

Real Estate

Overweight (Maintained)

When Technology Meets Real Estate

- OVERWEIGHT.** Some Malaysian property developers may gradually transform into real estate players in the coming years. The residential segment may be crowded, but the industrial segment is fast-rising, and developers with sizeable landbanks in Johor and the Klang Valley, as well as solid balance sheets, are more likely to seize opportunities. Meanwhile, the data centre (DC) segment in Malaysia has also benefitted from US-China trade tensions as companies better manage their geopolitical risks. Developers with exposure to the industrial segment should more likely record better earnings growth, ie UEM Sunrise (UEMS), Sime Darby Property, Mah Sing, AME Elite Consortium and Eco World (ECW MK, NR).
- Key consideration for DC site selection.** DCs need stable and reliable power and water supply and, more importantly, connectivity (ie fibre optic infrastructure). As such, DCs typically will not be built in remote areas due to the high cost to be incurred for infrastructure development. Areas closer to the “source” are preferred (Singapore is the epicentre of DCs in South-East Asia). As such, Johor is said to be in a strategic location due to low latency access and easier operational coordination and management. DC players can choose either to tap on the Singapore network or rely on the current submarine cable in Malaysia, for connectivity. Elsewhere, Cyberjaya – a technology hub with good infrastructure and connectivity, has long been a focal point for DC investments.
- Developers with sizeable landbank to benefit from the DC wave.** We think players with vast landbank will likely be able to capture opportunities, especially those with land that come equipped with ready infrastructure and located not far from major cities. UEMS, Sime Darby Property, SP Setia, Mah Sing, ECW and AME Elite Consortium are potential developers that may benefit from demand for DCs, given the location, amenities and infrastructure of their existing landbanks. As DCs have to be distant from residential and commercial property areas due to strict security reasons, developers may choose to have DCs set up in their existing industrial parks.
- Opportunities for developers.** Recent land transactions by DC players have certainly set a new pricing benchmark for industrial land nearby, and we gather that more are entering the fray. More developers may consider: i) Co-investing with DC users, or ii) building and leasing shell and core DC facilities for recurring income, or iii) forming a JV with a DC operator for co-location facilities. A stable of DC facilities would provide monetisation opportunities in the future – given the long-term nature of DC operations.
- Industrial: An increasingly important segment.** Since the start of US-China trade tensions, followed by the post-COVID-19 re-opening of economies, the industrial property segment has grown rapidly, and the prevailing DC boom is now a bigger catalyst. Developers with properly designed industrial parks in their portfolios will more likely enjoy better earnings growth ahead.

Stocks Covered 12
 Rating (Buy/Neutral/Sell): 10 / 2 / 0
 Last 12m Earnings Revision Trend: Positive

Top Picks

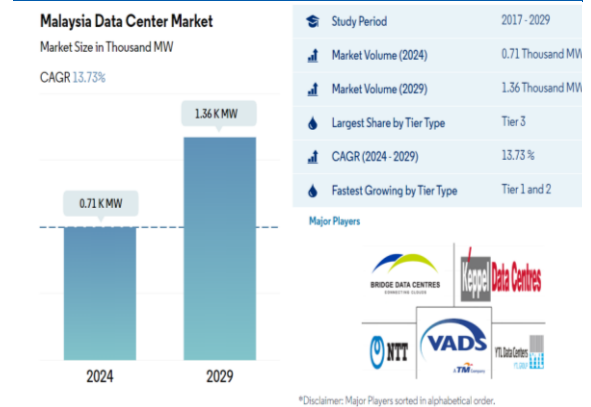
Stock	Rating	Target Price
UEM Sunrise (UEMS MK)	BUY	MYR1.60
Sime Darby Property (SDPR MK)	BUY	MYR1.54
Mah Sing (MSGB MK)	BUY	MYR2.00

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Projected growth for DC in Malaysia 2024-2029



Source: Mordor Intelligence

Company Name	Rating	Target (MYR)	% Upside (Downside)	P/E (x) Dec-24F	P/B (x) Dec-24F	ROAE (%) Dec-24F	Yield (%) Dec-24F
AME Elite Consortium	Buy	2.20	29.2	7.4	1.1	16.3	4.4
Eastern & Oriental	Buy	1.38	35.4	15.4	0.8	5.5	1.1
IOI Properties	Buy	2.75	9.1	19.6	0.6	3.1	2.2
LBS Bina	Buy	0.82	20.6	7.6	0.6	8.9	4.0
Mah Sing	Buy	2.00	33.7	15.1	1.0	6.4	3.0
Matrix Concepts	Buy	2.02	12.0	9.0	1.0	11.6	5.8
Sime Darby Property	Buy	1.54	24.3	18.1	0.8	4.6	2.2
SP Setia	Buy	1.72	18.5	15.1	0.4	2.8	1.1
Sunway	Buy	4.00	14.2	25.2	1.5	6.0	1.6
Tambun Indah	Neutral	1.20	6.4	9.9	0.6	6.5	4.5
UEM Sunrise	Buy	1.60	38.3	67.0	0.8	1.2	-
UOA Development	Neutral	2.02	2.8	21.4	0.9	4.3	5.1

Source: Company data, RHB

When Technology Meets Real Estate

Key considerations for DC site selection

DC operators put high emphasis on security, stability, reliability and connectivity. A strategic location is important, as this will have a direct impact on the operating cost and lifespan of the facility.

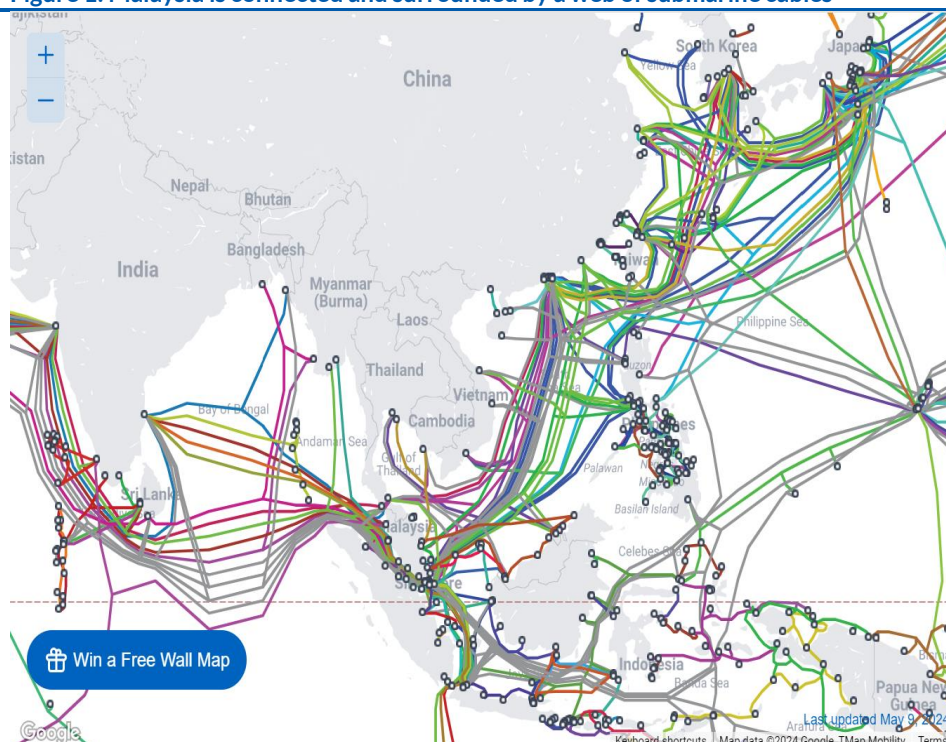
According to the Malaysian Meteorological Department, Malaysia is located just outside the Pacific Ring of Fire, and is generally free from severe natural disasters such as earthquakes, volcanic eruptions and typhoons. However, the country is not spared from other disasters such as floods, man-made disasters, landslides and severe haze. In the past few years, it has experienced several extreme weather conditions in certain parts of West Malaysia. Because of its geographical location, Malaysia has become a good candidate for many global technology and IT companies that are considering setting up DCs in South-East Asia.

We spoke to a few industrial players to have a better understanding of DC site selection, as not all areas are suitable for a DC facility. DCs need:

- i. **Power:** Power supply is a major factor, as power accounts for a big part of operating costs. DC operators will also need to take into consideration the site's proximity to a power grid, and the readiness of infrastructure in the area. The availability of alternative energy sources, eg solar power in the case for Malaysia, is preferred.
- ii. **Connectivity/telecommunications infrastructure:** The availability of fibre sources and the speed of their transmission are also important factors.
- iii. **Water:** DCs use a substantial amount of water to cool their systems, in order to avoid overheating, malfunction and breakdown of the IT equipment and machines. One way to achieve a lower score for power usage effectiveness (PUE) is through water evaporation for cooling. If water is removed from the system, the operation would become less power-efficient.

Apart from the key factors mentioned above, other factors to consider include land costs, construction costs, taxes and government incentives.

Figure 1: Malaysia is connected and surrounded by a web of submarine cables



Source: Submarine Cable Map

Developers with sizeable landbank to benefit from the DC wave

In our view, developers with vast landbanks at suitable locations will likely be able to capture the DC wave – especially those with parcels of land that already have ready infrastructure and are located not far from major cities (ie better availability of infrastructure and fibre connectivity).

Johor is seeing a DC boom. Being located next to Singapore – the epicentre of DCs in South-East Asia – Johor stands to benefit from the robust demand for DCs. In 2019, the Singapore Government enforced a ban on the construction of new DCs due to concerns over sustainability. The moratorium was lifted in early 2022, with stringent new conditions imposed for DC construction, including a cap of 60MW pa on construction and a PUE of 1.3 or less (please refer to our 12 Apr 2023 thematic report, [Telecommunications: The Rise Of Data Centres In ASEAN](#)).

Johor's proximity to Singapore has, therefore, prompted many DC players to expand to Johor – mainly due to the low latency access to Singapore. Johor's location also allows for easier operational coordination and management. The prices of land, water and power are also relatively cheaper in Johor. DC operators can also tap on the Singapore network or the current submarine cable in Malaysia for connectivity. Currently, the major DC hubs in Johor include Sedenak Tech Park, YTL Green Data Centre Park, Nusa Cemerlang Industrial Park and Nusajaya Tech Park.

Elsewhere in the Klang Valley, Cyberjaya, which is a technology hub well-equipped with network and supporting infrastructure and connectivity, has long been a focal point for DC investments. We believe some developers, especially those with sizeable landbanks, may pursue opportunities in the DC space due to better land utilisation and the potential subsequent indirect spillover effect (other technology or IT companies may follow suit). As DC operations have to be located at a distance from residential and commercial components due to high security reasons, developers may choose to have DCs set up in their existing industrial parks.

UEMS, Sime Darby Property, SP Setia, Mah Sing, ECW and AME Elite Consortium are the potential developers that may see demand from DC players. These developers already have their respective ongoing industrial projects, and some of them plan to have more industrial developments going forward. While power and water infrastructure may be ready, fibre connectivity is required. Land owners and DC players will need to take into consideration the additional infrastructure costs to be incurred.

Figure 2: Major DC clusters in Johor



Source: Channel News Asia, Google Maps, Data Centre Map (Infographic: Rafa Estrada)

Figure 3: Remaining landbank zoned for industrial developments and net gearing of respective developers

Company	Net gearing (x)	Landbank	Remaining acreage
UEM Sunrise	0.47	Gerbang Nusajaya, Johor	1,136
Sime Darby Property	0.24	Bandar Bukit Raja, Selangor	900
		Elmina Business Park, Selangor	700
		Serenia Industrial Park, Selangor	30
		Hamilton Nilai City, Negeri Sembilan	90
		Bandar Universiti Pagoh, Johor	360
Mah Sing	0.06	Southville Bangi, Selangor	150
		Mah Sing Business Park Sepang, Selangor	562
Eco World Development	0.28	Eco Business Park V, Selangor	297
		Eco Business Park I, II, III & VI, Johor	771
AME Elite Consortium	Net cash	i-TechValley at SiLC, Johor	87
SP Setia	0.49	Setia Business Park II, Johor	44
		Setia Business Park I, Johor	54

Source: Company data, RHB

Opportunities for developers

Thus far, developers have mainly sold land parcels to DC players. Crescendo Corp (CCDO MK, NR), for example, sold four parcels of land measuring 3.72m sqf in Johor to DC operators and users in less than a year, and the transacted prices were MYR120-125 psf. In May 2024, AME Elite also sold 34.91 acres of land in Johor to a DC player, at MYR138 psf. All this land is mainly located in the Nusajaya area, closer to the Malaysia-Singapore Second Link. These transactions will likely set a new pricing benchmark for industrial land nearby, going forward.

Just last month, three major developers under our coverage announced their respective participation in the DC segment:

- i. Sime Darby Property will build and lease a hyperscale DC with a potential capacity of around 80MW on a 49-acre site at Elmina Business Park to Google DC and Google Cloud;
- ii. Mah Sing will co-invest with Bridge Data Centres Malaysia V in a capacity of up to 100MW on a 17.55-acre piece of land in Southville City;
- iii. UEMS is collaborating with LOGOS to develop a DC campus, with a capacity of up to 360MW on 74 acres of land in Gerbang Nusajaya (details of the partnership have yet to be announced).

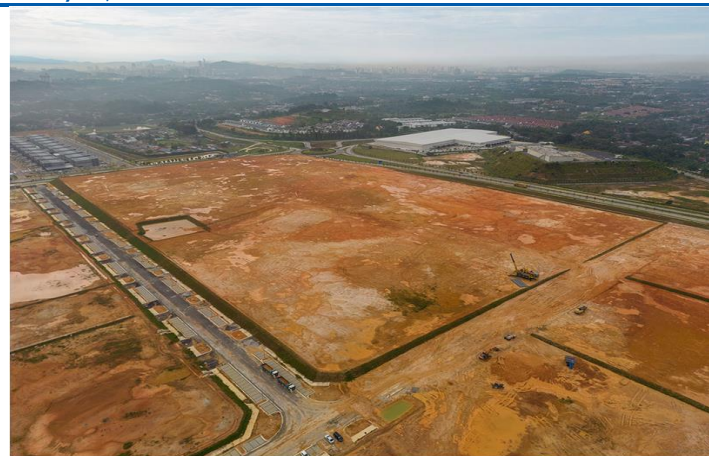
There may be more of such developments to come, and we think more developers may start considering investing in DCs, as it is now a new asset class in the industrial segment. Due to balance sheet constraints and the sizeable investments required, this could be done possibly via equity fund-raising from local/foreign institutional funds (ie co-investing). These DC facilities may be rented out on a shell-and-core basis for recurring income stream, or jointly invested into with DC users, or perhaps even via a JV formed with DC operator for a co-location facility. These DCs can then be rented out on a triple-net lease (for shell-and-core) or normal rental on a per kW basis (for co-location). A portfolio of DC facilities would provide monetisation opportunities in the future, due to the long-term nature of DC operations (as the migration of DCs is a highly complicated process). According to Savills Malaysia, prime DC yields range at 4-5% in Japan, 5-7% in western Europe, 6-7% in Singapore, 7-7.5% in Malaysia and 8-12% in China.

Figure 4: Artist's impression of Google's first DC and Google Cloud region in Malaysia, at Elmina Business Park



Source: Googlecloudpresscorner.com

Figure 5: The site of Google's first DC and Google Cloud region in Malaysia, at Elmina Business Park



Source: Googlecloudpresscorner.com

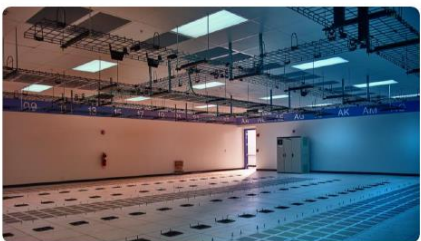
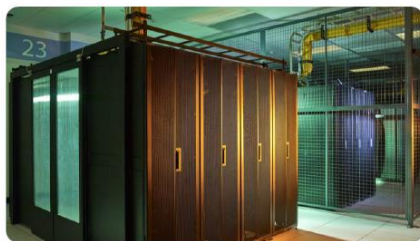
Figure 6: Market capitalisation rate for DCs held by Keppel DC REIT (KDCREIT SP, NR)

Location	Market capitalisation rate range
Asia Pacific	5.00% - 8.00%
Singapore	6.00% - 6.75%
Australia	5.00% - 6.00%
China	6.50% - 7.50%
Malaysia	7.00% - 8.00%
Europe	4.50% - 7.00%

Source: Keppel DC REIT

Figure 7: Types of DC spaces and the nature of tenancies

TYPES OF DATA CENTRE SPACE

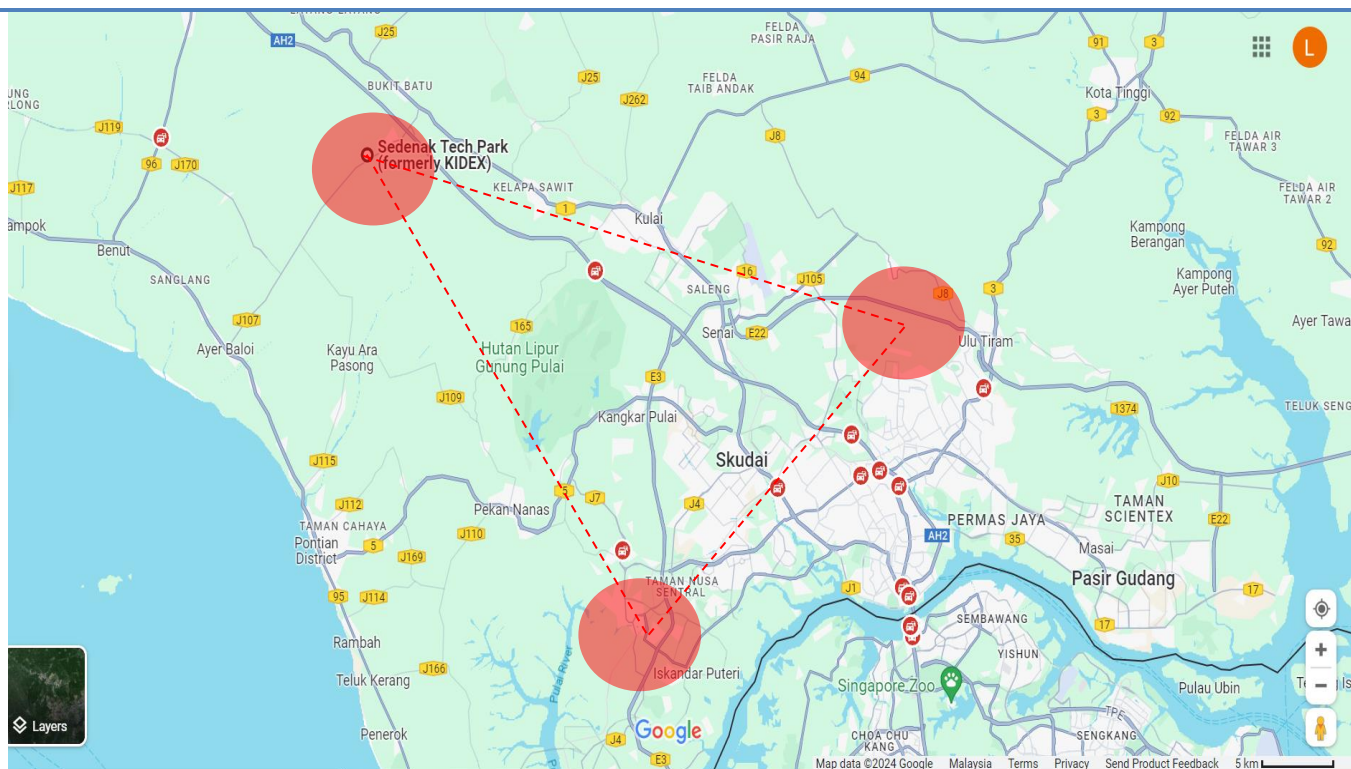
SHELL & CORE		FULLY-FITTED		COLOCATION	
	<ul style="list-style-type: none"> Building Shell & Core 		<ul style="list-style-type: none"> Building Shell & Core Electrical Systems HVAC / Mechanical Systems 		<ul style="list-style-type: none"> Building Shell & Core Electrical Systems HVAC / Mechanical Systems Colocation Fit-Out (Racks, cages, etc.)
Infrastructure Requirements		Infrastructure Requirements		Infrastructure Requirements	
Typical Size	<ul style="list-style-type: none"> Entire building; can typically support 5+ MW 	Typical Size	<ul style="list-style-type: none"> Medium (300+ kW) to very large compute deployments (5+ MW) 	Typical Size	<ul style="list-style-type: none"> Small (one cabinet) to medium (racks) data center deployments
Time to Deploy	<ul style="list-style-type: none"> Ground-up development can take 18 to 24 month 	Time to Deploy	<ul style="list-style-type: none"> Can execute a solution for medium to large deployment in weeks / months 	Time to Deploy	<ul style="list-style-type: none"> Provides agility to quickly deploy computing infrastructure in days
Contract Length	<ul style="list-style-type: none"> 10+ years 	Contract Length	<ul style="list-style-type: none"> 5 to 10+ years 	Contract Length	<ul style="list-style-type: none"> 2 to 3 years
Contract Types	<ul style="list-style-type: none"> Triple Net (single-tenant) 	Contract Types	<ul style="list-style-type: none"> Triple Net, Gross + E(lectricity) 	Contract Types	<ul style="list-style-type: none"> All-in (includes cost of electricity)
Customization	<ul style="list-style-type: none"> Highly customizable; can be structured as a build-to-suit 	Customization	<ul style="list-style-type: none"> Customize data center environment to specific deployment needs 	Customization	<ul style="list-style-type: none"> Consistent designs and operational environment; limited customization
Staffing Requirements	<ul style="list-style-type: none"> Customers supply own on-site staff 	Staffing Requirements	<ul style="list-style-type: none"> Customers sometimes opt to have their own on-site staff 	Staffing Requirements	<ul style="list-style-type: none"> Leverage optional skilled remote hands and on-site customer support

Source: Digital Core REIT

In our view, developers with extensive landbanks and existing industrial park developments are more likely to capture the opportunities – especially if their land parcels are ready with infrastructure, and close to major cities. UEMS, Sime Darby Property, SP Setia, Mah Sing, ECW and AME Elite Consortium are the developers that may benefit from the demand for DCs – given the location, amenities and infrastructure of their existing landbanks (note that UEMS already has DCs in its Nusajaya Tech Park).

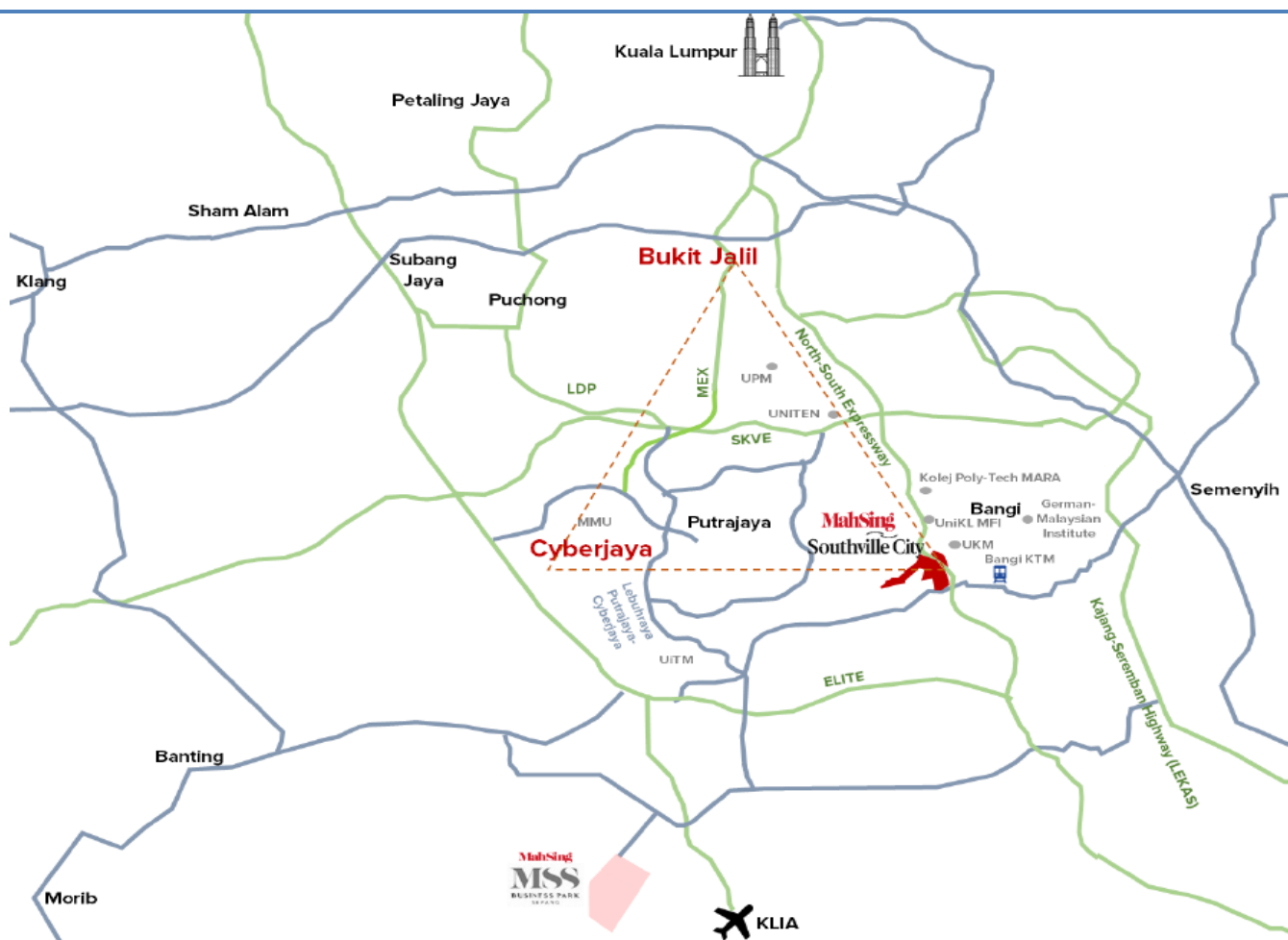
Based on our conversations with a few property developers, demand for DCs is very strong, while the supply of land with suitable features and facilities is limited. As such, some DC players are now exploring potential new areas in Tebrau/Ulu Tiram in Johor, due to the strategic triangle of DC hubs – ie here, together with Sedenak Tech Park and Nusajaya Tech Park in Iskandar Malaysia. Mah Sing’s Southville City, Bukit Jalil and Cyberjaya also form a strategic triangle of DC hubs in the Klang Valley.

Figure 8: Formation of a triangle of DC hubs in Iskandar Malaysia



Source: Google Maps, RHB

Figure 9: Formation of a triangle of DC hubs in the Klang Valley



Source: Company data (Mah Sing)

Valuations and stock picks

We maintain our OVERWEIGHT rating for the property sector. The influx of DC-related investments is a new catalyst that should benefit the sector directly, especially for developers with strong balance sheets as well as exposure to industrial property projects. Depending on the business model, developers will likely enjoy a RNAV re-rating from outright land sales, or creating a new stream of recurring income if they invest in DC facilities. In our view, developers with exposure to the industrial segment should record better earnings growth ahead.

Our Top Picks along this theme are: UEMS, Sime Darby Property and Mah Sing. We believe these companies will likely attract more demand for their industrial developments, given the upcoming expansionary moves by many E&E and manufacturing players, and global DC players.

On the ESG aspect, we think that developers will likely select contractors that have higher ESG compliance, and may establish more green industrial parks going forward. DC players, too, may set up more green DCs (which are more energy efficient) in the future, to minimise the impact of their business on the environment.

Key downside risks:

- i. Unfavourable turn in government policies on DCs;
- ii. Political turbulence.

Figure 10: Property valuation table (as at 31 May 2024)

	FYE	Price (MYR/s)	Target (MYR/s)	Mkt Cap (MYRm)	P/E (x)		EPS Growth (%)		P/BV (x)	ROE (%)	DY (%)	RNAV / share (MYR)	Discount to RNAV	Rec
				FY24F	FY25F	FY24F	FY25F	FY24F	FY24F	FY24F	FY24F			
Sunway	Dec	3.50	4.00	19,712	25.2	24.4	1.1	3.2	1.5	6.0	1.6	4.97	-30%	Buy
IOI Prop	Jun	2.52	2.75	13,875	19.8	19.6	(15.4)	1.0	0.6	3.1	2.0	5.61	-55%	Buy
Sime Darby Property	Dec	1.24	1.54	8,433	18.1	16.9	15.6	6.9	0.8	4.6	2.2	2.28	-46%	Buy
SP Setia	Dec	1.45	1.72	6,890	15.1	17.8	30.9	(15.1)	0.4	2.8	1.1	3.12	-54%	Buy
UEM Sunrise	Dec	1.16	1.60	5,868	67.0	64.1	23.1	4.6	0.8	1.2	0.0	2.18	-47%	Buy
Mah Sing	Dec	1.50	2.00	3,840	15.1	13.6	12.4	10.6	1.0	6.4	3.0	2.36	-36%	Buy
Matrix Concept^	Mar	1.80	2.02	2,252	9.0	8.8	0.4	2.9	1.0	11.5	5.8	2.82	-36%	Buy
Eastern & Oriental^	Mar	1.02	1.38	2,065	16.4	14.8	(20.5)	10.9	0.8	5.2	1.5	2.35	-57%	Buy
AME Elite Consortium	Mar	1.70	2.15	1,086	6.6	10.9	77.7	(39.8)	1.1	17.8	4.7	2.49	-32%	Buy
LBS Bina	Dec	0.68	0.82	1,054	7.6	7.3	(1.2)	4.4	0.6	8.9	4.0	2.00	-66%	Buy
UOA Dev	Dec	1.96	2.02	4,881	21.4	18.7	36.1	14.2	0.9	4.3	5.1	3.16	-38%	Neutral
Tambun Indah	Dec	1.13	1.20	496	9.9	9.6	22.1	3.5	0.6	6.5	4.5	3.01	-62%	Neutral
Sector Avg					19.0	18.7	3.0	1.0						

Note: ^FY24-25 valuations refer to those of FY25-26

Source: Company data, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
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Not Rated:	Stock is not within regular research coverage

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