.5	140.8	0.9	2.6	3.6	0.9	Sell	2.8
Sector Avg					16.4	14.2	0.2	10.6						

Source: Bloomberg, RHB

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