Invest Johor 2024

JS-SEZ: Unlimited Potential

Stocks Covered	147
Rating (Buy/Neutral/Sell):	88 / 50 / 9
Last 12m Earnings Revision Trend:	Positive

Analyst

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- **The next growth epicentre.** On 15 Aug, RHB Banking Group hosted the inaugural Invest Johor conference in Forest City Marina Hotel. The event was graced by the Guest of Honour YBhg Dato' Onn Hafiz bin Dato Ghazi, Menteri Besar (MB) Johor and other dignitaries including YB Lee Ting Han, Johor State Exco for Investment, Trade and Consumer Affairs. The event was well attended by over 500 participants comprising institutional investors from Singapore, Johor and Kuala Lumpur, as well as corporate stakeholders active in the Johor business eco-system. The day's proceedings were capped off by eight corporate breakout sessions conducted in a hybrid mode to maximise investor participation.

- **Standing room only.** The conference revealed the depth of investor and corporate interest in the Johor-Singapore Special Economic Zone (JS-SEZ) from both sides of the border. Many attendees we spoke to were keen to personally hear Dato' Onn Hafiz's take on JS-SEZ, to be able to gauge the depth of commitment from the local state leadership on what is the most far reaching government-to-government (G2G) initiative between Malaysia and Singapore seen for some time. Conference attendees were not disappointed and during the generous hour the MB afforded to the event comprising his keynote address and fireside discussion that was communicated in a clear and articulate manner, helped by an ample dose of humour. It is apparent the lengths that the Johor State Government has gone to brainstorm, consult, engage, discuss and strategise plans to ensure that the JS-SEZ has every chance of success, to create exponential growth opportunities for both Malaysia and Singapore. A key lesson learnt on a study tour to Shenzhen that was shared by the MB was "特事特办 that loosely translates to "extraordinary situations require extraordinary measures".

- **Win-win.** The potential benefits of holistic economic cooperation between Malaysia and Singapore have long been apparent, however, it is only now that we have arrive at a stage where we have an alignment in the desire from the leadership of both sides to work towards overcoming legacy obstacles. A recurring theme was talent development, availability and retention including wage and productivity differentials. While some of these are structural issues, what is encouraging is that it being recognised early by both sides including potential investors and employers with many proposals being discussed to overcome these challenges.

- **Corporate breakouts bursting at the seams.** The corporate breakouts held over two multi-track concurrent hybrid sessions involved eight companies including Centurion Corp from Singapore with over 400 attendees. There was overwhelming demand and, in some cases, physical attendees arriving late were unable to join the meeting of their choice due to the lack of room. The high sign-ups for UEM Sunrise also saw the meeting shifted to the ballroom to accommodate the demand.

Company Name	Rating	Target	% Upside (Downside)	P/E (x) Dec-25F	P/B (x) Dec-25F	ROAE (%) Dec-25F	Yield (%) Dec-25F
Centurion Corp	Buy	SGD0.76	16.7	6.1	0.5	9.2	4.6
Sunway	Buy	MYR5.00	19.3	29.2	1.7	6.1	1.4
Tenaga Nasional	Buy	MYR16.10	16.2	17.5	1.3	7.4	3.7
UEM Sunrise	Buy	MYR1.60	55.7	56.9	0.7	1.3	-
VS Industry	Buy	MYR1.49	24.2	14.9	1.9	13.2	3.4

Source: Company data, RHB

Figure 1: Forest City, the venue for our inaugural Invest Johor conference

Source: Various media, RHB

Figure 2: Wide shot of Forest City with the Tuas Second Link connecting Malaysia and Singapore in the distance

Source: RHB

Figure 3: A full house eagerly anticipating the Johor MB's arrival

Source: RHB

Figure 4: The Johor MB and RHB GMD on stage for an insightful fireside chat

Source: RHB

Figure 5: Panel members for Session 2, included Johor State Exco for Investment, Trade and Consumer Affairs, YB Lee Ting Han

Source: RHB

Figure 6: A well-attended breakout room session showcasing Tenaga Nasional

Source: RHB

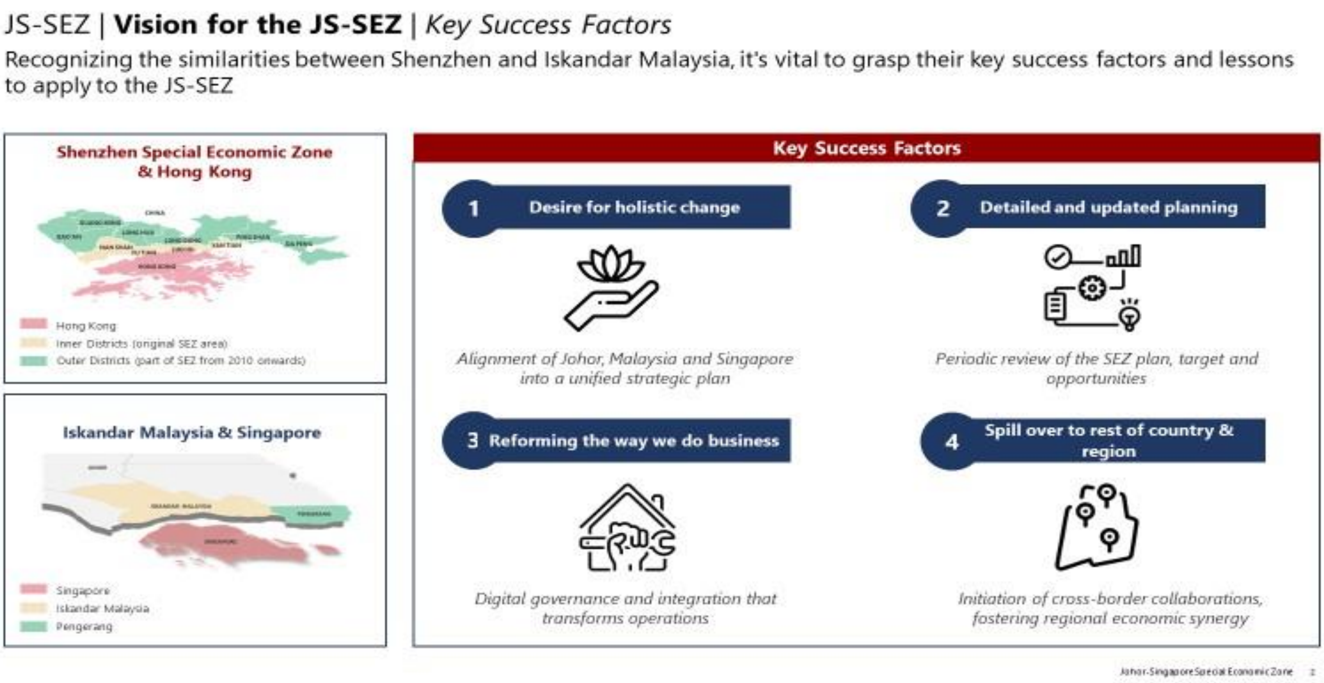
Johor Menteri Besar YBhg Dato' Onn Hafiz bin Dato' Ghazi's keynote address and fireside chat

Moderator: Mohd Rashid bin Mohamad, Group Managing Director, RHB Banking Group

Vision for the JS-SEZ

- The SEZ is built on three aspirations; enhancing mobility, cultivating a robust business ecosystem and attracting investments to the region.
- In terms of timeline, the Malaysian and Singapore Governments will be finalising the agreement during the workshop retreat which will be from 28 Aug to 30 Aug. The Attorney General's Chambers (AGC) is expected to finalise the draft in September, with the agreement to be signed by the end of the year.

Figure 7: Key success factors for the JS-SEZ



Source: Johor State Government

Figure 8: Vision for the JS-SEZ

Source: Johor State Government

Figure 9: JS-SEZ's indicative timeline

Source: Johor State Government

Current initiatives underway

- Rapid Transit System (RTS) Link and public transportation integration. The RTS Link is due to be completed by end 2025 and to begin operations on 1 Jan 2026. This link will be complemented by the local public transportation network in Johor Bahru and other locations. To further alleviate congestion in Johor, several highway widening projects are underway, including the North-South Expressway with the expected completion by 2027. Additional initiatives include the proposed ferry service between Puteri Harbour and Tuas as well as the implementation of QR code clearance, which is expected to reduce immigration processing times by up to 75%.
- Invest Malaysia Facilitation Centre (IMFC) in Johor. This center will function as a one-stop hub to address investment-related concerns, streamlining the process for businesses.
- A Special Finance Zone (SFZ) will be established in Forest City, positioning it as a regional financial hub complementing Singapore. The focus will be on middle and back-office operations and digital solutions. By the end of August, the Ministry of Finance is expected to announce the incentives for the SFZ.
- Johor Talent Development Council. To address talent issues, the state is establishing a Johor Talent Development Council which is chaired by the Deputy Prime Minister of Malaysia. This council will involve key industries and agencies from the state to collaboratively resolve talent issues. It will serve as a dedicated body for talent development programmes within the JS-SEZ and act as a bridge between industry and academia.
- Tech Medini and GBS Iskandar initiatives aim to position Medini as a premier hub for Global Business Services (GBS), driving digital transformation and economic growth in the region.

Figure 10: JS-SEZ's initiatives

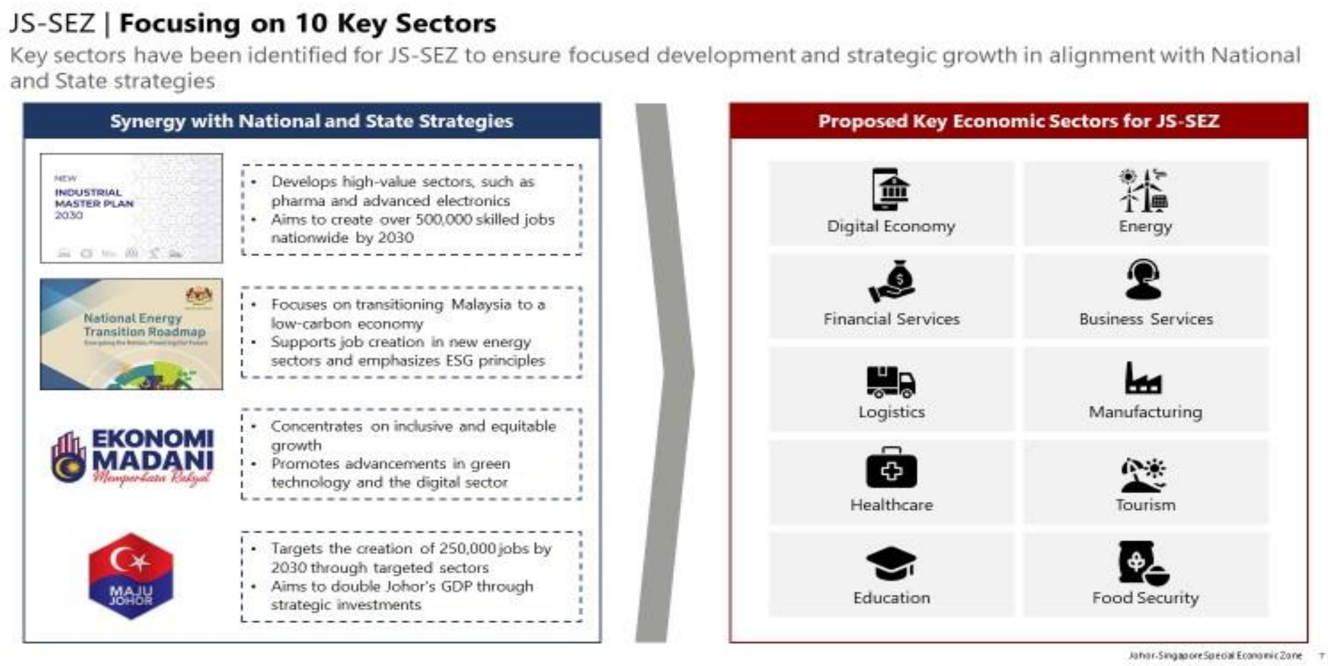
Source: Johor State Government

Infrastructure and economic zones in Johor

- Dedicated zones have been established to support specialised infrastructure, incentives, and support mechanisms for targeted industries. Key focus areas identified for Kulai include logistics, digital economy, manufacturing, and healthcare, whereas energy, food security, and healthcare are identified for Pengerang.

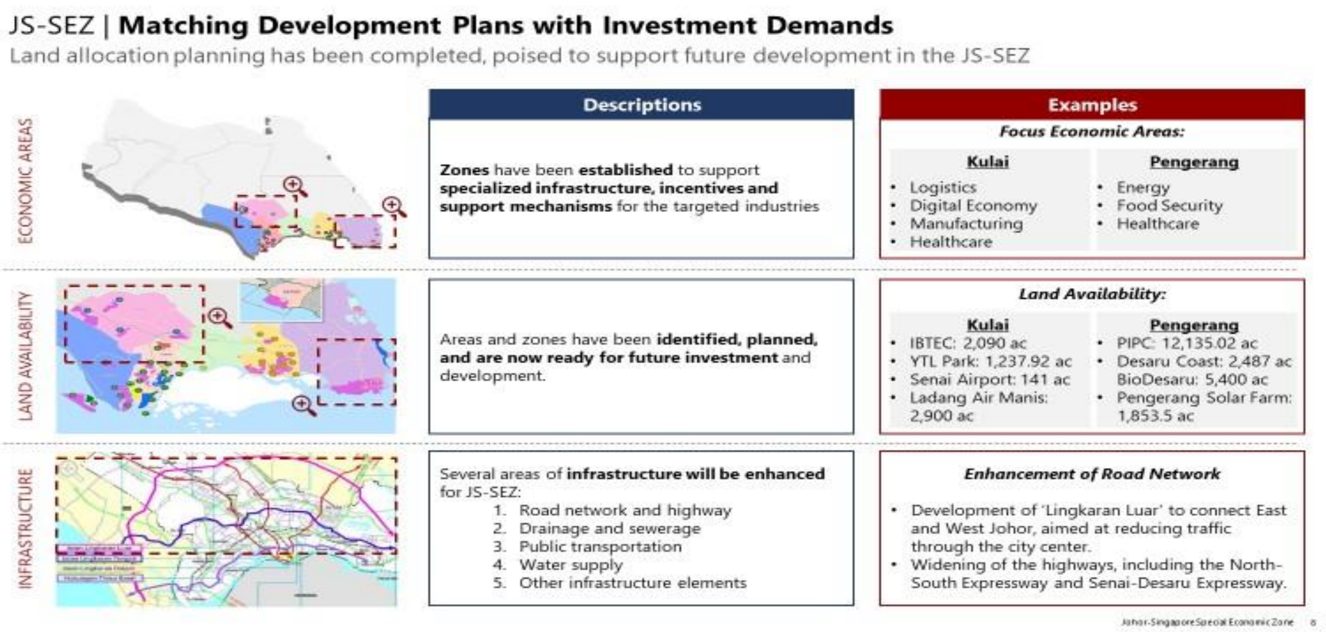
- Land availability and infrastructure development. Specific areas and zones have been identified, planned, and are now prepared for future investment and development. Infrastructure enhancements are planned for the JS-SEZ, covering improvements to road networks, highways, drainage and sewerage, public transportation, water supply, and other essential elements.

Figure 11: JS-SEZ's priority sectors



Source: Johor State Government

Figure 12: JS-SEZ's investment zones and infrastructure enhancement plans



Source: Johor State Government

Panel Discussion 1: Morphing Into The Next Shenzhen – Honing Its Allure To Be Malaysia's Preferred Investment Destination

This session aims to identify the prerequisite conditions that potential investors demand, before committing to major investment decisions. Panel speakers will shed light on key success factors including the regulatory framework and policies to facilitate the ease of doing business. The role of supply chains, will also be a critical element to ensure the long term success of the JS-SEZ that will help to drive growth in Malaysia and Singapore.

Moderator: Dato' Fad'l Mohamed, Managing Director, Group Wholesale Banking, RHB Bank Bhd

Panellists: YB Lee Ting Han, Johor State Exco for Investments, Trade and Consumer Affairs, YBhg Datuk Syed Mohamed Syed Ibrahim, President and Chief Executive of Johor Corporation (JCorp), Ms Christina Tee, President of MICCI, Danny Quah, CEO of RHB Singapore

- YB Lee Ting Han discussed the current optimal timing for the JS-SEZ, noting several key global trends including the rise of data centres (DC), artificial intelligence (AI) advancements, and a shift in multi-national companies' (MNC) supply chains towards Asia. He suggested that partnering with Singapore could attract significant MNC investment, provided the right policies and incentives are in place.

- He highlighted the success of Shenzhen, attributing it to three key pillars: reform, opening up, and R&D. Reform involves updating policies to align with global standards, opening up requires adopting a pro-business mindset and staying current with technology, and R&D supports start-ups and technological experimentation. YB Lee emphasised the need for regulatory improvements in Johor to facilitate innovation and collaboration with venture capital. Johor's smaller market and different ecosystem present practical challenges that need careful consideration.

- In response to a query about incentivising renewable energy (RE) initiatives, YB Lee noted that the Johor State Government prefers to focus incentives on underdeveloped sectors, as there is already significant genuine interest from companies in RE.

- Datuk Syed Mohamed Syed Ibrahim highlighted JCorp's commitment to the success of the JS-SEZ through close collaboration with investors to develop essential utilities, infrastructure, and talent. JCorp's role includes managing key industrial and commercial projects, ensuring adherence to global standards, and engaging with stakeholders to enhance the economic environment in the JS-SEZ.

- Christina Tee described the JS-SEZ as an attractive location for companies looking to establish a presence in Johor. She emphasised the supportive environment for SMEs and the need for better on-site education resources. Tee pointed out that while companies are willing to pay for skilled engineers, there are challenges related to obtaining special permits and visas for overseas professionals.

- Danny Quah observed strong interest from Singapore companies in Johor, particularly the DC, healthcare and manufacturing sectors. He stressed the importance of ensuring ease of business setup and highlighted the need for medium to large enterprises to consider Johor. He also noted that while Johor offers cost advantages in terms of land and labour, improving productivity through skill transfer is crucial for maintaining competitiveness.

Panel Discussion 2: Johor Singapore - The New Growth Nexus

The establishment of the JS-SEZ and SFZ together with massive infrastructure projects focusing on enhancing connectivity are essential FDI/DDI catalyts for Johor. The intensifying competition for high economic impact investment that stretches beyond our nation's border will require stakeholders to adopt a differentiated strategy. We examine all aspects of the hard and soft infrastructure that Johor will require to transform into the nation's preferred investment destination.

Moderator: Alexander Chia, Head, Regional Equity Research, RHB Investment Bank

Panelists: Md Derick Basir, CEO Johor Port Berhad, Natazha Hariss, CEO Invest Johor

- There has been a change in political mindset when it comes to Malaysia and Singapore as it now shifts towards having mutually beneficial relations between the two countries.
- While there has been a lot of talk with regards to the JS-SEZ, Md Derick Basir notes that this is not something new as it has been part of the plan to elevate Johor to be a developed state in Malaysia by 2030.
- Md Derick highlighted one of the most important factors of the plan is to ease the movement of goods as well as labour between the two countries. He believes investors place importance on the convenience of bringing in their raw materials and availability of labour as well as the ease of exporting out the goods. Hence, he highlights that Malaysia needs to focus on enhancing cross-border movement with Singapore.
- Natazha Hariss expressed her awareness of the rapid investment in DC in Johor which has raised a lot of interest on whether plantation land should be converted for industrial use instead.
- Natazha pointed out that a lot of considerations were needed before converting plantation land for industrial development. This includes the welfare of the plantation workers as well as the need to ensure that proposed industrial development is undertaken at the right location.
- Given the high amount of energy and water required for DC, Johor is coming up with instruments to control new developments, of which guidelines for DC are expected to be published soon.
- Plans are already in the works for the expansion of the Johor section of the North-South Expressway, Senai-Desaru Highway and further out, the construction of a third link between Johor and Singapore.

Invest Johor 2024 Corporate Breakout sessions

Please click on the following link to download: Invest Johor 2024 Corporate Breakout Sessions materials

Johor Plantations Group (JPG MK, NR)

Venturing into downstream and diversification

- Johor Plantations Group intends to venture into the downstream segment to be a fully integrated player in the industry. The company guided that the downstream complex is currently in the approval process, and construction to begin in 1Q25.
- JPG has also signed a JV agreement with Fuji Oil to put up a refinery within the downstream complex, where it will capitalise on the latter's processing techniques and established customer base. Note that the income contribution from the JV agreement and downstream segment will only be realised from 2026.
- Part of JPG's strategy to diversify its earnings is through converting excess biogas generated to biomethane, which can be sold as a natural gas alternative to the National Grid. The company finished converting its biogas plant at the Sedenak palm oil mill into a biomethane plant in Jun 2023. Management assured that the demand for biomethane is not a concern at this juncture, given the National Grid's willingness to take up JPG's annual biomethane production of 600,000mbbtu. This translates to revenue contribution at c.MYR12m–15m pa starting from FY26.

Moving towards expansion and better ESG credentials

- One of JPG's main selling points is its concentrated landbank in Johor, which allows the company to manage its landbank more efficiently. This, along with better ESG credentials, pushed JPG's CPO ASPs to realise a premium of 3-5% over Malaysian Palm Oil Board (MPOB) in FY20-FY23.
- Therefore, JPG intends to further increase its CPO output by consolidating state agencies' land to manage. Currently, JPG is eyeing two pieces of land totalling 13,000ha but has yet to disclose any specific details regarding the consolidation timeline or profit-sharing strategy. Other pieces of land owned by federal agencies are also being considered, though still at an exploratory stage.
- All of JPG's estates and palm oil mills are RSPO- and Malaysian Sustainable Palm Oil (MSPO)-certified and have been accorded International Sustainability and Carbon Certification (ISCC) status, allowing the group to realise higher CPO ASPs vs its peers. JPG is helping its smallholders to get MSPO and RSPO certifications on top of providing technical support, in line with its target to achieve 100% traceability by FY25 (FY23 traceability is at 87%). These efforts are vital to ensure higher long-term CPO prices as only three out of 26 external suppliers' crops are certified now.

Operational guidance

- JPG's 1H24 FFB output rose 28% YoY, thanks to favourable weather conditions. However, management is still wary of the weather conditions and hence, keeping its initial guidance of +10% YoY as well as its replanting target of 4% of planted area for FY24 – c.2,200ha. The company expects to kick-off its accelerated replanting programme in FY26 (from 4% target to 5-8% of planted area), as the palm oil trees enter past prime age.
- JPG is moving towards mechanisation by relying on equipment like Mechanical Mini Tractor as well as Mechanised Fertiliser Spreader to replace the manual loading of FFB into the palm oil mills. Through this initiative, management targets to improve its labour-to-land ratio from 1:10ha currently to 1:12–1:13ha in 2025. With this, JPG expects all-in cost of production to be around MYR2,600–MYR2,700 per tonne in the long term. We note that JPG's cost of production was MYR2,600 per tonne in 1Q24.
- As at 1Q24, JPG sits at a 0.69x net gearing (vs 0.71x in FY23 and 0.88 in FY22) – in line with its plans to pare down its net gearing level to 0.5x in FY24.

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Tenaga Nasional (TNB MK, BUY, TP: MYR16.10)

TNB's role in the energy industry

- TNB supports the entire energy industry value chain, encompassing generation, grid, distribution network, and retail divisions. In the generation sector, TNB holds a 51.6% market share in Malaysia, with an installed capacity of 27,385MW and the highest recorded maximum demand in the country is 20,066MW.
- The domestic transmission network spans c.26,154km, connecting substations with various voltage levels. Additionally, the country has cross-border interconnections with Thailand (386MW) and Singapore (1,000MW), whereas the domestic distribution network extends to c.734,000km. Currently, TNB serves around 10m customers in West Malaysia, with total units sold amounting to 123,206GWh. The installed rooftop solar capacity has reached 340MWp.

The rise of data centres

- In 2022, estimated global energy consumption was 460TWh, with projections to increase to 620-1,050TWh by 2026 – reflecting the global boom in data centres (DC), which now account for approximately 2% of total global energy consumption.
- Malaysia is emerging as a DC powerhouse in South-East Asia due to several factors. The country has a clear green energy target, aligning with the global commitment of data centres to transition to sustainable energy. Additionally, Malaysia offers ample, lower-cost land and a reliable power system, with tariffs among the lowest in the region. Around 80% of DCs in Malaysia are connected to the grid system, and the country provides adequate water supply for cooling.
- There are currently over 70 applications for DCs with more than 11,000MW. Some of the commissioned DCs include Bridge Data Centre, SIPP YTL Data Centre, and PDG Data Centre. While these facilities are not yet fully operational, they are experiencing substantial increment YoY. These companies have declared their demand profiles for the next 5-6 years, giving TNB ample time to plan its infrastructure to accommodate this influx. As more DCs come online, TNB will gain a better understanding of the growth patterns, aiding in more accurate forecasting.
- Most DCs in Malaysia are Tier-3, which require an uptime of 99.982%. In these facilities, power consumption is primarily driven by the cooling system, which accounts for 50% of total usage. This is followed by IT load, including processors, at 37%, power conversion at 10%, and lighting at 3%.
- To facilitate growth, TNB has introduced measures to expedite the connection of DCs. The Green Lane Pathway, specifically customised for DCs, now enables connectivity to be delivered within 12 months. Additionally, TNB operates multiple subsidiaries that provide a full suite of services to support data centre development.
- The planned capex of MY90bn for the next six years (MYR15bn pa) represents a significant increase from the previous MYR6-7bn pa and is aligned with the aspirations outlined in the National Energy Transition Roadmap (NETR). This investment is necessary to ensure system security, preventing major disruptions in supply while maintaining sustainability and affordability based on the forecasted generation and load profile. More details will only be confirmed with the announcement of the Regulatory Period 4 (RP4).

Electric vehicles infrastructure increment

- TNB's sub-transmission capacity planning programme, managed annually by the distribution network, handles EV charger connections and anticipates the growth of EVs and the necessary infrastructure. The division closely monitors patterns to forecast distribution capacity needs. TNB also operates electron-branded charging stations nationwide, targeting 66 installations in 2024, with 18 already commissioned and more planned progressively.

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VS Industry (VSI MK, BUY, TP: MYR1.49)

Expanding into Philippines

- VSI recently secured new orders of MYR300m for FY25F (Jul) and MYR1.2bn for FY26F from Customer X.
- VSI is adopting an asset-light model by renting a 52.8k sq m facility in the Philippines. The company has allocated MYR100m in capex for this expansion, with plans to commence mass production by 1QCY25.
- The new Philippines facility has the capacity to run up to four production lines. Currently, two lines have been allocated, with the company still bidding for the remaining two.
- Customer X seeks to divest risk by moving operations to other countries. Certain customers, including Customer X, are unlikely to expand further in Malaysia due to diminishing incentives. Establishing operations in the Philippines will render tax advantages. The new capabilities developed will enable VSI to offer more value-added services, hence improve profit margin.
- Management views managing a foreign workforce with different cultural practices as the biggest challenge. To mitigate labour-related risks, VSI plans to enhance automation in its new facility, reducing reliance on manual labour.
- Customer X has two suppliers in the Philippines. VSI's long-standing relationship with Customer X and its deep understanding of the SOPs provide an edge in maintaining efficiency and learning from the mistakes of its competitors.

Malaysia's operation

- The capacity in Malaysia is more than sufficient to serve existing customers and accommodate the anticipated demand recovery.
- With the departure of a customer earlier this year, additional capacity has opened up in Malaysia, presenting opportunities to attract new customers.
- VSI is already serving a diverse range of customers and aims to expand its product offering beyond the consumer electronics segment in the long term. Although the consumer electronics segment yields a lower net margin, the company remains active in this space due to the high business volume.
- There is potential to upgrade automation, which could further enhance operational efficiency.

China's operation

- The long-term plan for China's operation includes divesting its property holdings. However, current market conditions are unfavourable for such a move.
- In the near term, the focus is on ensuring that the company's factories in China can be leased out to tenants to generate rental income.

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Centurion Corp (CENT SP, BUY, TP: SGD0.76)

Growth pipeline in Malaysia

- Centurion currently has more than 30 operating assets of Purpose Built Workers Accommodation (PBWA) and Purpose Built Student Accommodation (PBSA) across Singapore, Malaysia, Australia, the UK and the US.
- In Malaysia, Centurion has eight operating assets with capacity of more than 27k beds in Penang, Selangor and Johor. In terms of capacity, Malaysia makes up 44% of total beds within the PBWA segment. In 1H24, it reached average financial occupancy of 90%.
- As part of its asset enhancement initiative (AEI), Centurion is targeting to add around 920 beds at Westlife Senai II by 4Q24.
- It has also planned to add 1,740 beds and 940 beds for Westlite Johor Tech Park and Westlite Pasir Gudang, expected to be completed in 2025.
- Centurion is also assessing development of a new PBWA in Nusajaya with a capacity of around 7,000 beds.

Opportunities in Johor

- Currently, Centurion has six operating assets with three ongoing AEIs in Johor, bringing the total to 3,610 beds.
- 1,740 beds and 940 beds are planned for Westlite Johor Tech Park and Westlite Pasir Gudang, expected to be completed in 2025. The company is also assessing development of a new PBWA in Nusajaya (capacity: c.7,000 beds).
- The goal of JS-SEZ is to attract high-tech companies and create 400,000 high-income job opportunities across 16 economic sectors. With the growing infrastructure development in Johor, the demand for foreign labour in the construction sector is anticipated to increase, leading to a higher need for worker accommodation.
- Furthermore, the Johor State Government's recent move to form a task force to tackle foreign worker housing issues as well as to require foreign workers to be housed in the registered Centralised Labour Quarters (CLQ) by end 2024 would encourage developers to seek for better quality accommodation for workers.
- Centurion is planning to tap further into the Johor market by using an asset-light model. Asset-light business models currently adopted by Centurion includes master leases, sale and leaseback agreement, joint ventures and management contract.

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Sunway (SWB MK, BUY, TP: MYR5.00)

Previously complementary businesses now spreading own wings

- Sunway has 13 businesses, with the four major ones being property investment (30% of FY23 PBT), property development (21%), construction (20%), and healthcare (15%) – together contributing 86% of FY23's total PBT.
- While segments such as construction and healthcare were originally designed to be complementary to its property development – part of the group's overall goal to create a synergistic ecosystem – the different businesses have increasingly delivered strong performances.
- For example, Sunway Construction (SCGB MK, BUY, TP: MYR6.29) has grown; projects from Sunway only make up c.30% of its total orderbook. The business is able to provide end-to-end solutions, and in the past, had embarked into advanced technology sectors ie renewables and data centres. This was to accommodate for a slowdown in infrastructure jobs. Now with the influx of data centre investments in Johor, SCGB's capabilities allowed it to secure major contracts, most notably in Sedenak, where it is responsible for both building and internal works.

Sunway Healthcare to be a new growth driver

- Similar to SCGB, management now believes that Sunway Healthcare is poised to chart its own path. Its flagship quaternary hospital is the Sunway Medical Centre in Sunway City, established in 1999. It then expanded its network with two tertiary hospitals: SMC Velocity @ Cheras and SMC Penang with a combined total of more than 1,000 beds.
- SMC Penang, opened in Nov 2022, achieved its first PBT positive month after just 12 months, but this was attributed to its location in a previously underserved market in mainland Penang. A more realistic point of comparison would be SMC Velocity, which achieved its first PBT positive month in 26 months.
- Moving forward, the group has a clear pipeline to open five more hospitals by 2030 to triple its total bed capacity to 3,000. The hospitals will be in Damansara (4Q24), Ipoh (1Q25), Kota Bharu (2027), Iskandar Puteri (2027), and Paya Terubong (2029). Following the booming interest in Johor, the group plans to accelerate the launch of its hospital there.
- The expected listing of Sunway Healthcare will be a sizeable IPO within the sector in a long time, and has garnered a lot of interest.

Sunway City Iskandar Puteri (SCIP) to deliver multi-year earnings growth

- At 2,000 acres, SCIP would be Sunway's biggest flagship township, bigger than Sunway City Kuala Lumpur (SCKL) which covers 800 acres. As a point of comparison, SCKL took about 40 years to develop, and SCIP will similarly be a long journey delivering multi-year earnings growth.
- The location is strategic – close to the second link, and would be even closer to the Kuala Lumpur-Singapore High Speed Rail (HSR) line if the project is revived. To build a sustainable community, the group has built a variety of facilities such as an international school, offices, and retail (Sunway Big Box Retail Park), among others.

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Tiong Nam Logistics (TNL MK, NR)

Company background

- Founded in 1975, TNL is the largest trucking company in Malaysia, providing transportation and warehousing services. It has a regional logistics distribution network across Asia and a total of 97 warehouses in Malaysia, Singapore, and Laos, with a combined capacity of 7.7m sq ft.
- The logistics and warehousing services complement each other, allowing clients to benefit from an extensive fleet that delivers nationwide logistics management solutions in addition to storing goods.
- The group has also ventured into property development, focusing on industrial and commercial properties. Currently, its undeveloped landbank spans 215.7 acres, and is spread across Shah Alam and Johor, with an estimated market value of MYR257.5m.

Expanding warehousing capacity

- The group is targeting to expand its warehousing capacity to 9m sq ft by 2026, from 7.7m sq ft in 2024.
- This includes the development of new warehouses in Kulim, Johor Bahru, and Singapore, all of which are set to commence operations in FY25.
- Additionally, there are five new local warehouses currently in the planning stage, with a combined capacity of approximately 1m sq ft. These are slated for completion between FY26 and FY28.
- To manage high operational costs in Singapore (where group has three warehouses in operation, and a fourth that is set to begin running in FY25), management has mentioned that it will focus on digitalisation and constructing high-rise warehouses with greater capacity to offset these costs.

Potential demand on warehousing

- As the IT and E&E sectors were the group's second and third largest revenue contributors by industry (both at 10.1%) following the F&B sector (28.8%) in FY24, we believe the influx of FDI into data centres will position TNL advantageously to leverage on this growth areas. With that, the group is targeting to increase the contribution from multi-national corporations to 45% in FY25 from 41% in FY24, for the logistics segment.
- With the JS-SEZ initiative, we believe that demand for warehousing will increase as: i) More trade in the area will require warehousing services, and ii) Singapore companies may opt to utilise warehousing services in Malaysia, where costs are lower due to cheaper land prices in the latter.
- Additionally, TNL is poised to benefit from China's One Belt, One Road initiative with its existing South-East Asia network. The group has warehouses in Malaysia, Singapore, and Laos, as well as sales offices in Laos, China, and Vietnam to support its services.

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Telekom Malaysia (T MK)

- TM offers a comprehensive suite of communication services and solutions tailored for domestic and international customers. These comprise global carriers, global enterprises, over-the-top (OTT) entities, hyperscalers and other digital players, amongst others.
- The group operates six data centres (DCs) in Malaysia and one in Hong Kong. The key DCs are the twin-core facilities located at Cyberjaya (KVDC) and Iskandar Puteri (IPDC) which have a design power usage effectiveness (PUE) of 1.8 and 1.6 respectively.
- With access to over 690,000km of fibre optic cables across Malaysia and direct connectivity to 32 submarine cable systems, TM offers extensive connectivity options for DCs. DC contribution to TM's wholesale business is approximately 10-15% currently.
- With the introduction of AI, DCs in the Asia-Pacific (APAC) region are expected to see capacity grow to 26.7GW by 2028 from 11.1GW in 2023, based on projections by DC Byte.
- Location, affordable land, consistent electricity supply and skilled manpower are major factors drawing DC operators to set up shop in Malaysia.
- TM is expanding the capacity of IPDC and KVDC by an additional 10MW each from 5MW and 7.5MW with the upgrades set to be completed in 3Q25 and 1H26.
- Dark fibre is a standard conduit that offers connectivity from one DC to another. Although dark fibre may present some upside for companies (scalability and control), TM is not liable for any disruptions and/or outages.
- Water supply is not an issue with TM proactively implementing water recycling initiatives as part of its green initiatives.

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UEM Sunrise (UEMS MK, BUY, TP: MYR1.60)

Capitalising on data centres and JS-SEZ

- UEM Sunrise's collaboration with Logos Infrastructure Holdco (LOGOS) to explore a data centre (DC) campus in Gerbang Nusajaya is another big step into the DC segment. Recall that the 74-acre project could accommodate up to 360MW – bringing in DC investments worth MYR10-12bn to UEMS. Hence, this provides the opportunity for UEMS to build a portfolio of long-term DC assets by capitalising on the DC boom as well as the JS-SEZ.
- LOGOS is known for its expertise in managing real estate across Asia and has appointed three key hires to support the growth of its Green DC business. UEMS' potential role may involve provision of end-to-end construction management for long-term lease, as well as licensing applications and securing state approvals. Though there are no further details on the proposed timeline, management gave the assurance of feeling upbeat on the take-ups from investors, given its landbank's close proximity to Singapore.

Ramping up launches in the southern region?

- At present, UEMS has 5,417 acres of remaining landbank, with 90% in the southern region. Although it may currently be looking at fewer launches in FY24 compared to FY23, management guided that it is planning to ramp up the company's deliverables like Gerbang Nusajaya Sales Village, Aspira Hills (901 units to be launched) as well as an interchange which provides a direct link from Gerbang Nusajaya to the Tuas checkpoint.
- Although the revival of the Kuala Lumpur-Singapore High Speed Rail (HSR) project remains uncertain, management expects to benefit from the spillover effects of increasing investments and job opportunities in Iskandar Malaysia over the longer term. UEMS is also working towards monetising its landbank by further reinforcing its position in Australia – expecting to launch a residential precinct with an estimated GDV of MYR1.3bn in 2026.

Operational and financial guidance

- UEMS has reaffirmed its FY24 target by emphasising on the industrial segment through strategic partnerships and land monetisation – with 28% of its revised potential GDV in FY24 focusing on industrial demands. Key enablers to drive the strength of the industrial play include New Industrial Master Plan (NIMP) 2030, National Energy Transition Roadmap (NETR), 5G Network Roll Out plan, and the HSR project.
- As at 1Q24, UEM Sunrise's net gearing stands at 0.47x (flattish YoY) while its cash balance dropped 20% YoY. However, UEMS revised its dividend payout policy from 20-40% to 40-60% of PATAMI, on the back of cost optimisation and riding on the current growth momentum.

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