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Johor

Transitioning Into A Supercharged Growth Phase



Invest Johor 2024

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

- Johor: Malaysia's next growth engine.** As Malaysia's third largest contributor to GDP, Johor stands out with its strategic location, advanced infrastructure, and a diverse economic landscape that includes robust manufacturing activities and a strong services sector. We believe the Government-led catalytic developments as well as influx of foreign and domestic direct investments will help to lift the construction, data centre, energy, petrochemicals, industrial, tourism sectors, in addition to a positive spill over to the property market.
- Robust growth potential.** We see robust growth driven by two high-impact projects: the Johor-Singapore Special Economic Zone (JS-SEZ) and the Special Financial Zone (SFZ) in Forest City. The Johor Bahru-Singapore Rapid Transit System (RTS) Link project is a catalytic project that will boost connectivity between the two countries and is 77.6% completed as of May 2024 and remains on track to begin operations by early 2027. The potential resurrection of the KL-Singapore High Speed Rail (HSR) will further expand the greater Johor hinterland in the decades ahead. The recent deluge of new data centre (DC) investments has seen Johor capture nearly 2GW of new capacity helped by restrictions on new DC builds in Singapore.
- RTS to ramp up cross-border traffic.** Work progress on the RTS Link project has significantly boosted buyers' confidence, given the visibility of growth prospects. The RTS Link 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 housing in the central region of Johor is likely to grow more significantly in the coming years, while the influx of new investments will translate into higher affordability in the long run. Major developers remain confident on the long-term outlook with Johor continuing to be an important market.
- Johor is bustling with construction activity.** The state's value of construction work done on a quarterly basis reached MYR4.8bn in 1Q24 - the highest in 19 quarters, and the second largest among all the states. Concurrently, Johor saw MYR20.5bn worth of construction projects awarded as of early Aug 2024, just behind Selangor which recorded MYR25.5bn worth of projects awarded during the same period. With favourable labour conditions and more manageable building material price trends, contractors are in a sweet spot to leverage on Johor's infrastructure revolution.
- Johor thematic stock ideas:** We like UEM Sunrise (UEMS) and Sunway in the Johor property space. For construction, we highlight Sunway Construction (SCGB), Kerjaya Prospek (KPG), and Malaysian Resources Corp (MRCB). Other beneficiaries of the Johor growth story include Tenaga Nasional, YTL Power, AME REIT and VS Industry.

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Company Name	Rating	Target (MYR)	% Upside (Downside)	P/E (x) Dec-25F	P/B (x) Dec-25F	ROAE (%) Dec-25F	Yield (%) Dec-25F
AME REIT	Buy	1.53	7.7	18.8	1.3	6.9	5.8
Kerjaya Prospek	Buy	2.45	28.3	13.7	2.0	15.0	5.2
Mah Sing	Buy	2.26	34.3	15.2	1.0	6.9	3.0
Malaysian Resources Corp	Buy	0.80	48.7	44.5	0.5	1.2	1.9
Sime Darby Property	Buy	2.00	39.6	19.5	0.9	4.7	2.0
SP Setia	Buy	1.72	20.1	17.6	0.4	2.4	1.2
Sunway	Buy	5.00	27.5	27.4	1.6	6.1	1.5
Sunway Construction	Buy	6.29	43.3	20.0	5.6	29.9	3.0
Tenaga Nasional	Buy	16.10	15.0	17.6	1.3	7.4	3.7
UEM Sunrise	Buy	1.60	55.7	56.9	0.7	1.3	-
VS Industry	Buy	1.49	40.6	13.2	1.7	13.2	3.8
YTL Power	Buy	6.68	57.9	11.6	1.6	14.0	2.6

Source: Company data, RHB

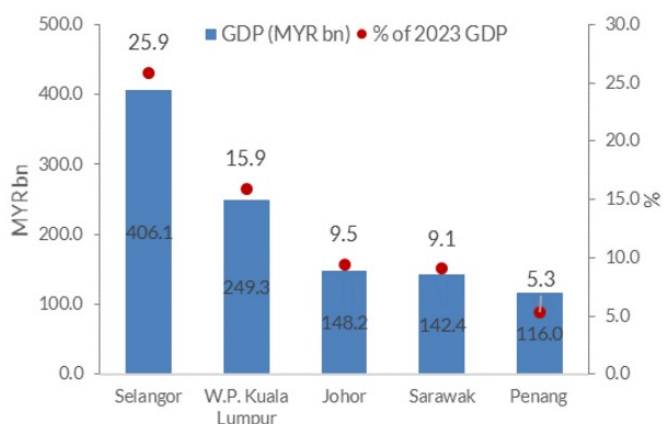
Navigating Johor's Economic Growth: Insights And Opportunities

As Malaysia's third largest GDP contributor, Johor stands out with its strategic location, advanced infrastructure, diverse economic landscape, and forward vision. We believe that Johor's economic growth will continue to surpass the national average, fuelled by its robust manufacturing sector, sustained strength in its services industry, advantageous location and well-developed infrastructure, as well as supportive policies from both state and federal governments. Johor has a well-developed infrastructure that includes ports, airports, road network, and utilities, complemented by competitive business operation costs. The state stands out with its diversified economic base, encompassing key sectors such as manufacturing, automotive, petrochemicals, and more.

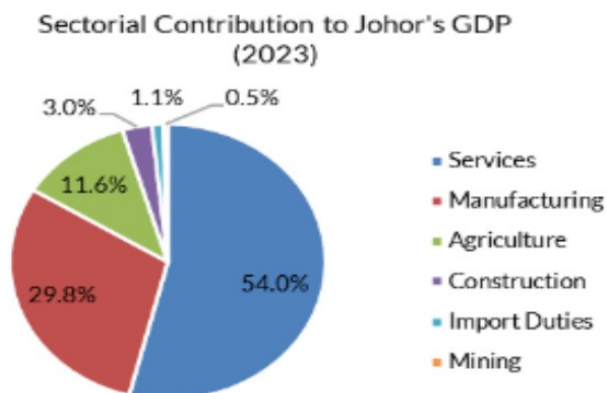
Johor accounts for 9.5% of Malaysia's GDP. The state's GDP growth has generally outpaced the national average in recent years, expanding by 4.1% YoY in 2023, compared to Malaysia's +3.6% YoY. Johor is the second most populous state, and benefits from a substantial and growing labour pool. The state's large population provides a steady supply of workers to meet the demand of its expanding industries. Johor's economic activities, including significant investments in high-tech and services sectors, help generate a diverse range of employment opportunities across different skill levels, where the state has contributed to 13% of the national employment figure for Malaysia as of end-2023.

Figure 1: Johor is the third largest GDP contributor in Malaysia

Figure 2: Services and manufacturing sectors are the main drivers of Johor's GDP



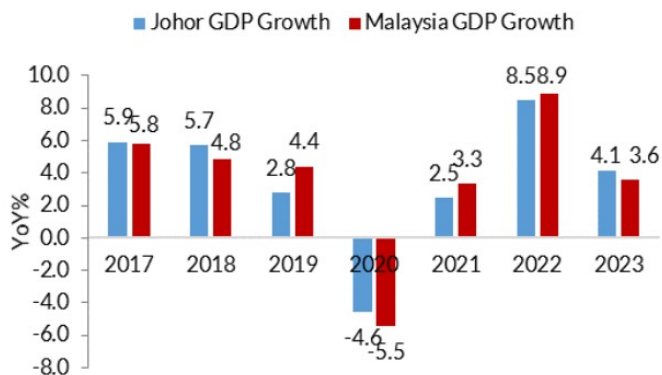
Source: Macrobond, RHB Economics & Market Strategy



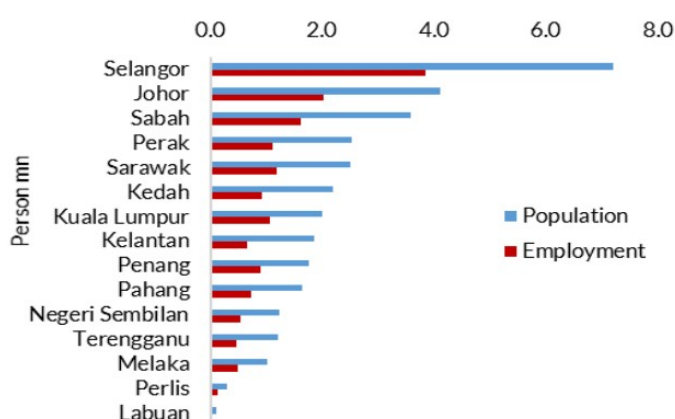
Source: Macrobond, RHB Economics & Market Strategy

Figure 3: Johor's GDP growth has mostly outperformed the national GDP growth average in recent years

Figure 4: As the second most populous state, Johor accounts for 13% of the national employment figure



Source: Macrobond, RHB Economics & Market Strategy



Source: Macrobond, RHB Economics & Market Strategy

12 August 2024

Market Outlook | Market Strategy

The state's economy is primarily driven by the services and manufacturing sectors, which contribute 84% of Johor's GDP. Johor's services sector has experienced the fastest growth among Malaysian states over the past five years. Several economic and demographic factors fuel the services sector there – consumer spending and retail trade are buoyed by a rising middle class and increasing per capita income. Additionally, Johor's embrace of digital transformation opens up further opportunities in information technology (IT) services, software development, and digital marketing. Ongoing investments in infrastructure, including transportation and digital connectivity, are also enhancing the sector's capacity and efficiency.

In 2023, Johor's manufacturing output expanded by 2.8% YoY, outpacing the national growth rate of 0.7%. The state's manufacturing sector is highly diverse, with sectors that include E&E, automotive, and petrochemicals. Johor's industrial parks, notably the Iskandar Malaysia (IM) region, have attracted substantial foreign direct investment (FDI) and house the facilities of numerous multinational corporations. This flagship economic zone is designed to attract high-value industries and global investors, offering tax incentives, specialised business parks, and a business-friendly regulatory environment. We anticipate continued robust growth in the manufacturing sector, supported by various key government initiatives and projects.

Figure 5: Johor's GDP is led by labour market conditions, demand for office space, and tourism-related demand

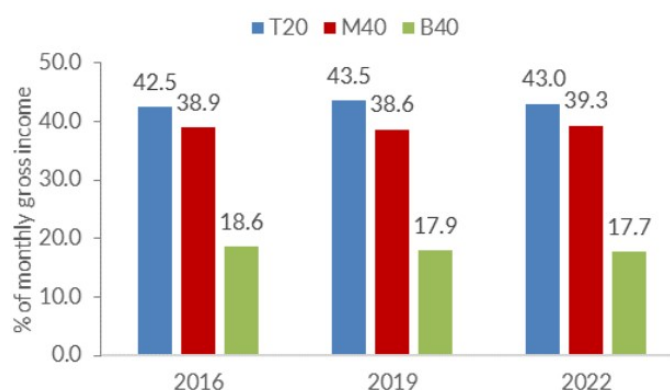
Figure 6: The rising higher-income and middle-income groups in Johor will support consumer spending

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.955936
R Square	0.913813
Adjusted R Square	0.870719
Standard Error	0.00628
Observations	10

Dependent Variable: Johor GDP YoY %				
	Coeff	Std Error	t Stat	P-value
Intercept	0.011094	0.006449	1.720458	0.136138
Employed YoY	0.441519	0.088501	4.988871	0.00248
Office Rental: Johor Bahru YoY	1.106231	0.15726	7.034399	0.000412
Hotel Room Occupancy Rate YoY	0.168921	0.058324	2.896269	0.027468

Source: RHB Economics & Market Strategy



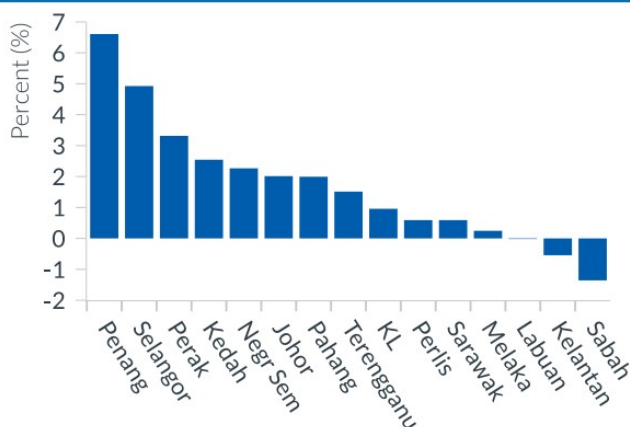
Source: CEIC, RHB Economics & Market Strategy

To further substantiate our view on Johor's growth drivers, our quantitative analysis indicates that Johor's GDP is led by: i) Labour market conditions, ii) the demand for office space, and iii) demand related to tourism. Our sample size is on an annual basis over 10 years, ie 2010-2019. Our key conclusions are:

- Johor's GDP is primarily led by its office rental demand, as seen from the highest coefficient reading, which is a likely proxy for businesses' need to have a physical presence;
- While labour conditions and tourism levels are viable indicators of Johor's vibrant hospitality and services sector, we found that investment approval and house prices have limited relevancy (P-value > 0.05) in the model.

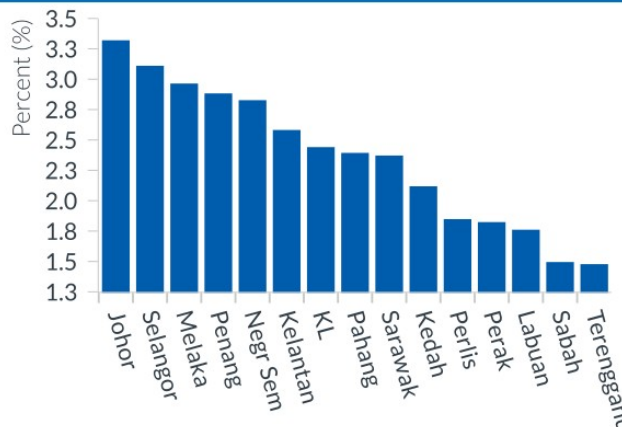
Overall, the regression model highlights a strong goodness-of-fit R-Square reading of 0.914. More importantly, the model has adequately illustrated that Johor's key driver has been increased foreign corporate interest in setting up a local presence in the state, while still being supported by its services sector via the hotel occupancy and strong services-related labour backdrop. It also suggests that there is room for growth in manufacturing and investment – especially in electronics, semiconductors, automotive, chemicals, and machinery, given the stark absence of relevant proxies in the said model. As such, we believe the SEZ should develop Johor's manufacturing, warehousing, and trade distribution-related logistics and transportation sectors.

Figure 7: Johor has been the third largest manufacturing GDP contributor over past five years, with an average growth of 2.0%



Source: Macrobond, RHB Economics & Market Strategy

Figure 8: Johor chalked the fastest growth in the services sector among the states over the past five years



Source: Macrobond, RHB Economics & Market Strategy

Johor plays a crucial role in Malaysia’s trade, due to its strategic location, well-developed infrastructure, and robust industrial capabilities. As the second-largest contributor to Malaysia’s trade, Johor accounted for 29% of national total trade in 2023 (trade value: MYR753.1bn). The state’s industrial base is vital to Malaysia’s export sector, with [key exports](#) including refined petroleum, integrated circuit boards, and E&E products. Johor’s ports and logistics infrastructure are crucial to South-East Asia’s trade network. Major ports such as the Port of Tanjung Pelepas (PTP) and Johor Port offer exceptional connectivity for export and import activities. [PTP](#) is one of Malaysia’s busiest ports and largest trans-shipment hubs, handling a significant share of the country’s container traffic and serving as a major gateway for trade with regional and global markets. Johor’s strategic position and logistical advantages have optimised global supply chains and established the state as a gateway to regional markets.

Johor continues to be a leading investment destination in Malaysia for 2023, attracting significant interest from domestic and international investors. The state’s appeal is driven by its robust infrastructure (eg ports, road networks) and being well-equipped with utilities services as well as abundant labour. In 2023, the Malaysian Investment Development Authority (MIDA) approved 751 projects in Johor totalling MYR43.1bn – accounting for 13% of the national figure. These [projects](#) are expected to create 19,053 new jobs. The investments span across several high-tech manufacturing sectors, including E&E, chemicals and chemical products, and machinery and equipment. Additionally, the services sector saw approved investments in ICT – covering data centres, cloud services, software and system design, and creative and digital content.

Figure 9: As the second largest contributor to national trade, Johor accounts for 29% of Malaysia’s total trade



Source: Macrobond, RHB Economics & Market Strategy

Figure 10: Johor has attracted a significant amount of investment from the domestic and foreign front

Approved investments In Various Sectors by State (2023)					
	No. of projects	Employment ('000)	Domestic Investment (MYR bn)	Foreign Investment (MYR bn)	Total Investment (MYR bn)
Penang	415	20.7	10.2	61.7	71.9
Kuala Lumpur	768	25.7	27.8	30.6	58.3
Selangor	1,319	33.1	37.9	17.3	55.3
Johor	751	19.1	12.1	31.0	43.1
Kedah	238	9.7	4.6	24.1	28.7
Sarawak	267	2.5	13.5	7.8	21.3
Sabah	126	1.2	11.2	0.1	11.3
National	5,101	127.3	141.1	188.4	329.5

Source: Malaysian Investment Development Authority (MIDA), RHB Economics & Market Strategy

A Positive Game Changer – Johor-Singapore Special Economic Zone

Special zones to spur economic growth

Malaysia and Singapore signed a MoU on 11 Jan 2024 to work on the JS-SEZ that would pave the way for increased cross-border trade and investments, as well as stronger economic connectivity between Johor and Singapore. The agreement to finalise the establishment of the JS-SEZ will be signed in 2H24 (please refer to our report dated 12 Jan 2024 ([Market Strategy: Johor-Singapore Special Economic Zone](#))).

The SEZ is designed to foster stronger business connections and improved connectivity between the two countries. Like Singapore, Johor's chief economic contributor is trade and services and the JS-SEZ initiatives are likely to complement Malaysia and Singapore in enhancing economic collaboration. Investors' opinions are nothing short of optimistic – 93% of Singapore businesses consider Johor an attractive investment destination, with 50% of companies already having a presence in the state itself.

The JS-SEZ will be developed in the areas of Iskandar Malaysia and Pengerang involving an area of 3,505 square kilometers. Johor's Chief Minister Datuk Onn Hafiz Ghazi said the JS-SEZ will involve five local authorities namely Johor Baru, Iskandar Puteri, Pasir Gudang, Kulai and Kota Tinggi. The Johor Government has proposed 16 economic sectors that are expected to provide socio-economic benefits to the state and the nation. It involves the electricity and electronics sector; medical; pharmaceuticals; aviation, specialty chemicals; logistics, health and education sectors. In addition, it includes the financial and business services; energy; digital economy; tourism; food; agricultural technology; creative industry; *halal* industry and manufacturing sectors.

In fact, the Malaysian Government has made progress on two out of the seven initiatives outlined in the JS-SEZ MoU in April. The two initiatives were to establish the Investment Malaysia Facilitation Centre Johor (IMFC-J) and implementing a QR code-based immigration clearance for Malaysians travelling to Singapore.

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 11: Flagship zones of Iskandar Malaysia



Source: Iskandar Malaysia

Special Financial Zone (SFZ)

On 25 Aug 2023, the Government announced the introduction of a Special Financial Zone (SFZ) in Forest City, aimed at boosting investment. The SFZ is meant to attract foreign investment, enhance economic growth, and foster the development of specific industries, particularly financial services.

Key incentives reported so far include:

- i. Specialised income tax rate of 15% for skilled workers, compared to 30% elsewhere;
- ii. The provision of multiple entry visas or fast entry of workers from Singapore, aimed at attracting and retaining talent and businesses in the area;
- iii. Access to high-quality infrastructure, including advanced telecommunications and transportation systems.

Other incentives for the SFZ in Forest City are pending finalisation.

Rail transport to be further enhanced in Johor

An ongoing major rail project in Johor at the moment is the RTS Link project (estimated investment of MYR3.7bn), which was 77.6% completed as of May 2024 and remains on track to begin operations by early 2027. The RTS Link 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.

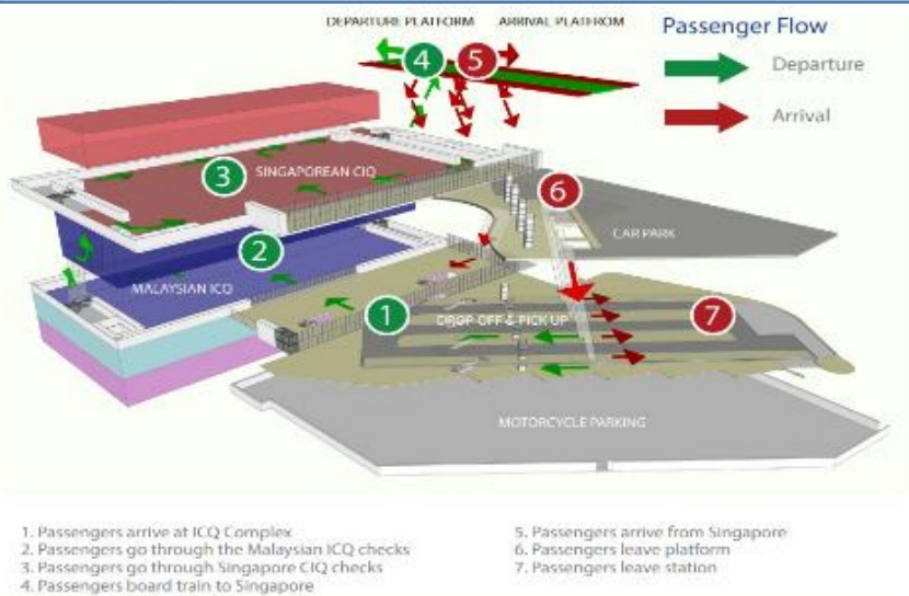
Another important feature of the RTS Link is the co-location of an immigration, customs, and quarantine (ICQ) complex for Malaysia and Singapore in one building – enabling passengers to only undergo clearance once at their point of departure. Upon arrival, passengers will just leave the station without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

Figure 12: RTS alignment



Source: MRT Corp

Figure 13: Passenger flow at the ICQ Complex near Bukit Chagar Station



Source: MRT Corp

MyHSR Corporation, the government-owned entity overseeing the HSR's development, received concept proposals from seven local and international consortia by the 15 Jan 2024 deadline – which is part of the request-for-information (RFI) exercise for the HSR. The RFI was conducted to assess the private sector's ability to fully finance the project without state funds or guarantees. It was reported that [three consortiums had been shortlisted](#) for the project. They were YTL Construction-SIPP Rail, Berjaya Rail-Keretapi Tanah Melayu Berhad-Malaysian Resources Corp-IJM Construction and a Chinese consortium led by state-owned China Railway Construction. The government's policy is to allocate strategic assets like the HSR to a group that is at least 51% owned by Malaysian firms. Malaysia will decide by this year whether it is full steam ahead with plans for a high-speed rail line between Kuala Lumpur and Singapore, as it shortlists proposals from a narrowing list of private consortiums to back the project.

Figure 14: Alignment and stations for the HSR under the previous proposal



Source: MRT Corp

Johor’s pathway to becoming an industrial powerhouse

Johor is now the ninth largest DC market in APAC as ranked by [Baxtel](#) boasting 13 operational data centres spread across more than 1.65m sq ft, with four more facilities undergoing construction. In fact, around 62% of the committed IT supply of DCs in Malaysia are coming from Johor, with the remainder from Kuala Lumpur.

State-owned Johor Corporation is developing the 7,290-acre Ibrahim Techopolis (IBTEC) (estimated development period of 25 years) – an integrated industrial smart township project that includes the 700-acre Sedenak Technology Park (STeP) Phase 1. We learnt that the take-up rate for STeP Phase 1 has hit 95% and while 676 acres has been earmarked for the STeP Phase 2.

STeP 1 has c.360 acres being covered with operational and planned DC capacity of over six DCs with a total investment and capacity of MYR25bn and 885MW. Therefore, there is still about c.300 acres which has yet to see the onset of DC construction (assuming that there is no other DCs planned at the moment) – translating into a remaining c.MYR20bn worth of DC investments that have yet to kick off in STeP 1 itself.

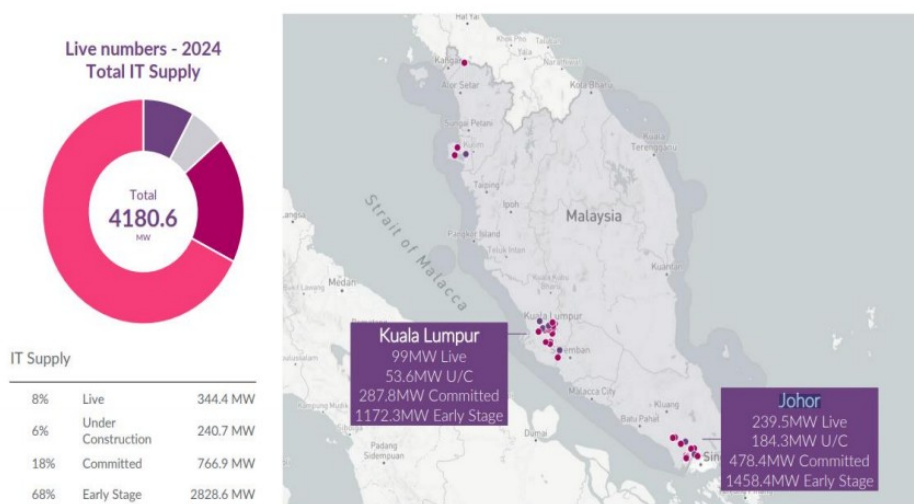
More importantly, Johor’s appeal as a fledgling DC hub received a major shot in the arm after the Singapore Government issued a moratorium on new DC construction in 2019, over sustainability concerns. While the moratorium was lifted in early 2022, more stringent conditions were laid out for the construction of DCs, including a cap on capacity (please refer to our thematic report: Rise of Data Centres in ASEAN dated 13 Apr 2023 ([Telecommunications: The Rise Of Data Centres In ASEAN](#))).

Figure 15: DC clusters in Johor



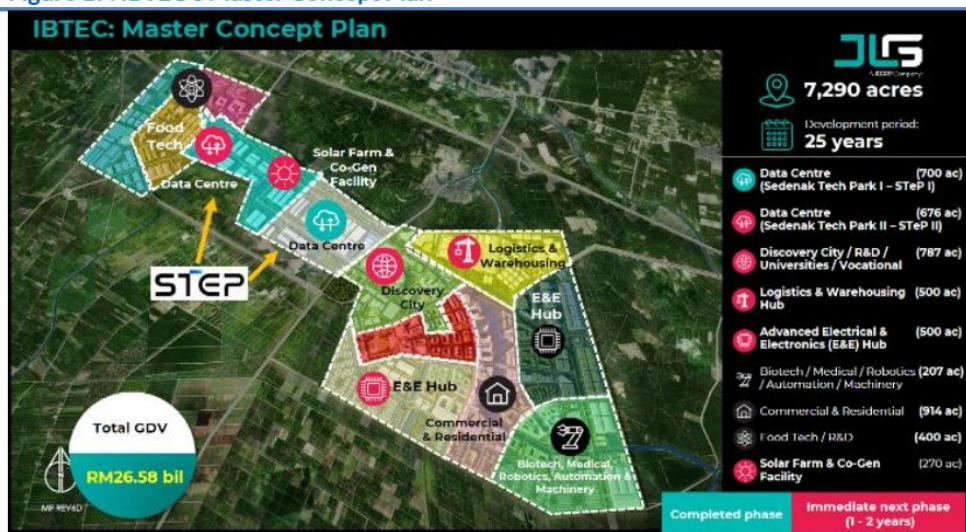
Source: Channelnewsasia.com, Google Maps, Data Centre Maps (Infographic: Rafa Estrada)

Figure 16: Total IT supply of DCs in Kuala Lumpur and Johor



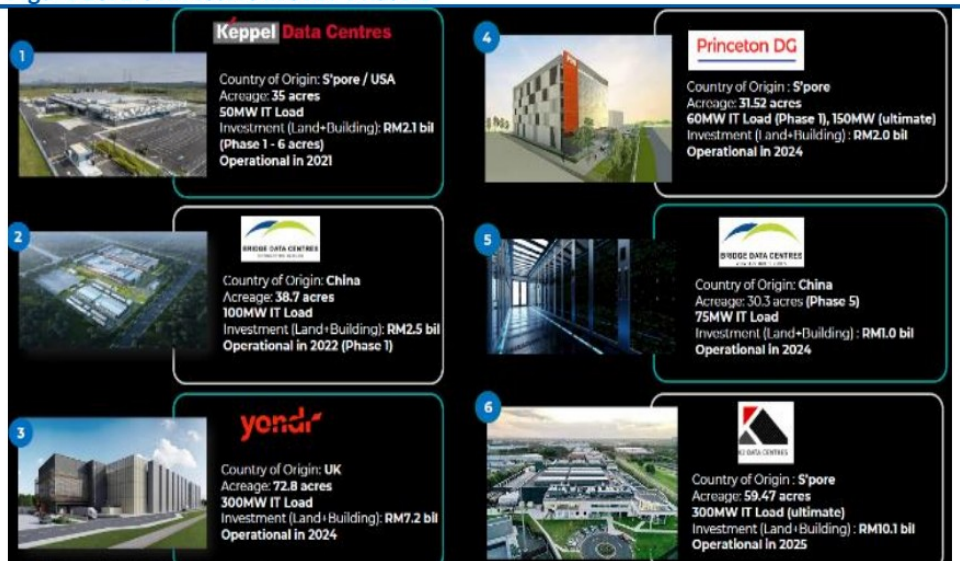
Source: DC Bytes

Figure 17: IBTEC's Master Concept Plan



Source: Johor Corporation

Figure 18: DC investors in STeP Phase 1



Source: Johor Corporation

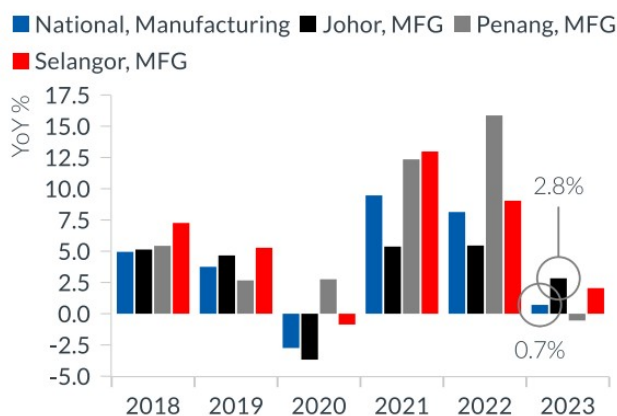
Tenaga Nasional also playing its role in attracting DCs. The Green Lane Pathway policy introduced by TNB expedites electricity supply to data centres by reducing the implementation period through a direct tie-up with TNB itself. Prior to this, the electricity supply process was within the permitted period based on the Electricity Supply Application Handbook which is between 36 and 48 months. The Green Lane Pathway has reduced the electricity supply process to 12 months and works alongside a one-stop centre with dedicated services for data centre investors. Separately, the Johor State Government is building the country's largest substation in Sedenak which could house 1GW of power to mainly power DCs.

For water supply utilised mainly for cooling systems of DCs – data from RanhiISAJ shows that it has received applications for 439.67m litres per day (MLD) of water between 2024 and 2035 from data centres. Of this amount, 316.38MLD have been supported, while the remaining 30.51MLD have yet to be supported by the water operator.

The Johor State Government will look for additional water resources for future industrial use with Johor Special Water, a subsidiary of state company Permodalan Darul Ta'zim, although the current water supply in the state is sufficient at the moment. These include building new water treatment plants and installing new piping to connect water sources to new areas, as well as exploring new water sources through Johor Special Water.

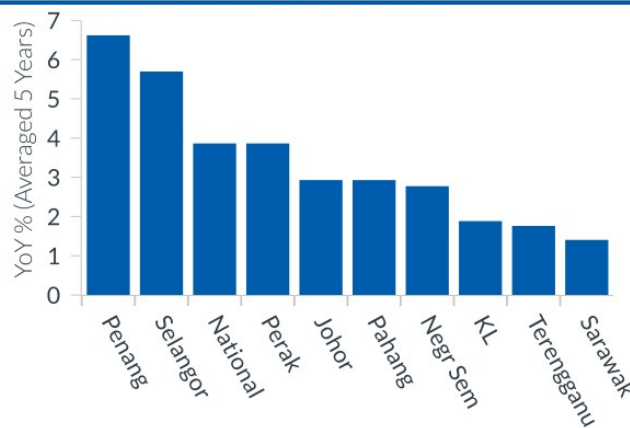
As mentioned earlier, Johor’s manufacturing sector has huge upside potential given: i) The outperformance of its manufacturing sector, especially in 2023, and ii) while remaining below the national average over the last five years. Specifically, the economic zone will support Johor’s key external-facing industries such as manufacturing, warehousing, and trade distribution-related logistics and transportation. We also look for further development in Johor’s electronics, semiconductors, automotive, chemicals, and machinery. Beyond the short-to-medium term, we think the JS-SEZ can also promote R&D, technology transfers and innovation – which will benefit industries related to IT, biotechnology, renewable energy (RE), and other high-technology sectors.

Figure 19: Johor’s manufacturing growth surpassed the national average in 2023...



Source: Macrobond, RHB Economics & Market Strategy

Figure 20: ... while much room for development is observed, given Johor’s MFG below national growth levels



Source: Macrobond, RHB Economics & Market Strategy

Beyond manufacturing, Johor’s services sector – a key contributor to its economic performance – will scale further heights, considering the increased flow of human movement between Johor and Singapore. We think the JS-SEZ will attract more tourists and business travellers, thereby supporting the growth in tourism and hospitality sectors, including hotels, restaurants, entertainment venues and other tourism-related services. With the increased trade and tourism contribution, Johor’s financial services sector – especially banking and insurance – could see further support as businesses look to expand into Johor and require financial-related services.

We also see medium-long-term benefits for Malaysia, given the collaboration with Singapore through the JS-SEZ, which could spill over to enhancing financial and logistics activities, including the likely introduction of special tax incentives, passport-free travel, the increased drive to harmonise rules surrounding e-commerce and trade across the two economies. Some recent breakthroughs were Singapore-Malaysia’s PayNow-DuitNow system, which enables person-to-person transfers. In our view, the move to harmonise these rules will allow Malaysia and Singapore to lower costs of manufacturing activities via higher levels of comparative advantage, and allow companies to build supply chains to leverage across different skills and resources.

Property: Greater Johor In The Making

Overweight

Revival of the Iskandar property market

We think the Iskandar property market has moved on from the supply glut issue. 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 Link 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.

We believe the RTS Link 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 the RTS Link at the end of 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 Link 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, several newer projects are seeing a strong take-up, mostly by Johor locals.

During our trip in July, we learnt 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 21: RTS Link across the Straits of Johor



Source: South Corridor Malaysia Youtube channel

Figure 22: RTS Link across the Straits of Johor (night view)



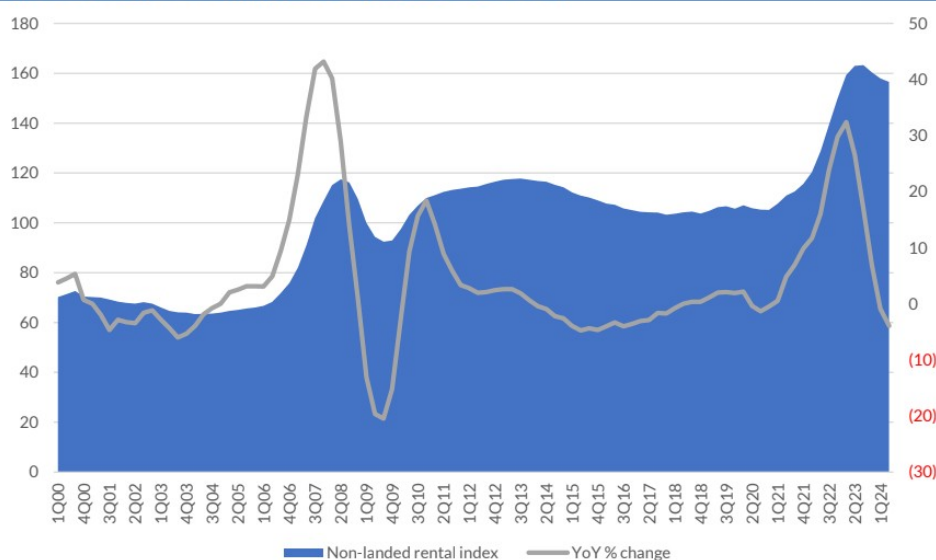
Source: RHB

Additional positive spill over 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 during the pandemic period – 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 Apr 2023, 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 Link and the upcoming HSR should drive demand for property in the Iskandar region over the longer term.

Figure 23: Rentals in Singapore surged post COVID-19



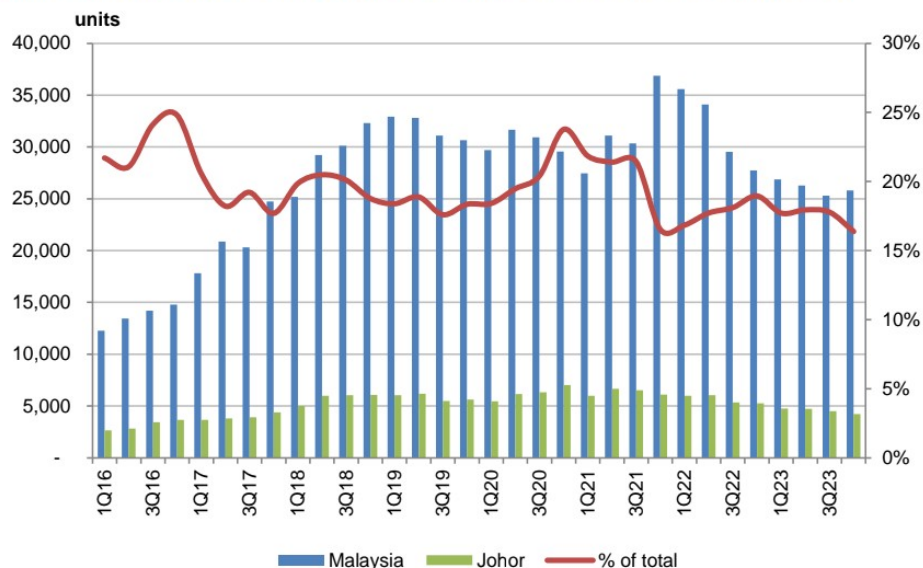
Source: Urban Redevelopment Authority

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 National Property Information Centre (NAPIC) data, the number of overhang units in Johor peaked at 7,030 in 4Q20, and has since eased to 4,228 in 4Q23.

We believe the overhang units will continue to trend lower in the coming years, given: 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 Link, 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 24: Residential overhang units for Malaysia and Johor are trending down



Source: National Property Information Centre (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 3-4 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. Rising demand for industrial property products has also boosted the overall sales from the Johor region. 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 25: Increasing property sales from IM reported by major developers

Company	Property sales (MYRm)						
	FY20	FY21	(% change)	FY22	(% change)	FY23	(% change)
UEMS	684	419	-39%	368	-12%	222	-40%
Sunway	63	78	24%	111	42%	171	54%
Eco World	608	1,109	82%	1,302	17%	1,594	22%
SP Setia	415	556	34%	615	11%	859	40%
IOIPG	-	359	-	515	43%	772	50%
Mah Sing	175	157	-10%	366	133%	582	59%

Source: Company data, RHB

IM – an important market for Eco World

Eco World currently has eight ongoing projects in IM, comprising four township projects and four 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 14,000 units of properties worth MYR12bn, despite the slowdown in the overall property market. From FY14 to FY23, Eco World, on average, sold over MYR1bn worth of properties in IM every year. As of May 2024 (FYE Oct), it has already raked in MYR1.33bn worth of sales from this region alone, out of a total of MYR2.18bn property sales.

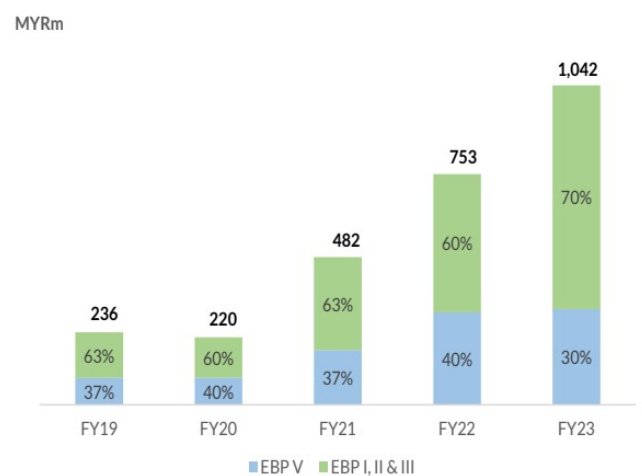
As shared by Eco World president and CEO Dato’ Chang Khim Wah during our Johor thematic virtual corporate day last year, the company saw a strong pick-up in industrial properties in recent years. Sales from all of Eco World’s business park projects recorded a 4-year CAGR of 68% from FY20-23 (MYR220m to MYR1.04bn), and the three business parks in Johor contributed 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 26: Eco World’s annual sales and contribution from IM



Source: Company data

Figure 27: Sales contribution from Eco Business Parks I, II, & III in Johor vs Eco Business Park V in the central region

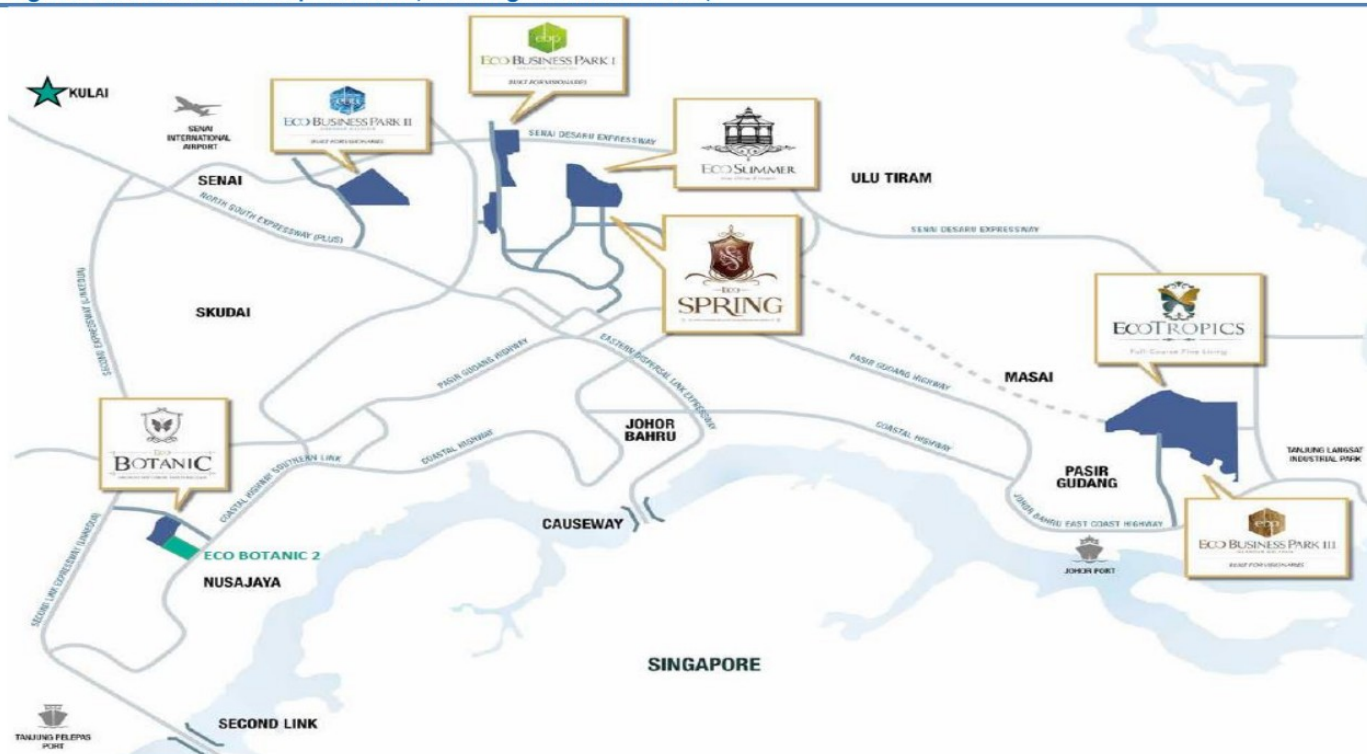


Source: Company data

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 Mar 2023. 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.

In Sep 2023, the company’s 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. This project, which was called Eco Business Park VI (and recently renamed as Quantum), has an estimated GDV of MYR1.58bn. Within a short span of time (in June this year), Eco World sold 123 acres of land in Quantum to Microsoft Payments (M) for MYR402.3m or MYR75 psf.

Figure 28: Eco World's footprint in IM (including new land in Kulai)



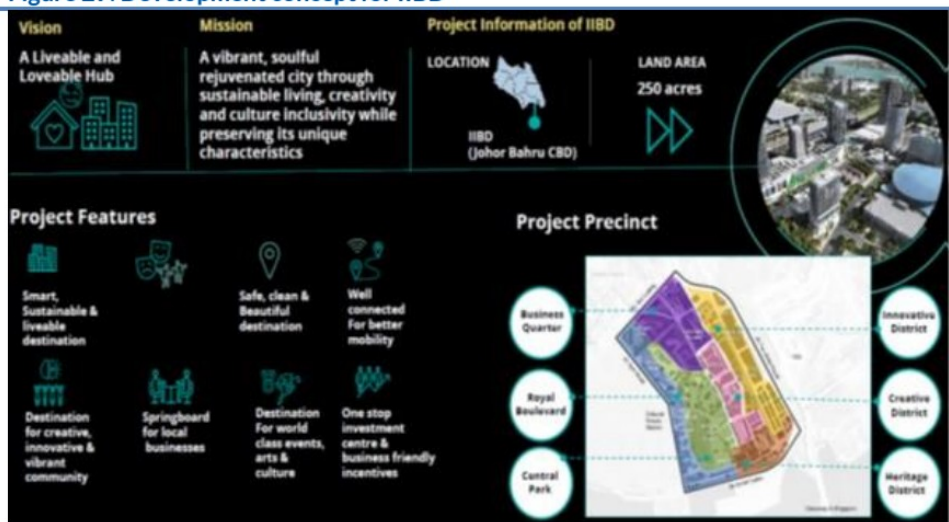
Source: Company data

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.

Figure 29: Development concept for IIBD



Source: Johor Corporation

Developers with landbank near causeway/RTS Link 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 Link 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 the Iskandar property market recovery, given 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 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 Link station at Bukit Chagar, except for LBS Bina. The company has a 5.5-acre land at Jalan Dato' Dalam (the previous Rasa Sayang Hotel site). The site is just 3-5km away from the station.

Figure 30: Developers' exposure to the Johor property market

	Total remaining land in Johor (acres)	Total landbank portfolio (acres)	% exposure
UEMS	7,678	8,533	90%
IOIPG	5,448	8,827	62%
Sunway	1,632	3,063	53%
Mah Sing	1,182	2,478	48%
Eco World	1,529	3,426	45%
AME	120	326	37%
SP Setia	2,189	7,903	28%

Source: Company data, RHB

Malaysia My Second Home (MM2H)

We are positive on the recent announcements on the new MM2H regulations. The new programme aims to attract high net worth individuals. The requirement for MM2H participants to own a property also means that the Government targets to attract more serious and committed long-term residents and investors. We think developers with exposure in the Kuala Lumpur city centre, Mont' Kiara, Penang and Iskandar Malaysia will likely benefit more from the new guidelines. The establishment of the JS-SEZ should also draw more participants from Singapore, given the ease of travelling and cheaper living costs.

Figure 31: Revised MM2H guidelines

New MM2H Guidelines										
Category	Eligibility Criteria	PR Eligibility	Offshore Monthly Income (MYR)	Liquid Assets to Show (MYR 000's)	Fixed Deposit (USD 000's)	Fixed Deposits Withdrawal	MM2H Visa Validity & Renewal Fees	Work Eligibility	One-off fee (MYR)	Min value of property purchase (MYR 000's) (NEW)
Silver	1) Foreigners from countries with diplomatic relations with Malaysia 2) At least 25 years old 3) Applications submitted through the MM2H One-Stop Centre 4) Have been in Malaysia for at least 90 cumulative days per year	No	N/A	N/A	150		5 years (MYR1,500)	No	1,000	600
Gold		No	N/A	N/A	500		15 years (MYR3,000)	No	3,000	1,000
Platinum		No	N/A	N/A	1,000	Maximum withdrawal of 50% of FD principal value	20 years (MYR5,000)	Yes	200,000	2,000
2021 MM2H Guidelines										
N/A	1) Above 35 years old 2) Have been in Malaysia for at least 90 cumulative days per year	N/A	40,000	1,500	MYR 1,000	Up to 50%	10 years	Part-time	5,000	N/A

Source: MOTAC, New Straits Times

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 Sep 2023 report*). If done well, it will power Malaysia's second economic take-off.

During several media interviews in the past, Liew had 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 the 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 the JS-SEZ, 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: Ample Opportunities In Johor

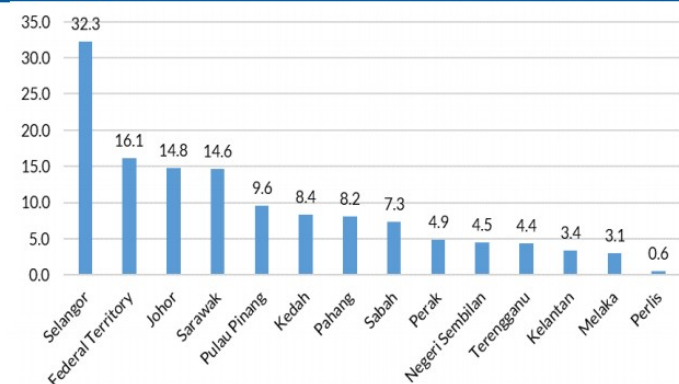
Overweight

Ramping up construction activities in Johor

Keep OVERWEIGHT, Top Picks: Gamuda, SCGB, and KPG. The construction sector contributed 3% to Johor’s GDP in 2023 as other sectors, ie agriculture and manufacturing, saw higher levels of GDP contribution. In the same year, Johor recorded MYR16bn in value of construction work done – the third largest after Selangor and the Federal Territories. The value of construction work done in Johor reached MYR4.8bn in 1Q24 – the highest in 19 quarters. It is notable that the MYR4.8bn in value of construction work done in Johor during 1Q24 was the second largest in the country – only behind Selangor’s MYR8.3bn.

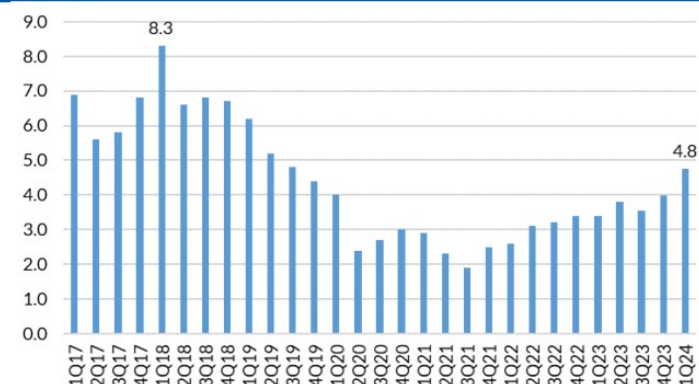
Industrial buildings saw the highest value of work done in Johor. The civil engineering sub-sector contributed the most to Johor’s value of construction work done in 1Q24 at MYR1.8bn (+78.5% YoY) or 39% – indicating the steady progress for infrastructure projects, namely the RTS Link. The non-residential subsector was the second largest contributor to Johor’s value of construction work done in 1Q24 at MYR1.5bn (+20.4% YoY) or 31% – in line with the robust demand for industrial and commercial properties in the state.

Figure 32: Value of construction work done by states in 2023 (MYRbn)



Source: Department of Statistics Malaysia (DOSM)

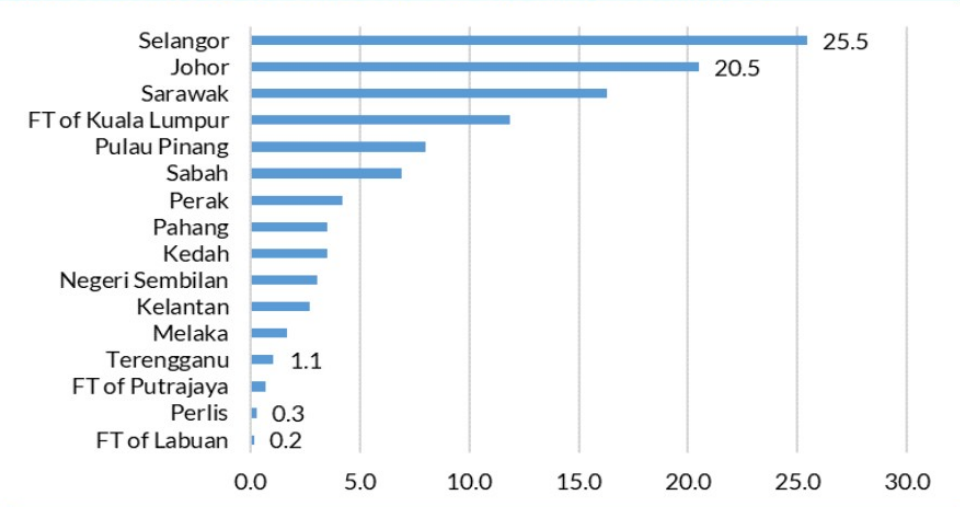
Figure 33: Value of quarterly construction work done in Johor (MYRbn)



Source: DOSM

Johor is also the state with second largest value of projects awarded as of early Aug 2024. Based on data from the Construction Industry Development Board (CIDB), Johor has seen MYR20.5bn worth of construction projects awarded YTD as of 7 Aug. Johor is just behind Selangor, which saw the largest value of projects awarded YTD worth MYR25.5bn. This coincides with the boom in industrial buildings such as data centres, warehouses, and infrastructure projects, ie RTS Link.

Figure 34: Value of projects awarded in states (MYRbn) as of 7 Aug 2024



Source: CIDB

Johor Bahru-Singapore RTS Link has provided opportunities for contractors

The most active big-ticket infrastructure project being constructed in Johor at the moment is the RTS Link project. Ekovest’s (EKO MK, NR) 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 EPC of the RTS Link project.

Besides Ekovest, other contractors also had the chance to secure work packages under the RTS project. Several notable ones include SCGB, IJM Corp, Gadang Holdings (GADG MK, NR), and Econpile that have clinched contracts worth a total project value of over MYR3bn. As of 31 May, the RTS Link project is 77.6% completed and is on track to be completed by end 2026, translating into higher billing progress for contractors over the next two years.

Figure 35: Contractors involved in the 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 Transit System for Package 1B (advance station works) and Package 5 (terrestrial viaducts and ancillary structures)	1,100 and a provisional sum of 155
IJM Corp	Awarded by Mass Rapid Transit System package 2A Immigration Customs and Quarantine Complex (ICQC) and Package 2B ICQC External Works for Rapid Transit System Link (RTS Link) project connecting Johor Bahru to Singapore.	1,256
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 36: Bukit Chagar station RTS Link site (June 2024)



Source: SG Yap Youtube Channel

Figure 37: Artist impression of the Bukit Chagar station



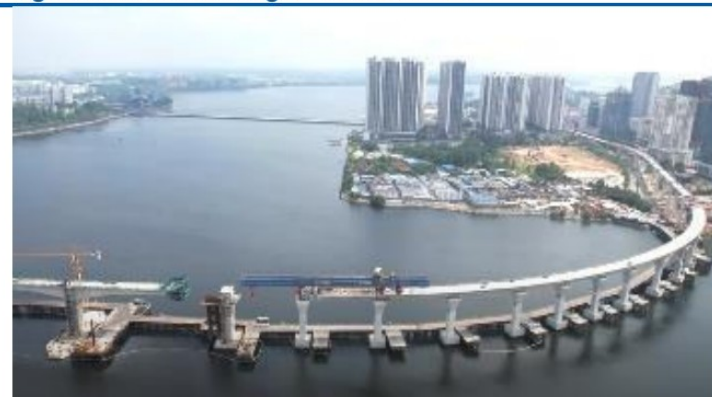
Source: MRT Corp

Figure 38: Wadi Hana depot site



Source: SG Yap Youtube Channel

Figure 39: RTS Link bridge from Johor Bahru



Source: Southern Corridor Malaysia Youtube Channel

Contractors continue getting a slice of the pie from DCs

In 2023, Malaysia's DC construction cost stood in range of between [USD6.7m and USD10m per MW](#) according to Arizton and Cushman and Wakefield's Data Centre Construction Cost Guide, with the mid-range costing c.USD8.5m. This makes Malaysia more affordable compared to Singapore and Jakarta but costlier than Thailand and the Philippines. With as much as [1,400MW reportedly planned to be built up in Malaysia over the next 5-10 years](#), the expected cost to construct (or job value from a contractors' perspective) may easily reach MYR40-60bn in total.

Figure 40: Artist impression of JHB1X0 data centre by Yellowwood Properties and SCGB



Source: Company data

Figure 41: Project site of JHB1X0 data centre in STeP in Feb 2024



Source: Company data

Even looking at STeP mentioned earlier, which has 676 acres earmarked for its STeP 2 – we estimate that the total cost or investment may easily reach at least MYR30bn, based on our projections. This is based on the total investment worth c.MYR25bn (for c.885MW) spanning approximately 360 acres out of the 700 acres of STeP 1. Therefore, abundant opportunities remain for contractors in regard to DC projects.

We also acknowledge competition arising from foreign based contractors that are involved in DC construction in Malaysia. These foreign based contractors include Nakano Construction, CIMC Modular Building Systems, Leighton Asia and China State Construction Engineering Corporation. Nevertheless, it sets a platform for healthy competition – encouraging contractors to consistently improvise methods to construct DCs which rely on IBS or modular buildings systems. For further insights on DC construction, please refer to our thematic report [Construction: Malaysia DC Construction To Strengthen Job Flows](#) dated 4 Jun 2024.

Figure 42: Public listed contractors involved in DCs (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
Sunway Construction	Awarded by Yellowwood Properties to be the general contractor for Project JHB1X0 as part of the amendment deed in STeP (Jun 2024)	1,500
Sunway Construction	Awarded by K2 Strategic Infrastructure Malaysia (Oct 2023)	193
HSS Engineers (HSS MK, NR)	Awarded by Yellowwood Properties to provide project management services for a DC campus and its electrical substation at STeP, Johor (Jan 2023)	8.8
HSS Engineers	Awarded by China State Construction Engineering (M) for the provision of professional engineering design and consultation services in respect of the proposed DC at Cyberjaya for Infinaxis Data Centre (Jun 2023)	8.9
MN Holdings (MNHB MK, NR)	Awarded by Rentak Segar for the installation, testing and commissioning of 33 kilovolts (KV) aluminium cross-linked polyethylene and 132 KV copper XLPE single core underground cables and accessories from transmission main intake in Gelang Patah to AirTrunk Data Centre, Johor (Jul 2023)	11.2
Gadang (GADG MK, NR)	Secured a contract for the design and development of the Klang Valley Data Centre Block 2 in Cyberjaya, Selangor (Apr 2024)	280
Binastra Corporation (BNASTRAS MK, NR)	Awarded a construction and infrastructure works project by Exsim Jalil Link for the proposed development of a DC (Aug 2023)	161
Pasukhas Group (PSKHS MK, NR)	Bagged a project to construct a DC in Selangor for a leading United States-based multinational technology corporation	57
Gamuda	Mechanical, electrical and plumbing fit-out package associated with a hyperscale DC in Elmina Business Park 1A for Pearl Computing Malaysia (May 2024)	929
Gamuda	Construction, completion, testing and commissioning of a hyperscale DC in Elmina Business Park by Sime Darby Property (May 2024)	815
Gamuda	Construction of AIMS Data Centre in Cyberjaya (Block 2 and 3)	500

Source: Various media

Johor Bahru Elevated Autonomous Rapid Transit – promoting seamless mobility

According to an article by [Free Malaysia Today](#), the Johor Government is opting to build an elevated autonomous rapid transit (EART) system instead of the initially proposed Johor-Bahru Light Rail Transit (LRT). Main reasons for such an option was due to the lower cost of the ART estimated at MYR7bn vs the JB LRT's estimated price tag of MYR16.7bn. Additionally, the Johor EART would have a shorter construction timeline (of compared to the JB LRT – enabling EART services to coincide with commencement of the Johor Bahru Rapid Transit System (RTS) Link in 2027. We previously wrote a report on the ART [Construction: An Autonomous Rapid Transit System Down South?](#) dated 15 May.

We envisage such plans to be strategic in order to ensure the seamless connectivity in Johor between various mode of transports, ie Johor EART and RTS Link. A study is currently being conducted which is expected to be completed by August and followed by a presentation to the Cabinet. It is highly likely that the Cabinet may give the greenlight due to the Johor EART which is more cost and time effective as compared to the JB LRT.

Both Johor EART and Iskandar Rapid Transit (IRT) are said to have three lines – Iskandar Puteri, Skudai and Tebrau with the main difference lying in the Skudai Line which is 8km shorter for the Johor EART than the IRT. The difference in costs for Johor EART (MYR7bn) and IRT (MYR3.1bn) could be due to potentially higher portion of elevated sections for the Johor EART (in order to mitigate traffic congestion). According to [Johor's Transport, Infrastructure and Communications state executive councillor, Mohamad Fazli Mohamad Salleh](#) – the state believes that the IRT is incapable to handle long term congestion problems as 25% (or 13.8km) of the IRT's alignment will be on normal roads.

While we view that the EART would lead to smaller contract awards given its lower cost vs the JB LRT – contractors may still benefit commendably from the said project. In comparison with the IRT – we believe that the Johor EART system could likely have a higher portion of elevated sections as mentioned earlier; which explains the higher MYR7bn cost for Johor EART vs IRT's MYR3.1bn overall cost. With a possibly higher concentration of elevated portions under the Johor EART, opportunities may arise for contractors with a track record of building or supplying components related to viaducts.

In our view, SCGB stands to be potential beneficiary of the Johor EART project as it was involved in the elevated Bus Rapid Transit (BRT) Sunway Line (5.4km) – the first BRT project in Malaysia for a contract value of MYR452m in 2013. This BRT Sunway Line was

implemented under the public-private partnership programme between Prasarana Malaysia Berhad and Sunway. Another potential beneficiary includes HSS Engineers (HSS MK, NR) as the group bagged a MYR71m contract from the Iskandar Region Development Authority (IRDA) to provide detailed design and construction supervision services for the first BRT in Johor, to be known as the IRT.

Figure 43: Comparison between Johor's Elevated ART, IRT Kuching ART and Johor Bahru LRT

Segments	Johor Elevated ART	Iskandar Rapid Transit	Kuching ART	Johor Bahru LRT
Estimated cost	MYR7bn	MYR1.1bn for civil infra and RM2.0 billion for e-buses, electric charging facilities and systems.	MYR6bn	MYR16.7bn
Number of lines	Three lines: Iskandar Puteri: 14.8km Skudai: 18.8km Tebrau: 14km Total: 47.6km	Three lines: Iskandar Puteri: 15km Skudai: 18km Tebrau: 22km Total: 55km Also complemented by 46 feeder line and 33 direct line services utilising normal type of buses vs the ART vehicles deployed for the three main lines	Three lines: Blue Line: 27.6km Red Line: 13.3km Green Line: 69.9km	At least three lines: Ikea Tebrau Iskandar Puteri Senai Total length: 50km
Number of stations	32	22	31	30
Estimated cost per km	MYR147m	MYR54.5m	MYR85.8m	MYR334m

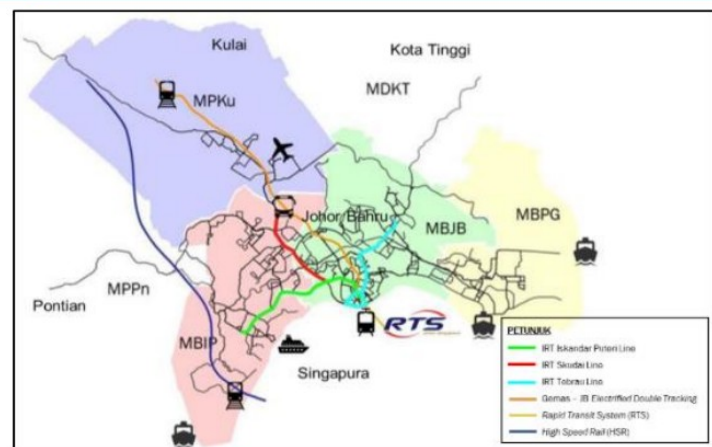
Source: Various media, RHB

Figure 44: Three major lines under the IRT



Source: Iskandar Region Development Authority (IRDA)

Figure 45: Direct and feeder lines of the IRT



Source: IRDA

Figure 46: Proposed type of buses for IRT



Source: IRDA

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. As mentioned earlier, MyHSR Corporation received concept proposals from seven local and international consortia by the 15 Jan 2024 deadline – which is part of the RFI exercise for the HSR. MyHSR Corporation will decide by this year whether it is full steam ahead with plans for a high-speed rail line between Kuala Lumpur and Singapore, as it shortlists proposals from a narrowing list of private consortiums to back the project.

From the civil construction front, note that two consortiums were previously appointed as the project delivery partner (PDP) 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 47: Contracts previously awarded under the 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

On 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 Kuala Lumpur. In our view, the Iskandar Puteri station should be kept, as both countries will be able to boost economic growth in the new areas near the Second Link – Gerbang Nusajaya in Johor as well as Jurong East in Singapore. SCGB is a clear winner, with Sunway having 1,632 acres of land in Sunway Iskandar (GDV: MYR29bn) near the Second Link.

Even before SCGB's foray into the DC space via the MYR1.7bn initial contract in STeP (awarded in Dec 2022) and the packages for the RTS Link project worth MYR605m – it was already involved in a variety of projects there. SCGB 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 SCGB in Johor – c.62% was awarded by Sunway and is related to the Iskandar region.

Figure 48: Projects undertaken by SCGB in Johor (excluding the DC project in STeP and the RTS Link 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 data, RHB

Another contractor with exposure in Johor – particularly IM – is KPG, which has secured contracts worth c.MYR1.3bn of residential projects in Johor. Although most of its orderbook comes from the Klang Valley and Penang, we do not discount the possibility of Johor being the next contributor for job replenishment.

12 August 2024

Market Outlook | Market Strategy

Figure 49: Johor-related projects of KPG

Project awardee	Remarks	Contract value (MYRm)
Nuri Merdu	Avira Garden Terraces Phase 1A @ Medini Iskandar	150
Building Communities & Beyond	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	Residential Development Project @ Kampung Bendahara	258

Source: Company data, RHB

Figure 50: Property and construction valuation table (as at 7 Aug 2024)

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 score
					FY24F	FY25F	FY24F	FY25F						
Sunway	Dec	3.89	5.00	22,264	28.0	27.1	1.1	3.2	1.7	24.8	6.0	1.4	Buy	3.4
Sime Darby Property	Dec	1.45	2.00	9,725	21.2	19.8	15.6	6.9	1.0	46.7	4.6	1.9	Buy	3.1
SP Setia	Dec	1.44	1.72	7,045	15.0	17.7	30.9	(15.1)	0.4	29.7	2.8	1.1	Buy	3.0
UEM Sunrise	Dec	1.03	1.60	5,160	59.5	56.9	23.1	4.6	0.8	70.7	1.2	0.0	Buy	2.9
Mah Sing	Dec	1.65	2.26	4,173	16.6	15.0	12.4	10.6	1.0	30.7	6.4	2.7	Buy	3.0
Matrix Concept^	Mar	1.87	2.15	2,315	9.4	9.1	0.4	2.9	1.1	9.3	11.5	5.6	Buy	3.1
Eastern & Oriental^	Mar	0.87	1.38	1,808	13.9	12.5	(20.5)	10.9	0.7	6.2	5.2	1.7	Buy	2.9
AME Elite Consortium	Mar	1.59	2.20	1,023	6.2	10.2	77.7	(39.8)	1.0	(36.3)	17.8	5.0	Buy	3.1
IOI Prop	Jun	1.95	2.40	10,737	15.3	15.1	(15.4)	1.0	0.5	5.9	3.1	2.6	Neutral	2.9
UOA Dev	Dec	1.86	2.02	4,959	20.3	17.7	36.1	14.2	0.9	8.2	4.3	5.4	Neutral	2.9
LBS Bina	Dec	0.66	0.93	1,006	7.3	6.7	(1.2)	8.3	0.6	18.5	8.9	4.2	Neutral	3.0
Tambun Indah	Dec	1.05	1.20	457	9.2	8.9	22.1	3.5	0.6	8.9	6.5	4.9	Neutral	3.0
Sector Avg					19.0	18.7	4.2	1.3						

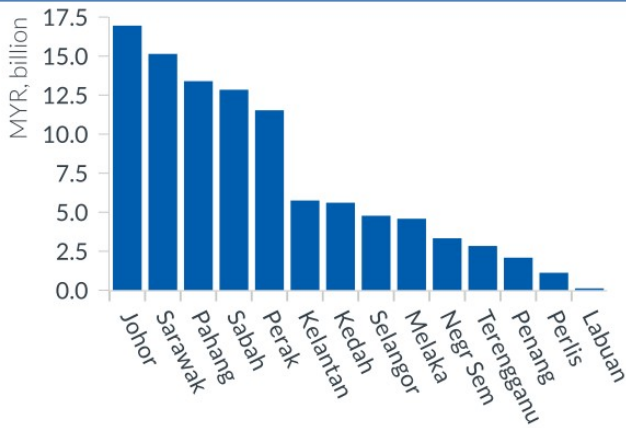
Construction sector	FYE	Price (MYR/s)	Target (MYR/s)	Mkt Cap (MYRm)	P/E (x)		EPS Growth (%)		P/BV(x)	P/CF(x)	ROE (%)	DY (%)	Rec	ESG score
					FY24F	FY25F	FY24F	FY25F						
Gamuda	Jul	7.56	9.68	20,514	22.5	17.2	2.9	30.3	1.8	(41.7)	8.2	2.1	Buy	3.4
IJM Corp^	Mar	3.18	4.34	11,115	21.4	20.3	4.0	5.5	1.1	17.6	5.0	2.5	Buy	3.1
Sunway Construction	Dec	4.40	6.29	5,609	31.8	20.0	4.9	58.7	6.4	12.3	20.9	1.9	Buy	3.2
Kerjaya Prospek	Dec	1.91	2.45	2,409	14.9	13.7	24.6	8.6	2.1	12.4	14.1	5.2	Buy	3.1
MRCB	Dec	0.55	0.80	2,390	60.1	45.3	161.3	32.6	0.5	3.8	0.9	1.8	Buy	3.0
Econpile^	Jun	0.42	0.69	581	n.m.	66.4	12.1	148.1	1.6	(303.8)	(4.9)	0.0	Buy	2.7
MGB	Dec	0.84	1.16	491	8.9	8.0	16.0	11.8	0.8	5.0	9.6	2.2	Buy	3.0
KKB Engineering	Dec	1.55	2.11	448	15.2	12.8	10.2	19.0	1.1	53.9	7.1	3.3	Buy	3.1
Pintaras	Jun	1.52	2.09	250	29.5	23.6	197.1	25.1	0.6	4.9	2.1	1.7	Buy	2.8
Gabungan AQRS	Dec	0.37	0.50	193	5.8	4.8	(8.3)	20.4	0.4	2.3	5.4	2.7	Buy	2.9
Sector Avg					22.9	18.3	4.8	27.7						

Note: ^FY24F-25F valuations refer to those of FY25F-26F

Source: Bloomberg, RHB

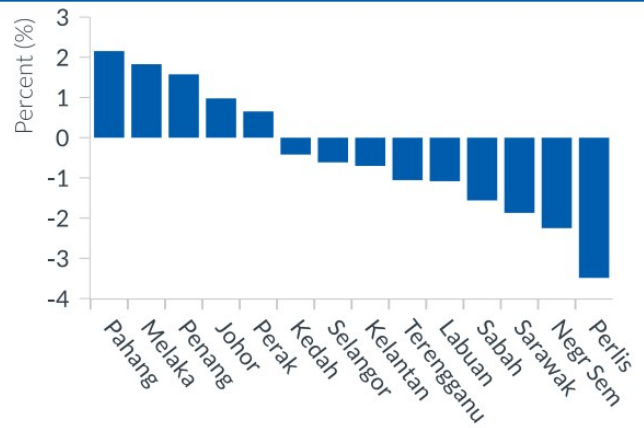
Appendix: Johor's Economy Vs Other States In Malaysia

Figure 51: Johor has the largest contribution to Malaysia's agriculture sector...



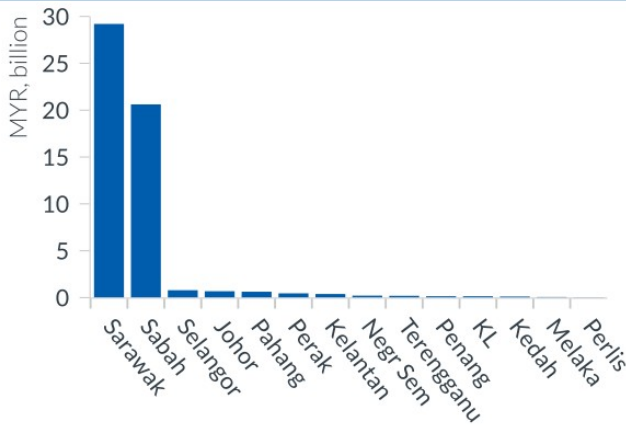
Source: Macrobond, RHB Economics & Market Strategy

Figure 52: ...with an average 5-year growth at 1.0%



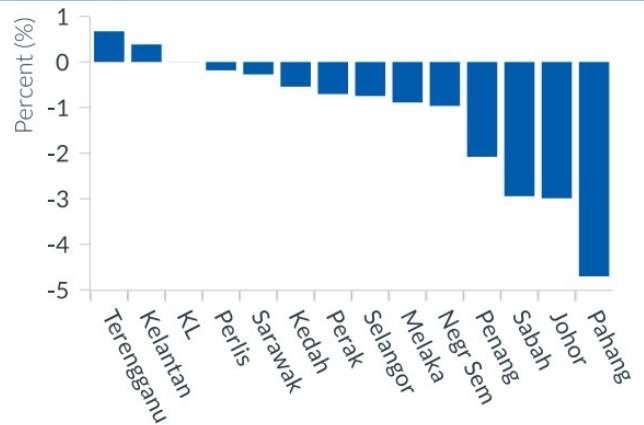
Source: Macrobond, RHB Economics & Market Strategy

Figure 53: Johor's mining sector contributes a relatively small portion to the state's and Malaysia's economy



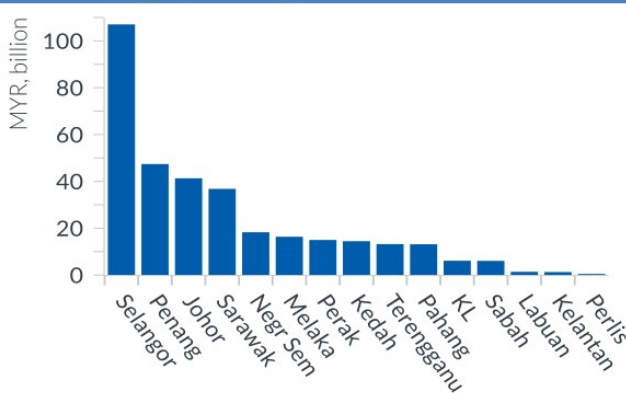
Source: Macrobond, RHB Economics & Market Strategy

Figure 54: ...where it declined by 3.0% on average in the past five years



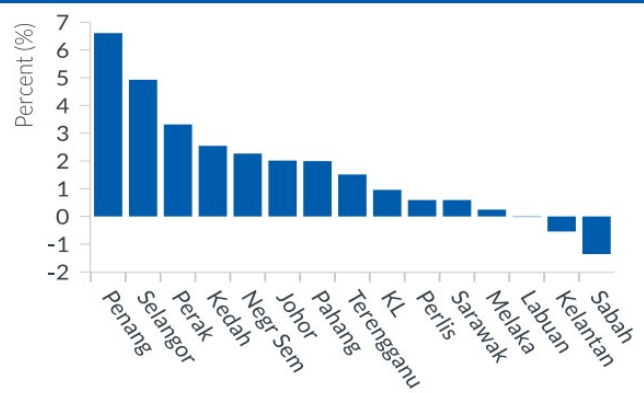
Source: Macrobond, RHB Economics & Market Strategy

Figure 55: In terms of size, Johor has the third largest manufacturing output among the states...



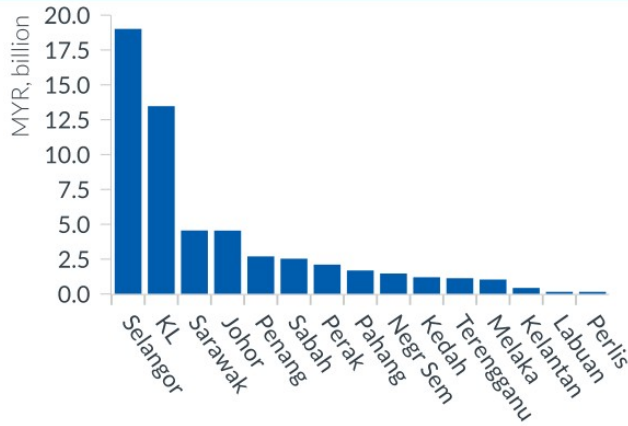
Source: Macrobond, RHB Economics & Market Strategy

Figure 56: ...with an average 5-year growth of 2.0%



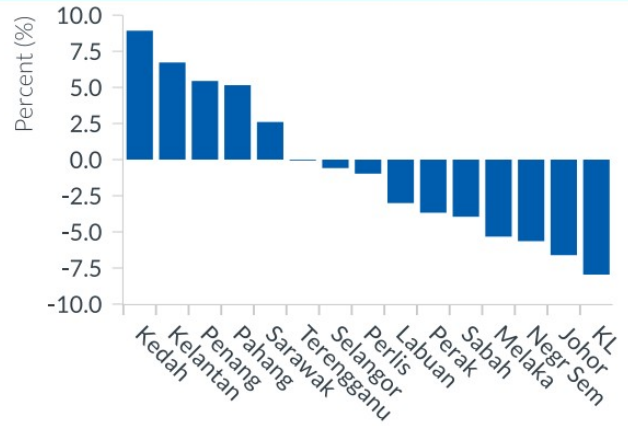
Source: Macrobond, RHB Economics & Market Strategy

Figure 57: Johor is among the top five contributors to Malaysia's construction sector activities...



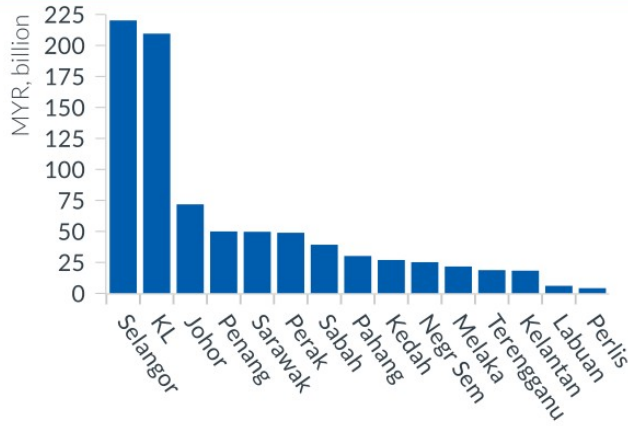
Source: Macrobond, RHB Economics & Market Strategy.

Figure 58: ... with the construction sector rebounding by 13% in 2023, against a decline of 6.6% (5-year average)



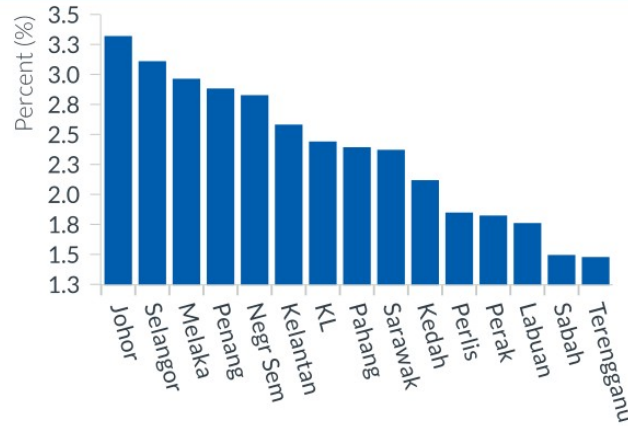
Source: Macrobond, RHB Economics & Market Strategy.

Figure 59: As the largest contributor to the state economy, the Johor services sector is the third largest among the states...



Source: Macrobond, RHB Economics & Market Strategy.

Figure 60: ...with the highest average growth at 3.3% among the states



Source: Macrobond, RHB Economics & Market Strategy.

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