

#### Regional Morning Notes

Tuesday, 17 October 2023

#### **SECTOR UPDATE**

# Property – Malaysia

A Study Trip To Iskandar Malaysia

We came away from our recent trip to Iskandar Malaysia (IM) feeling positive, having learnt of the mutual economic and societal benefits that could be reaped upon the full operation of the RTS by end-26, which could stimulate the growth in and around the JB City Centre. We opine that IWH Group and property-construction player Ekovest (BUY, Target: RM1.10) are clear winners for the IM theme, and from a more long-term perspective, we like Sunway (BUY, Target: RM2.38). Maintain MARKET WEIGHT.

- We met with the Malaysian Federal Government's statutory body, Iskandar Regional Development Authority (IRDA), as well as Johor Knight Frank to get the latest updates on Iskandar Malaysia (IM) and overall property sector in Johor. We also visited the Bukit Chagar station of the Johor Bahru-Singapore Rapid Transit System (RTS) Link to assess its progress. Additionally, we met with prominent developers like Iskandar Waterfront Holdings (IWH), Sunway and UEM Sunrise (UEMS) to gain first-hand insights into their Johor projects. Below are the key takeaways:
- IM received RM391.6b in investment from 2006 to Jun 23 with 60% realised, with the rest expected to be realised within 3-5 years. RM60.6b of the total investment came from China with RM33.3b from Singapore. Manufacturing segment, mixed development and residential properties were the biggest contributors, receiving RM102.7b, RM103.3b and RM72b in investments respectively.
- Sedenak is Iskandar Malaysia's sixth flagship known as Flagship F. Sedenak is home to the Ibrahim Technopolis (IBTEC), a 7,290-acre integrated industrial smart township project. Develop by Johor Corporation, IBTEC focuses on technology-driven sectors like data centres, medical device manufacturing, green renewable energy, biotechnology and food technology, among others. The Sedenak Tech Park (STeP) Phase 1 is a 745-acre area (inside IBTEC) meant to attract the development of data centres. Notable data centre investors in STeP include the Yondr Group (RM7.2b investment), Princeton Digital Group (RM2b investment), Keppel Data Centre (RM2.1b investment) and ChinData's subsidiary Bridge Data Centres (RM2.5b investment).
- RTS to substantially reduce travelling time. RTS is progressing well and is now 52% completed. It is on schedule to be completed by Dec 26. After the RTS Link is operational, the travel time for passenger traffic between the Johor border and Singapore can be significantly shortened to just 15 minutes (vs the usual one to two hours required via the Johor Causeway). The immigration facilities of both nations will be co-located at Woodlands North and Bukit Chagar stations, streamlining the clearance process for passengers who will only need to go through immigration once at their departure point. Other infrastructure in the IM area includes the Iskandar Malaysia Bus Rapid Transit (IRT) set to be operational by 2026 and the Johor Electric Train System (from Gemas to Johor Bharu Sentral) expected to be operational by 2025.

## MARKET WEIGHT

(Maintained)

#### **IBTEC MASTERPLAN**



Source: Johor Corporation

#### ISKANDAR MALAYSIA INVESTMENT



Source: IRDA

## RTS PROGRESS (52%)



Source: UOB Kay Hian

## IM BRT CORRIDOR MAP



Source: IMBRT, Sunway, UEMS, UOB Kay Hian

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PE	EF	S C	OM	PA	RI	SC	N

			Share Price	Target	Market	P/B		PE		Div Yield	ROE	Revenue	Net Profit	Net Margin
Company	Tickers	Rec	16 Oct 23 (RM)	Price (RM)	Cap (RMm)	FY22 (x)	FY23F (x)	FY22 (x)	FY23F (x)	FY23F (%)	FY23F (%)	FY23F (RMm)	FY23F (RMm)	FY23F (%)
Sunway	SWB MK	BUY	1.90	2.38	9,413.9	0.9	0.9	19.4	18.2	2.6	5.4	5,348	664	12.4
SP Setia	SPSB MK	HOLD	0.95	0.89	3,889.0	0.3	0.3	14.0	13.4	2.2	1.8	4,571	287	6.3
Mah Sing Group	MSGB MK	BUY	0.855	0.93	2,075.7	0.6	0.6	14.6	10.9	3.7	5.3	2,501	192	7.7
UEM Sunrise	UEMS MK	SELL	0.795	0.58	4,021.5	0.6	0.6	53.9	41.6	0.0	1.1	1,473	81	5.5
Matrix Concepts	MCH MK	BUY	1.52	1.92	1,902.0	0.9	0.9	7.3	7.7	6.4	10.4	1,170	238	20.4
Eco World .	ECW MK	BUY	1.05	1.21	3,091.6	0.6	0.6	19.7	12.4	4.8	5.2	1,837	241	13.1
Fkovest	FKO MK	BUY	0.515	1.10	1.527.0	0.5	0.5	n.m	77.9	n.a.	0.8	1.207	20	1.6

Source: Bloomberg, UOB Kay Hian



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#### **ACTION**

- We believe IWH Group and Ekovest (BUY, Target: RM1.10) are clear winners for the Iskandar Malaysia theme. Given the limited availability of land in JB's city centre, with its high population density compared to other areas in IM, IWH's substantial landbank of >4,000 acres in the Danga Bay area, near RTS Bukit Chagar, appears to be the most promising for property market development, in our opinion. Ekovest also recently acquired 20 acres of land near RTS to develop Transit-Oriented Developments (TOD) 2 and 3 with a minimum GDV of RM5b. We believe Ekovest's TOD 2 and 3 will create a vibrant hub for business, leisure and residential activities, making it a sought-after destination for both investors and residents. Furthermore, we opine that Ekovest's corporate restructuring plan of acquiring Credence (which owns 63% of IWH Group) will give it exposure to IWH's landbank, solidifying its position as the prime proxy for Iskandar Malaysia's growth.
- Apart from that, we prefer companies with proven track records of execution. From a more long-term perspective, we like Sunway Berhad (BUY, Target: RM2.38) for its track record as a master township developer which we believe positions it well for the development of Sunway Iskandar. We also take this opportunity to downgrade UEMS to SELL from HOLD with an unchanged target price of RM0.58 as we believe its share price had run ahead of its fundamental earnings and the potential revival of High-Speed Railway (HSR) is already reflected in the share price. The stock is trading at 0.6x 2023F P/B (+2SD above its five-year P/B of 0.3x). In terms of PE, UEMS is trading at 42x for 2023F (vs five-year average of 23x and industry average of 13x for 2023F). We also downgrade SP Setia to HOLD from BUY with unchanged target price of RM0.89 as its share price had run ahead of its fundamental earnings.

### **ESSENTIALS**

- LRT still in discussion phase; preference still skewing towards bus system. We are aware of a proposal for the construction of a Light Rail Transit (LRT) system by a private consortium. However, this proposal is still in the discussion phase and would require funding from the federal government. We understand that currently the choice is to develop a bus system rather than the LRT system due to the relatively lower population in IM. IM currently has a population of 2m, with the highest population density concentrated in the Johor Bharu (JB) city centre. Meanwhile, Johor has a population of about 4m.
- The Iskandar Puteri area, which includes Medini, may require a significant period for development and population growth. While it is indisputable that land holds paramount value in this region, we believe that the area will need substantial time for development due to its currently lower population density (compared to JB city centre) and the fact that public transport connectivity in this area is still lacking (currently only a planned bus rapid transit system). It is noteworthy that both UEMS (which owns 5,103 acres of landbank in Iskandar Puteri with GDV of RM59.1b) and Sunway (which owns 1,632 acres in Medini and Pendas with GDV of RM29b) have observed strong interest in property demand within this region, particularly landed properties. However, we are aware that they are exercising caution in their launch strategies to avoid another overhang issue.
- . We anticipate that people will continue to prefer living in proximity to RTS Bukit Chagar because of its exceptional connectivity. For instance, consider Malaysian or Singaporean professionals working in Marina Bay Sands area. Currently, it takes them approximately 30 minutes to reach the Woodlands checkpoint from Marina Bay Sands. With the availability of RTS, if these professionals choose to reside near RTS Bukit Chagar, it will take them around 45 minutes in total (including 15 minutes for travel and immigration clearance from RTS Woodlands to Bukit Chagar) to get home from work. Given Singapore's higher rental and housing prices, this RTS connectivity presents a compelling incentive for individuals to purchase/rent property near RTS Bukit Chagar.
- . In contrast, if professionals opt to live in the Iskandar Puteri area, they face a significantly longer commute of 1-2 hours, depending on traffic conditions, to reach Marina Bay Sands via the Second Link. However, as the Iskandar Puteri area evolves and infrastructure continues to mature (assuming the HSR is confirmed), they hold the potential to become prime locations for future growth and investment over the longer term. It is

#### TOD 2 AND 3 LOCATION WHICH ARE NEAR TO RTS



It's worth mentioning that IWH Group owns undeveloped land (the green area in Iskandar Bonded City) which is in close proximity to RTS Bukit

Source: Ekovest, IWH Group, UOB Kay Hian

### CONCEPT MAP LRT (POSSIBLE ROUTES FOR 2 LINES: MEDINI-RTS AND UTM-JB SENTRAL)



Source: Reddit, https://futuresoutheastasia.com/johor-bahru-lrt/

#### **RESIDENTIAL OVERHANG UNIT BY STATE**

Source: NAPIC, UOB Kay Hian

## JOHOR RESIDENTIAL OVERHANG TREND

Johor Unsold Units 12.000.00 10.000.00 8.000.00 6.000.00 4.000.00 2.000.00 

Source: NAPIC, CEIC, UOB Kay Hian

Comment: Based on NAPIC data, the number unsold units in Johor has subsequently reduced to 4,717 units during the 2Q23 from its recent peak of 7,030 units in the 4Q20. Based on our channel check, it appears that a significant portion of these unsold units can be attributed to Forest City. As reported by Channel News Asia, Forest City has seen the completion of a total of 28,000 residential units, with approximately 9,000 residents currently residing there. Furthermore, it has come to our attention that Forest City has successfully sold 90% of its total units, leaving 10% unsold. This implies that the overhang from Forest City is estimated to be around 2,800 unsold units, constituting 60% of Johor's overall unsold units.

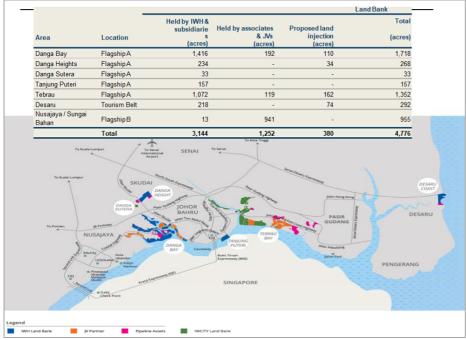


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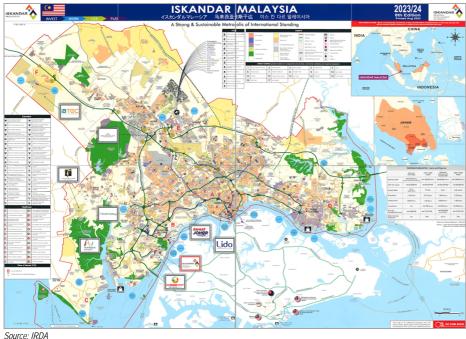
important to note that the HSR project is in its early stages, with the government exploring the project's feasibility using a fully privately funded framework, and likely spanning nearly a decade for its completion.

#### IWH GROUP LANDBANK-IN CLOSE PROXIMITY TO RTS BUKIT CHAGAR

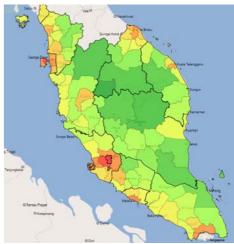


Source: IWH Group

### **ISKANDAR MALAYSIA**



### MALAYSIA POPULATION DENSITY - ISKANDAR MALAYSIA STILL NOT AS DENSE AS IN GREATER KUALA LUMPUR AND PENANG



Source: https://www.citypopulation.de/en/malaysia/admin/, UOB Kay

## JOHOR POPULATION - JB CITY CENTRE IS THE **MOST DENSE**



Source: https://www.citypopulation.de/en/malaysia/admin/. UOB Kay



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