

Johor-Singapore Special Economic Zone - A Game Changer?

What is the JS-SEZ buzz about?

The proposed **Johor-Singapore Special Economic Zone (JS-SEZ)** is a designated area with special incentives and regulations to strengthen business ties and enhance connectivity between Malaysia and Singapore. **16 economic sectors** are proposed to be part of the zone including electrical and electronics, manufacturing, aviation and medical. The proposed area will span over **3,505 square km**, comprising 6 districts - *Johor Bahru, Iskandar Puteri, Kulai, Pasir Gudang, Pontian* and *Pengerang*. This is **four times the size of Singapore** and **almost double the size of Shenzhen**.

Proposed area for Johor-Singapore Special Economic Zone

This is based on latest proposals by the Johor state government. The geographical scope of the SEZ has not been approved by the Malaysia federal government.



Source: Channel News Asia, IRDA, Google Maps

What is the status so far?

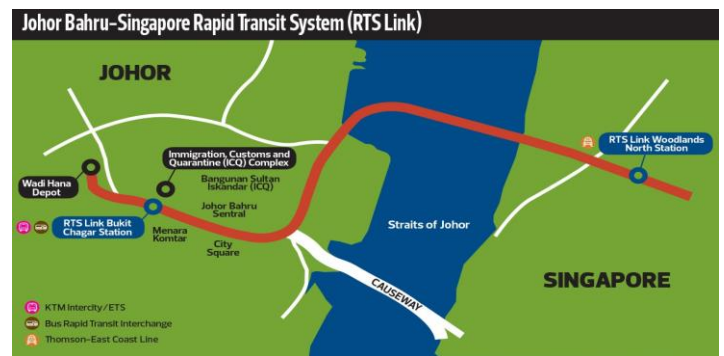
Malaysia and Singapore signed a Memorandum of Understanding (MoU) for the SEZ on 11 January 2024. Negotiations between the two governments are now at final stages, with a **joint agreement expected to be signed in September 2024**. Incentives will likely be announced in October during Budget 2025.

How is it different this time?

In our view, what is different this time is the **strong government support** and **enhanced connectivity via the upcoming Rapid Transit System (RTS) Link by end-2026** and **potential revival of the KL-Singapore High Speed Rail**.

Political stability is key as the next general election for Malaysia will only be due by 2028, while the current King, His Majesty Sultan Ibrahim hails from Johor and is supportive of the economic reforms and key infrastructure projects.

The **RTS Link** is a **4km light rail transit shuttle service** connecting **Bukit Chagar station (Johor Bahru)** and **Woodlands North station (Singapore)**. It is projected to serve up to 10k passengers per hour during peak periods. Currently, it is estimated that more than 300k travelers cross the Malaysia-Singapore causeway daily. The construction progress is on track at 78% (as at May 2024) according to MRT Corp. Potential revival of the HSR will be an added bonus.



Source: The Edge

Is the JS-SEZ a game changer?

If implemented well, we believe the SEZ will be a game changer as it will **unlock economic benefits for both countries**. The SEZ will benefit from **trade diversion** and attract more foreign direct investments given special tax incentives, strategic location, lower operating costs and ample land-bank relative to Singapore. This will **spur population growth and boost the Johor property sector**. The SEZ could **facilitate renewable energy investments** as Singapore targets to import 30% of its energy supply from renewable sources by 2035 while Malaysia has lifted its renewable energy export ban in 2023. The digital economy has led to a **proliferation of data centers in Johor** which will further accelerate with SEZ incentives. **Landowners** will benefit from **rising land prices**.

How do we play this thematic?

The sectors that will benefit include **property, construction, renewable energy, banks, technology and plantation (landowners)**. Our stock picks for the SEZ thematic are as per below:

EcoWorld Development (ECW MK, RM1.59)

We like **EcoWorld** as a **best-in-class developer with quality landbank with 1,529 acres in Johor** (44% of remaining landbank). 61% of its YTD sales (2QFY24) and 84% of FY23 sales were from Iskandar Malaysia. Valuations are still palatable at 16.1x CY24F PER and 1x P/B with 4% yield. Should its RNAV narrow to 30% (from 41%), **implied target price is RM1.90** (19% upside).

What could drive further upside?

- **New industrial revenue pillar** is timely to capture incremental demand from digital and high tech players (AI, cloud computing etc.), with rebranding of its Kulai industrial park to **Quantum Edge** (previously *Eco Business Park VI*).
- **Strong sales momentum** as sales for the first 7 months already comprise 62% of RM3.5bn target for FY24. Including the Microsoft land sale, this will be 74% of target.
- **Any accretive land acquisitions in SEZ region** for future growth and/or land monetization for more data centers are also catalysts.

Key risks: Slower-than-expected sales, land deals fall through, delays/cancellations of key infra projects.

SP Setia (SPSB MK, RM1.42)

We like **SP Setia** as a **laggard play**, trading at 0.45x CY24F P/B, still cheap relative to sector peers at ~0.9x P/B. SP Setia has 1,101 acres of land in Johor, 20% of its remaining landbank. 68% of its 1Q24 sales were from the Johor, boosted by land monetization deals with the Southern region contributing 35% of its profit before tax. Should the stock re-rate to 10-year mean of ~0.6x P/B, **implied target price is RM1.88** (32% upside).

What could drive further upside?

- **Strategic tract in Tanjung Kupang land** (part of Iskandar Malaysia) is targeted to be a **managed industrial park** with estimated GDV of RM1.87bn with **potential for data centre use**. It is currently in negotiations with a JV partner for this development.
- **Further land monetization to de-gear its balance sheet**. Net gearing is now at 45% with a target to reduce to 40% by end-2024.
- **Potential REIT of its investment properties** could unlock value.

Key risks: Slower-than-expected sales, delays in land monetization to further de-gear, cancellation of REIT plans.

IJM Corporation (IJM MK, RM3.12)

We like **IJM** as it is in a good spot to **win further contracts** with the JS-SEZ rollout and potential HSR revival. It clinched its maiden data centre contract worth RM332m for TM in June 2024, and the RM1.1bn award for the Immigration, Customs & Quarantine Complex package for the RTS Link. Management is guiding for **RM5bn of new order wins in FY25F, 35% higher** than FY24. Recent share price correction by -14% from its YTD peak is a good buying opportunity. The stock trades at 20.7x CY24F PER, which may not have factored in higher order wins. Bloomberg consensus' target price is RM3.42 (10% upside).

What could drive further upside?

- **More data centre project wins** as it is bidding for the TM-Singtel DC campus in Johor. We believe IJM has an advantage over peers (Gamuda & Sunway Construction) due to its additional capacity.
- Potential new contracts include NPE extension, Penang LRT and East Malaysia projects. It is also bidding for RM3bn worth of contracts in Indonesia (public housing in Nusantara) and India.
- Potential monetization of its highways (Besraya, LEKAS, NPE) upon the restructuring of its NPE concession which is at advanced stages of negotiation with the government.

Key risks: 1) inability to meet orderbook target, 2) rising costs (labour, material etc) could impact its projects.

7 August 2024

Equities

Company	Price (RM)	Market Cap (USD mil)	Consensus TP	Core P/E (x)		3-year EPS CAGR	P/BV (x)		Dividend Yield	
				CY24F	CY25F		CY24F	CY25F	CY24F	CY25F
SEZ BENEFICIARIES										
ECO WORLD DEVELOPMENT GROUP	1.59	1,048.18	1.82	16.1	13.8	20%	1.0	0.9	4.0%	4.2%
SP SETIA BHD	1.42	1,542.43	1.61	12.3	20.3	16%	0.5	0.4	2.3%	1.5%
IJM CORP BHD	3.12	2,445.62	3.42	20.7	20.2	2%	1.1	1.0	2.3%	2.4%
AVERAGE				16.4	18.1	12%	0.8	0.8	2.9%	2.7%

Source: Bloomberg *closing price as at 6 August 2024

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