

SECTOR UPDATE

Property – Malaysia

Data Centre Frenzy And Record High FDI To Spur The Sector

In 2H24, we expect the outperformance momentum to continue on: a) government policies like NIMP30 and data centre investment incentives boosting land sales for the industrial segment; b) new infrastructure projects (RTS, Penang LRT) enhancing connectivity and investment opportunities; and c) increasing FDI driving growth and demand for industrial and residential properties. Maintain OVERWEIGHT. Top picks: Lagenda, IOIPG and Mah Sing.

WHAT'S NEW

- The KLPRP once again outperformed the FBMKLCI.** In 2023, the KL Property Index (KLPRP) marked a significant performance with a 35% gain (vs -3% for FBMKLCI). This trend continued into 1H24, with KLPRP up 25% ytd compared to FBMKLCI's 11% increase. In 2023, developers like UEM Sunrise (+225%) and Iskandar Waterfront City (+170%) surged due to the proposed KL-Singapore High-Speed Rail (HSR) project. In 1H24, data centre frenzy boosted share price performances for Mah Sing Group (+113%) through a JV with Bridge Data Centres and Sime Darby Property (+134%) with a build-to-lease arrangement with Microsoft. Other developers' like Eastern & Oriental saw share prices rise 83% due to rising foreign direct investment (FDI) in Penang, with SP Setia's increasing 75% from huge land monetisation effort.
- Looking ahead to 2H24,** we believe this momentum will continue leveraging on catalytic themes such as: a) government policies (including the New Industrial Master Plan 2030 (NIMP30) and incentives for data centre investment, which may boost manufacturing and industrial land sales); b) new infrastructure projects, such as the Johor Bahru-Singapore Rapid Transit System (RTS) and Penang Light Rapid Transit (LRT) which enhance connectivity, create investment opportunities and increase landbank value for property developers; and c) increasing FDI which is expected to boost income, create growth and increase demand for industrial property and eventually residential property.
- Developers are on track to achieve 2024 sales targets,** with sector net profit to grow 22.5% yoy on better revenue and margins from improved efficiency. SP Setia is expected to report the highest net profit growth of 96% due to land sales. Excluding land sales, Lagenda has the highest earnings growth (33% yoy) on higher sales and launches from project expansions. For 2025, sector net profit is expected to decline 1.9% on lower land sales from SP Setia, but excluding this, the sector is expected to post a healthy 9% revenue growth and 15% net profit growth. We have not included recent land sales announcements (land sales from UEM Sunrise, Eco World and Sunway to data centre players) and earnings accretion from Mah Sing's land acquisition, hence there is still upside to our 2025 forecast.

ACTION

- Maintain OVERWEIGHT with Lagenda, IOIPG and Mah Sing as top picks.** While the sector is trading at 0.9x FY24F P/B, which is +1SD above its 10-year mean of 0.7x (sector share price has increased by +1SD since our upgrade to OVERWEIGHT earlier this year), previous highs were trading close to +3SD. Considering that every +1SD represents an approximate 16% upside, we believe there could be an additional 20-30% potential upside in the current vibrant market. In view of the record-high total investment for Malaysia over the past 2-3 years, we anticipate positive spillover effects on the property sector. Property transactions are hitting record highs, overhang is decreasing, and investment is climbing in the real estate sector, suggesting that the worst may be behind us.

PEER COMPARISON

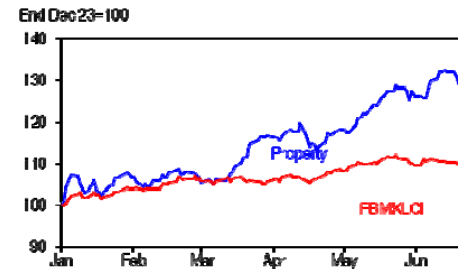
Company	Tickers	Rec	Price 05-Jul-24 (RM)	Target Price (RM)	Market Cap (RMm)	RNAV (RM)	Discount to RNAV	P/B FY24F (x)	P/B FY25F (x)	PE FY24F (x)	PE FY25F (x)	Div Yield FY24F (%)	ROE FY24F (%)	Revenue FY24F (RMm)	Net Profit FY24F (RMm)	Net Profit growth FY24F	Net Profit Margin FY24F
*EcoWorld	ECW MK	BUY	1.59	2.05	4,688	3.42	-54%	1.0	0.9	15.9	14.5	3.9	6.1	1,555	294	8	19
Mah Sing	MSGB MK	BUY	1.75	2.29	4,480	3.73	-53%	1.1	1.1	18.0	16.2	2.5	6.5	2,850	239	10	8
*Matrix	MCH MK	HOLD	1.85	1.92	2,315	2.96	-38%	1.0	1.0	9.3	9.1	5.6	11.1	1,410	248	6	18
SP Setia	SPSB MK	BUY	1.46	1.80	6,952	3.59	-59%	0.4	0.4	9.9	19.2	1.0	4.4	5,594	659	96	12
Sunway	SWB MK	HOLD	3.94	3.80	22,404	3.58	10%	1.6	1.6	31.3	29.2	1.4	5.2	6,375	746	7	12
UEMS	UEMS MK	HOLD	1.13	1.15	5,716	1.84	-39%	1.1	1.0	58.9	53.6	0.8	1.4	1,555	97	20	6
*IOIPG	IOIPG MK	BUY	2.21	3.06	12,169	5.53	-60%	0.5	0.5	16.5	14.7	2.4	3.2	2,891	739	15	26
Lagenda	LAGENDA MK	BUY	1.23	2.32	1,030	2.93	-58%	1.0	0.9	6.9	5.6	5.4	16.3	1,015	204	33	20

Source: Respective companies, Bloomberg, UOB Kay Hian; * Different FYE

OVERWEIGHT

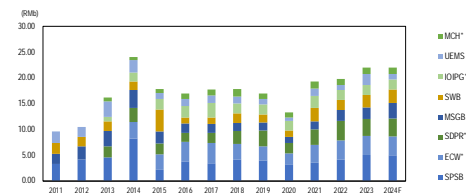
(Maintained)

PROPERTY INDEX OUTPERFORMS THE FBMKLCI



Source: Bloomberg

DEVELOPERS SALES



Source: Respective companies, UOB Kay Hian

KEY ASSUMPTIONS

(%)	2022	2023	2024F	2025F
Revenue Growth	23.2	6.3	12.2	1.4
EBIT Margin	18.8	21.4	21.2	20.6
Net Profit Growth	23.1	11.0	22.5	-1.9
Net Margin	12.2	12.7	13.9	13.4

Source: Respective companies, UOB Kay Hian

10-YEAR SECTOR P/B



Source: Respective companies, UOB Kay Hian

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ESSENTIALS

• **NAPIC data once again showed positive signs with 1Q24 transaction volume growing 17% yoy and transaction value rising 34% yoy.** The commercial property segment recorded the highest volume growth of 33% yoy in 1Q24, followed by residential (+17% yoy) and industrial (+14% yoy). The residential property segment continued to dominate transactions, making up 60% of volume and 45% of value, while commercial transactions made up 11% of volume and 24% of value. For the residential property segment, a sizeable portion of transactions (78%) were priced below RM500,000 in 1Q24, reflecting resilient demand in the affordable market segment. Meanwhile, in terms of key regions, Johor and Kuala Lumpur (KL) showed substantial growth (Johor: +24% yoy; KL: +19% yoy; Selangor: 14% yoy; Perak: 13% yoy; Kedah 8%; Penang: 4% yoy).

• **Residential overhang reduced further but serviced apartment overhang showed slight uptick.** Residential property overhang eased further to 24,208 units (-6% qoq, -10% yoy) in 1Q24 as reflected by developers' declining inventory levels. About 61% of residential property overhang comprised of condominium or apartment units and around 45.1% of residential overhang units were priced at RM500,000 and above. By region, Perak now has the most overhang (19% of the country's total residential overhang) compared to Johor previously (15%). However, for service apartments, overhang rose 5.2% to 21,913 units, with a 9.7% rise in value to RM18.2b. This was due to an increase in overhang from Johor and Selangor due to the completion of new projects. In terms of absolute numbers, both Johor's and Selangor's overhangs were still stable and remained below the 2020 levels.

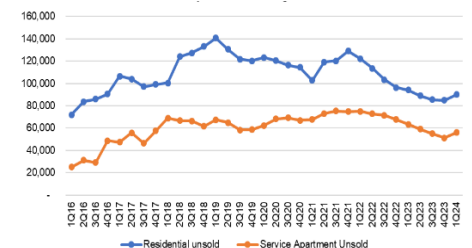
• **On the demand front, May 24 residential loan applications improved 12% mom and 6% yoy while approvals were up 13% mom and 7% yoy.** May 24 non-residential loan applications (eg commercial, industrial) increased 7% mom but decreased 4% yoy. May 24 non-residential approvals declined by 9% mom and 4% yoy due to a particularly high base in Apr 24 and May 23. Cumulatively, the non-residential segment is showing stronger growth with loan applications increasing 7% yoy while loan approvals increased 17% yoy. Cumulative residential segment loan recorded 2% yoy growth in application and 1% yoy growth in approval. Moving forward, we expect loan applications and approvals to be mostly driven by non-residential applications, such as industrial and commercial property loan applications (in view of increasing FDI in Malaysia and expansion/relocation of manufacturing hub), while residential property is likely to remain resilient.

• **Industrial property sector poised for substantial growth, driven by expansion/relocation of manufacturing hub and increased FDI.** We have seen developers strategically increasing their exposure to industrial properties, recognising the sector's potential for high returns and sustainable growth. By leveraging government incentives (such as NIMP30), developers with substantial industrial land banks are well-positioned to capitalise on this burgeoning market. Furthermore, industrial property sales typically have higher margins than residential properties and a shorter land turnover period, offering better earnings accretion for developers.

• **Data centre boom to benefit developers with landbanks and access to reliable water and power resources,** either through selling or leasing land to data centre operators in key areas like Johor and Klang Valley. Recent transactions in these regions highlight the potential for significant financial gains. The continued growth of Malaysia's digital economy, coupled with supportive government policies, ensures that the data centre boom will remain a significant driver for investment in the coming years.

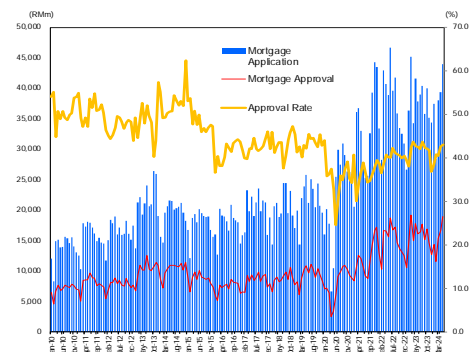
• **Positive news flows and developments expected in the near term could further boost investor sentiment.** Firstly, based on our channel checks, the Johor government is expected to announce its decision on whether or not to build an autonomous rapid transit (ART) system in Johor Bahru (instead of the initial proposal of LRT) by 3Q24. Secondly, more details and incentives pertaining to an SEZ are expected to be announced during Budget 2025. We believe these developments should sustain trading interest in the property sector. While there has been some profit-taking in property counters due to significant gains since last year, we have observed continued interest from foreign and institutional investors, particularly those with less exposure to property. As a result, property share prices have remained resilient despite the profit-taking. As mentioned previously, there were significant gains in counters involved in DC-related deals, thus we think the theme will continue in 2H24.

MALAYSIA OVERHANG UNIT IN DECLINING TREND



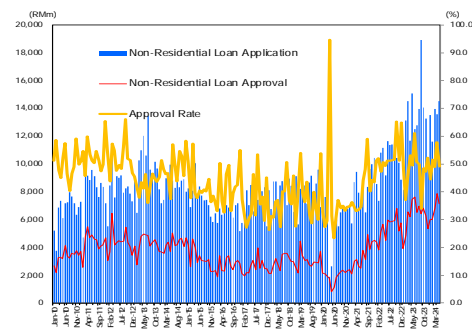
Source: NAPIC

RESIDENTIAL LOAN APPLICATION AND APPROVAL ABOVE 2011-2014 UPCYCLE



Source: BNM, CEIC

NON-RESIDENTIAL LOAN APPLICATION AND APPROVAL ABOVE 2011-2014 UPCYCLE



Source: BNM, CEIC

DEVELOPERS WITH INDUSTRIAL LANDBANK

Company	Location	Land (acres)	GDV (RMb)
Sime Darby Property	Klang and Negeri Sembilan	3,000 (approximately)	15
EcoWorld	Eco Business park in Johor and Klang Valley	1,176	5.8
SP Setia	Business Park 1 (Setia Alam) and 2 @ Johor	967	7
IOIPG	Banting and Senai	590	3.9
NCT Alliance	Kuala Langat	489	3
Sunway	Kuang, Rawang	245	2
AME Elite	Johor and Selangor	300	2.3
Mah Sing	Selangor	712	3.3
PLS	Kota Tinggi, Johor	1,000	1.7
UEMS	Nusajaya (pending approval)	753	3
Crescendo	Nusa Cemerlang	626	3

Source: Respective Companies, UOB Kay Hian

RELATED DATA CENTRE ANNOUNCEMENT FOR DEVELOPERS

Company	Operator	Structure	Selling Price psf (RM)	Estimated Land Cost psf (RM)	Estimated Net Margin	Total value (RMm)	Size (MW)
KLANG VALLEY							
Sime Darby Property	Google	Build-to-lease (49 acres)	n.a.	n.a.	n.a.	2,000	80 (can scale up to 100MW)
Mah Sing	Bridge Data Center	JV partner (18 acres)	160	18.57	60%	TBD	100 (can scale up to 500MW)
JOHOB							
JLand	Princeton	Land sale- Sedenak (31 acres)	n.a.	n.a.	n.a.	n.a.	150
AME Elite	Digital Hyperspace Malaysia	Land Sale- Iskandar Puteri (35 acres)	138	58.53	41%	210	n.a.
AXIS REIT	Not Disclose	Land Sale - SILC (27 acres)	138	130.5	0.3%	162	n.a.
Paragon	Bridge Data Center	Land Sale- Plentong (48 acres)	114	28.9	29%	238	n.a.
Crescendo	STT	Land Sale-Nusa Cemerlang (22 acres)	120	10-15	58%	117	n.a.
Crescendo	Yu Ao (Epoch Digital)	Land Sale-Nusa Cemerlang (20 acres)	125	15	57%	111	n.a.
Crescendo	Microsoft	Land Sale-Nusa Cemerlang (60 acres)	120	15	55%	315	n.a.
Crescendo	Microsoft	Land Sale-Nusa Cemerlang (25 acres)	120	15	61%	132	n.a.
UEMS	Logos	Collaboration-Iskandar Puteri (74 acres)	TBD	n.a.	n.a.	TBD	360
ECW	Microsoft	Land Sale-Kulai (123 acres)	75	12	40-50%	403	n.a.
UEMS	Not Disclose	Land Sale-Iskandar Puteri (29 acres)	115	70	27%	145	n.a.
Crescendo	Halo Digital	Land Sale-Nusa Cemerlang (20 acres)	130	18	61%	116	n.a.
River Retreat (80% Khazanah, 20% IWH)	TM-Singtel	Land Sale-Iskandar Puteri (41.8 acres)	98.03	na	na	178.23 for land cost only (RM9b investment)	64 (but can scale up to 200MW)
Sunway	Equalbase	Land Sale-Iskandar Puteri (64 acres)	136	60-70	40-50%	380	n.a.

Source: Various News, respective companies, UOB Kay Hian

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