

Malaysia Strategy

JS–SEZ: Next economic growth engine

MARKET STRATEGY | THEMATIC

8 January 2025

NEUTRAL (maintain)

KLCI: 1,629.79

2025 KLCI Target: 1,750

Thematic BUYs

Stock	Rating	TP (RM)	Upside (%)
Critical	BUY	1.65	71.0
BM Green	BUY	2.65	55.0
HE Group	BUY	0.84	48.7
Lagenda	BUY	2.00	44.9
AME Elite	BUY	2.10	18.0
Solarvest	BUY	2.00	17.0
MN Holdings	BUY	1.45	15.1
CIMB Bank	BUY	9.30	14.1
Maybank	BUY	11.40	12.2
Gamuda	BUY	5.55	6.7
Pekat	BUY	1.15	5.5

Source: Bloomberg, Phillip Research
*Closing price as of 7 Jan 2025

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- JS–SEZ stands to be the next key economic stimulus for Malaysia
- Potential sector to benefit include property (N), construction (O/W), industrial (O/W), renewable energy (O/W) and banking (O/W)
- Our Johor thematic ideas include Gamuda, AME, Lagenda, Critical, HE Group, MN, BM Greentech, Solarvest, Pekat, Maybank and CIMB

JS–SEZ signed. The long-awaited Johor-Singapore Special Economic Zone (JS–SEZ) was officially signed on Monday. The agreement aims to strengthen cross-border trade and investment by leveraging Johor’s competitive cost structure, abundant land, and Singapore’s financial capital and technological expertise. Focused on developing 9 flagship zones across 13 economic sectors, JS–SEZ is set to create a dynamic ecosystem designed to attract significant foreign direct investment (FDI).

Positive on Johor long-term prospects. While specific details are still unfolding, we are positive that JS-SEZ has great potential to unlock significant economic benefits for both countries. By capitalizing on trade diversion, the SEZ is expected to draw more FDIs, bolstered by pro-business policies and incentives. Potential sectors to benefit include property, construction, industrial, renewable energy and banking.

Property. Developers with sizeable landbanks in Johor, including UEM Sunrise, Sunway, EcoWorld, IOI Properties, and Mah Sing, are poised to benefit. AME Elite, specializing in industrial property development, stands to gain from the influx of FDIs. Lagenda, with its growing presence in Johor, is set to take advantage of the region’s growing demand.

Construction. Connectivity is crucial to the success of JS–SEZ, with a strong emphasis on public transport projects like the Johor LRT/ART and major road developments. This will open up opportunities for infrastructure contractors, including Gamuda and SunCon. The rise in business activity is expected to drive increased demand for more industrial facilities.

Industrial. The proliferation of data centre investments in Johor, driven by spillover demand from Singapore, is positioning the region as a key hub for the digital economy. The establishment of the JS-SEZ is expected to sustain the influx of FDIs, with growing demand for industrial facilities spurring the need for utility infrastructure. This trend benefits engineering companies such as Critical Holdings, HE Group, and MN.

Renewable. The renewable energy sector stands to gain from JS-SEZ, as Singapore plans to import 30% of its energy from renewable sources by 2035. Malaysia's decision to lift its export ban and plans to export up to 300MW of renewable energy to Singapore through the Cross-Border Electricity Sales for Renewable Energy Scheme is expected to support this growth further. Malaysia has begun exporting 50MW of green energy issued under RECs in Dec24. The region's growing need for renewable energy is expected to benefit companies like BM Greentech, Solarvest, and Pekat.

End-25 KLCI target of 1,750. Better opportunities in small-mid caps. Our investment strategy favours small-mid cap opportunities that capitalize on key themes such as sustained FDI growth, increasing infrastructure spending, rapid AI adoption, growing emphasis on local green energy, and the expansion of data centre infrastructure. 5 out of 6 themes highlighted in our 2025 outlook align with the ongoing development in Johor, which we believe will continue to attract strong investor interest.

Overview of Johor–Singapore Special Economic Zone

JS–SEZ agreement signed on 6 Jan 24. The Johor-Singapore Special Economic Zone (JS–SEZ) agreement was officially signed by the governments of Malaysia and Singapore on Monday (6 Jan 24), with Prime Ministers Datuk Seri Anwar Ibrahim and Lawrence Wong in attendance. This landmark initiative aims to strengthen economic cooperation between the two countries by leveraging their strengths to foster sustainable long-term growth. The JS-SEZ is designed to achieve several key objectives that will benefit both nations, including:

1) Enhancing cross-border connectivity. The JS–SEZ will streamline trade processes, reduce logistical barriers, and improve customs efficiency. Making trade more cost-effective will help businesses in both countries lower operational costs and boost regional trade flows, ultimately enhancing the region's overall competitiveness.

2) Facilitating freer movement of people. JS–SEZ also emphasizes the importance of labour mobility between Malaysia and Singapore. With the easier movement of skilled workers, businesses will have access to a larger talent pool, addressing workforce shortages and fostering a more flexible labour market that supports key industries.

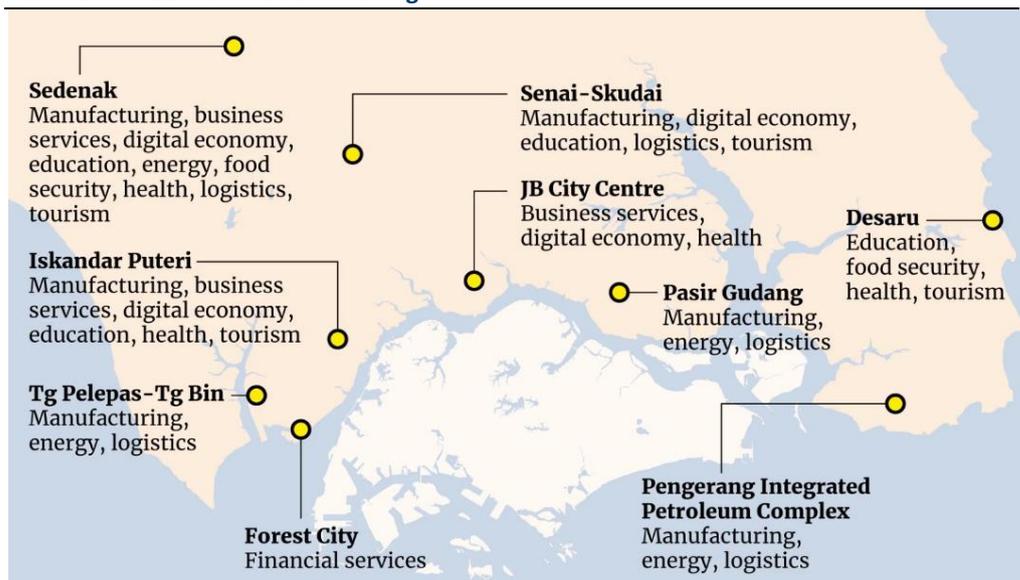
3) Strengthening business ecosystems and foster a robust business environment. JS–SEZ will create a dynamic and attractive business environment through pro-business policies and incentives, such as tax breaks and grants, to attract FDIs. This will help stimulate innovation and support industrial development, further contributing to the economic growth of both countries.

Replicating the success of other developed nations. JS–SEZ plans to be one of the leading industrial zones, inspired by successful regions such as China, the US, and Germany. It aims to mirror the success of China's Suzhou Industrial Park and Shenzhen SEZ (with JS-SEZ being twice as large), which created strong connections between Mainland China and Hong Kong. Just like Shenzhen, which became a key hub for finance and high-tech manufacturing, JS–SEZ targets to attract more MNCs to Johor, making it a key economic spot.

JS–SEZ growth focus

Key flagship areas. The newly established economic zone will offer robust incentives across 9 flagship zones strategically located in high-potential areas, including Johor Bahru City Centre, Iskandar Puteri, Tanjung Pelepas, Pasir Gudang, and Senai Skudai. In addition, 3 newly proposed areas, Forest City, Pengerang Integrated Petroleum Complex, and Desaru, are expected to further bolster Johor's economic growth and investment appeal. With an estimated land area of 3,571 km², the economic zone is 4x larger than Singapore, providing ample space for future expansion and development. This vast area is strategically positioned to stimulate industrial growth and attract significant investments, paving the way for sustained economic progress in the region. Johor's expansive size and targeted incentives will create a conducive environment for businesses and industrial development, further strengthening the region's competitiveness and economic potential.

Table 1: JS–SEZ covers a vast coverage

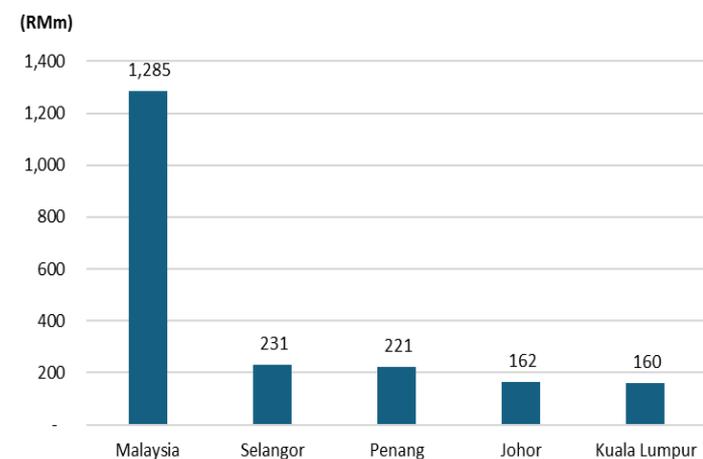


Source: CNA, Ministry of Economy

Economic sectors to drive growth. JS–SEZ will focus on various key economic sectors, including E&E, healthcare (pharmaceuticals), technology services, logistics, financial services, tourism, food security, education, energy (including chemical), manufacturing, digital economy, aerospace, and medical devices. For its 5-year roadmap, JS–SEZ aim to create 20,000 highly skilled jobs and enhance the capabilities of the local workforce.

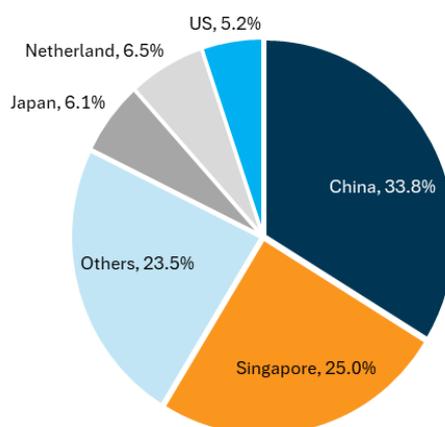
Kickstarting with 50 projects. JS–SEZ will initially focus on 50 projects over the first 5 years, with plans to expand to 100 projects in the subsequent 5 years. The initial wave of investments will likely be from industries most affected by ongoing global trade tensions, focusing on manufacturing, the digital economy (including data centres and cloud infrastructure), and green energy. Global multinational corporations (MNCs) seeking to mitigate geopolitical risks and diversify their operations are expected to drive the first wave of initial FDIs.

Table 2: Total approved investment from 2019–2023

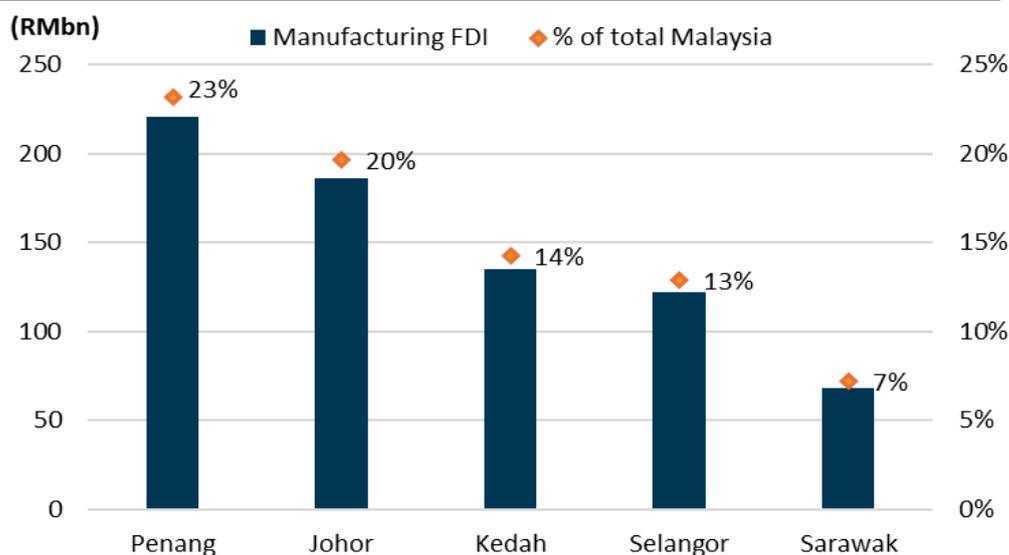


Source: MIDA, Phillip Research

Table 3: Geographical investment receipts by Iskandar from 2006–2023

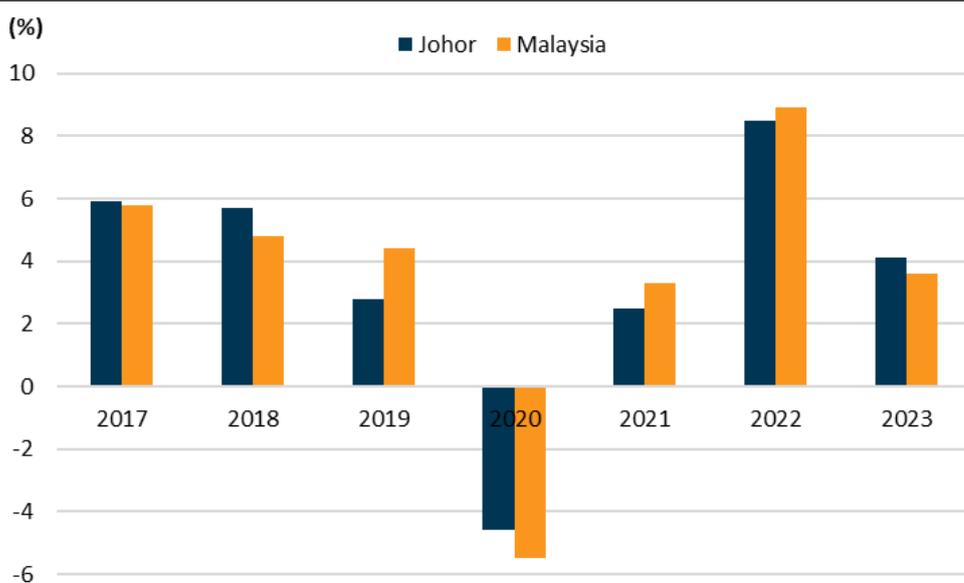


Source: Iskandar Regional Development Authority, Phillip Research

Table 4: Johor is the second largest state of manufacturing FDI inflows


Source: MIDA, Invest Johor, Phillip Research

Next major economic growth engine. As the country's 3rd largest economic contributor, Johor accounts for 9.5% of Malaysia's GDP, trailing only behind Selangor and Kuala Lumpur. Under the 12th Malaysia Plan (12MP) Mid-Term Review (MTR), Johor has targeted a GDP growth rate of 5.4%, placing it at the upper end of the national GDP growth target of 5%–5.5%. Over the past few years, Johor's GDP growth has largely exceeded the national average. With its strategic geographical location and robust economic activities under the JS-SEZ, Johor is poised to become Malaysia's next major economic growth engine.

Table 5: Historical Johor and Malaysia annual GDP growth


Source: MIDA, Invest Johor, Phillip Research

Attractive value propositions

Leveraging on strength of both countries. The strategic location of JS–SEZ, with robust regional connectivity, positions it as an ideal destination for global MNCs seeking expansion and access to major trade routes. Malaysia provides vast land, abundant resources, and cost advantages, while Singapore offers a highly skilled workforce, advanced technology, and capital markets expertise. This synergy creates a dynamic environment for business growth. Additionally, JS–SEZ will streamline operations with automated immigration lanes, paperless goods clearance, and enhanced clearance capacity, ensuring an efficient, seamless hub for trade.

Strong government support. To accelerate the development of the JS–SEZ, both governments will establish dedicated funds to support key infrastructure projects while streamlining bureaucratic processes to expedite approvals and facilitate faster decision-making. Greenfield investments, which typically involve longer timelines due to their complexity, will particularly benefit from these funds, mitigating delays and improving efficiency. The Invest Malaysia Facilitation Centre–Johor (IMFC–J) will be a one-stop hub for facilitating the relevant investments.

Attractive policies and incentives. To further attract investors, the JS–SEZ is expected to introduce pro-business policies and incentives, including tax breaks, grants, and streamlined regulations. While details remain scarce at the current juncture, relevant authorities are expected to announce favourable corporate and personal income tax rates aimed at attracting high-growth and high-value industries.

Competitive cost advantage. JS–SEZ offers MNCs a strategic opportunity to access premium financial services, advanced logistics, and an ideal location for regional distribution, all while benefiting from lower operational costs. Companies looking to expand and divest out of another region can tap into Singapore’s capital markets for funding and investment while leveraging Johor’s competitive land prices, affordable labour, and efficient infrastructure. The region’s low-cost environment makes it attractive for large-scale manufacturing and industrial operations. At the same time, its reliable access to power, water, and telecommunications enhances its appeal as a hub for business expansion.

Sector implications

Property. The JS–SEZ represents a long-awaited catalyst for the property sector. Among developers with sizeable landbanks in Johor, including **Sunway**, **EcoWorld**, **IOI Properties**, and **Mah Sing**, **UEM Sunrise** stands out as one of the primary beneficiaries in Iskandar Malaysia with 4,783 acres and an RM61bn GDV. We believe **AME Elite** (BUY; TP: RM2.10) will benefit from the growing demand for industrial properties. The long-term development potential of the JS–SEZ, coupled with the completion of the RTS Link by end26, is expected to drive long-term demand for Johor properties, benefitting **Lagenda Properties** (BUY; TP: RM2.00), which focuses on the affordable housing segment and has a significant land bank in Kulai, situated near Sedenak.

Table 6: Developer land bank exposure in Johor

Company	Region	Remaining (acres)	Est GDV (RMbn)	GDV % exposure
UEM Sunrise	Iskandar Puteri, Desaru, Kulai	4,783	61.0	90%
Eco World	Iskandar Puteri, Kulai, Pasir Gudang	1,223	10.5	31%
Sunway	Iskandar Puteri	1,712	29.3	31%
IOI Properties	Kulai	5,227	7.2	11%
Mah Sing	Meridin East	1,279	6.9	26%
Lagenda	Kulai	1,637	5.7	42%
AME Elite	Senai, Skudai, Iskandar Puteri	382	1.3	46%

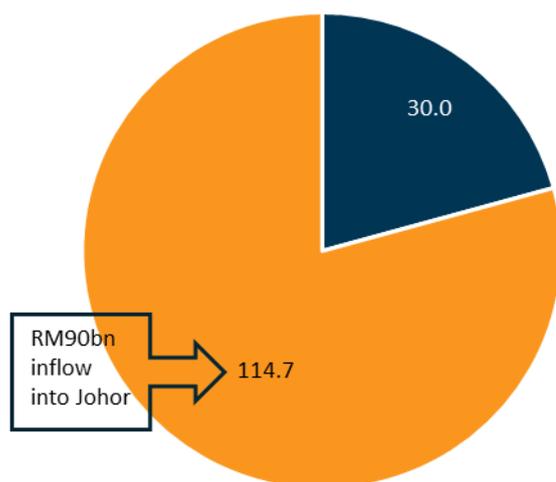
Source: Various, Phillip Research

Construction. The JS–SEZ is expected to attract a growing influx of FDIs and DDIs into Johor, driving the need for significant infrastructure developments to accommodate the anticipated rise in economic activity supported by the IMFC-J. Given that connectivity is crucial to the success of the JS–SEZ, we expect public transport infrastructure projects in Johor to take priority, leading to quicker rollout of projects such as Johor LRT/ART and major road infrastructure developments. The potential revival of the HSR project could further accelerate infrastructure demand, however subject to private sector participation. The increase in business activities is also expected to translate into a rising demand for office buildings and industrial facilities. Contractors with strong infrastructure expertise, such as **Gamuda** (BUY; TP: 5.55), **Sunway Construction** (HOLD; TP: 4.50), and **IJM**, stand to benefit. Notable road infrastructure contractors, including **WCT**, **Kimlun**, **Varia**, and **Vestland**, will likely see more opportunities from these large-scale projects.

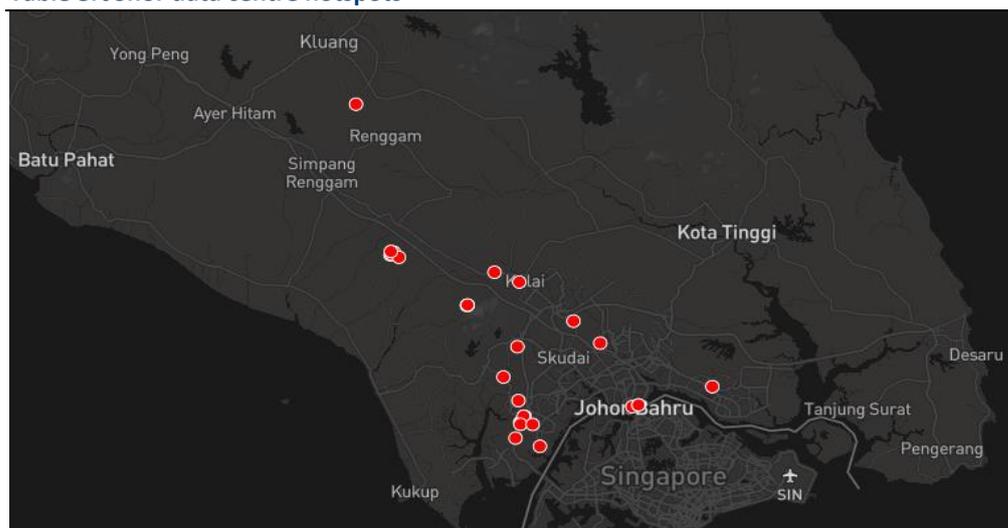
Industrial data centres. Johor secured c.80% of the country’s approved digital investment during 2021–2023. With the anticipated growth in data centres and cloud services, Johor is on track to become Malaysia's key digital economy hub. The state has already benefited from the spillover demand for data centres from Singapore, leveraging its improved connectivity and cost advantages in land and electricity. The establishment of the JS-SEZ is expected to drive further data centres investments within the region. The rapid growth of industrial parks in the region is expected to create ample opportunities for industrial construction, including mechanical, electrical, and process utility (MEP) works. Utility infrastructure engineering companies such as **MN Holdings** (BUY; TP: RM1.45), **UUE**, **Jati Tinggi**, and **CBH** are expected to be early beneficiaries. Contractors specializing in industrial buildings and data centres, including Gamuda (BUY), Sunway Construction (HOLD), **Critical Holdings** (BUY; TP: 1.65), **HE Group** (BUY; TP: RM0.84), and **IJM**, stand to gain from this.

Table 7: Malaysia approved digital investment from 2021–2023 (RMbn)

■ Other digital investments ■ Data centres and cloud services



Source: MIDA, Invest Johor, Phillip Research

Table 8: Johor data centre hotspots


Source: Baxtel

Table 9: Proposed data centre pipeline in Johor

DC Operators	Est capacity (MW)	Est value (RMbn)	Location
Yondr	300	13.5	Sedenak Tech Park
GDS	250-270	14.3	Nusajaya Tech Park
Bridge	300-330	14.0	Sedenak Tech Park and Cyberjaya
AirTrunk	150	6.8	Iskandar Puteri
Princeton Digital	150	6.8	Sedenak Tech Park,
STT GDC Malaysia	120-150	5.4	Nusa Cemerlang Industrial Park
Logos	360	16.2	Gerbang Nusajaya
DC-Science	120	5.4	Sedenak Tech Park
K2	200	9.0	Sedenak Tech Park
Microsoft	TBC	9.9	Kulai and Pulai
Keppel	50	2.1	Sedenak Tech Park
YTL, SEA, Nvidia	500	22.5	Kulai
TM-NXERA	200	9.0	Iskandar Puteri
Equalbase	TBC	TBC	Iskandar Puteri
Equinix	TBC	0.2	Nusajaya Tech Park
Oracle	TBC	27.0	TBC
Total	2,700-2,780	162.0	

Source: Various, Phillip Research

Renewable. The expected influx of investment projects is set to drive up energy demand within the region, including the growing need for renewable energy, as many MNCs are increasingly committed to reducing their carbon footprint. JS–SEZ is likely to spur further development in the renewable energy export framework and the establishment of renewable energy exchange. We expect this will create more opportunities for expanding renewable energy capacity. The Corporate Renewable Energy Supply Scheme (CRESS), which facilitates direct engagement between independent power producers and end-takers, will likely gain stronger traction. Key beneficiaries in this space include **BM GREENTECH** (BUY; TP: RM2.65), **Solarvest** (BUY; TP: RM2.00), and **Pekat** (BUY; TP: RM1.15).

Banking. The banking sector will play a crucial role in supporting JS–SEZ economic growth, providing the resources needed to meet the increasing demand for capital. Banks with Singapore exposure, such as **Maybank** (BUY; TP: RM11.40) and **CIMB** (BUY; TP: RM9.30), are well-positioned to benefit from the expected increase in cross-border transactions and financing. Their established regional networks and brand recognition give both a competitive advantage in capturing this growth. With its higher risk appetite, Maybank is expected to lead in financing significant data centres and infrastructure developments. Meanwhile, smaller-sized banks such as RHB are also eyeing this burgeoning market.

Thematic stock ideas

Johor thematic BUYs. We like AME Elite and Lagenda Properties as a Johor property play. In the construction space, we see Gamuda as one of the major beneficiaries. Within the industrial data centre space, our picks are Critical Holdings, HE Group, and MN Holdings. As a proxy for renewable energy, we favor BM Greentech, Solarvest, and Pekat. Maybank and CIMB, both with exposure to Singapore, are in a position to benefit.

Table 10: Thematic beneficiaries

Ticker	Stock	Rating	Price	TP	Upside	Mkt Cap	Core PE (x)		Core EPS Growth (%)		P/BV	Div. Yield (%)
			(RM)	(RM)	(%)		(RM m)	2024E	2025E	2024E		
CHB MK EQUITY	Critical	BUY	0.97	1.65	71.0	359	11.9	11.2	48.6	6.4	5.1	2.3
BMGREEN MK Equity	BM Green	BUY	1.71	2.65	55.0	1,176	39.2	28.1	16.1	39.7	2.1	1.4
HEGROUP MK Equity	HE Group	BUY	0.57	0.84	48.7	249	16.1	13.5	41.5	19.7	3.2	1.5
LAGENDA MK Equity	Lagenda	BUY	1.38	2.00	44.9	1,156	5.8	4.6	34.4	25.2	0.8	6.5
AME MK Equity	AME Elite	BUY	1.78	2.10	18.0	1,138	7.3	9.5	73.8	(24.0)	1.1	3.4
SOLAR MK Equity	Solarvest	BUY	1.71	2.00	17.0	1,235	26.1	19.3	41.8	34.9	2.4	-
MNHLDG MK Equity	MN Holdings	BUY	1.26	1.45	15.1	645	18.1	12.2	89.0	48.6	3.2	0.2
CIMB MK Equity	CIMB Bank	BUY	8.15	9.30	14.1	87,441	11.2	10.5	10.9	6.6	1.1	4.7
MAY MK Equity	Maybank	BUY	10.16	11.40	12.2	122,600	12.3	11.5	6.2	6.8	1.2	6.4
GAM MK Equity	Gamuda	BUY	5.20	5.55	6.7	29,577	28.5	22.7	17.0	25.9	2.2	4.3
PEKAT MK Equity	Pekat	BUY	1.09	1.15	5.5	703	45.2	21.1	9.2	113.9	3.8	-

Source: Bloomberg, Phillip Research forecasts; calendarized data

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