

15 September 2023

## Property

NEUTRAL

### Johor: No Silver Bullet, Perseverance is All It Takes



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We hosted map surveyor and property consultant Ho Chin Soon Research (HCS) which shared its insights on the local property market, particularly, in the state of Johor that has attracted renewed interest from the investment fraternity recently driven by upcoming infrastructure projects (i.e. RTS Link, High Speed Rail) as well as the re-designation of Forest City to a Special Financial Zone. We note that key challenges persist with past projects in the state still experiencing a large overhang. Additionally, the pool of prospective real estate investors may be more limited than imagined, being mostly still Johor state locals or Malaysians working in Singapore. That said, we note that property developers have been pinching more land parcels with the intent to introduce more vibrant townships. These newer projects may see better take-up which would be to their benefit, but may keep unsold projects further depressed. We maintain our NEUTRAL call on the property sector as it continues to be weighed down by oversupply, cautious lending by financial institutions, eroding housing affordability, and high household debts. Selectively, we continue to like names such as ECOWLD (OP; TP: RM1.03) and IOIPG (OP; TP: RM1.60) on the back of their strong cash flow generation as well as targeted developments for take-up security. Dividend prospects offered are also decent.

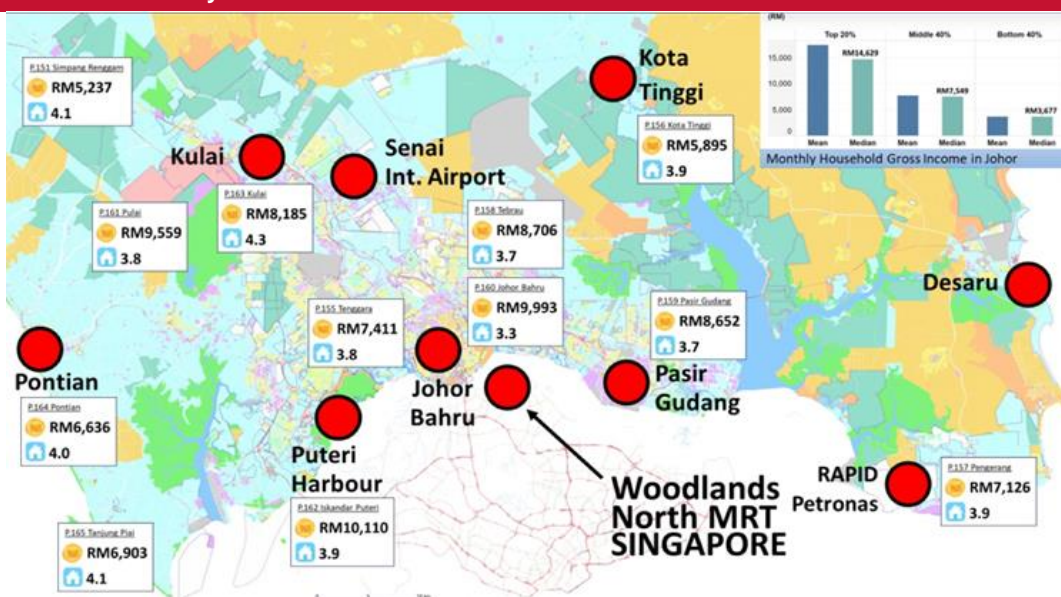
Our hosting was supported by Mr. Ishmael Ho, CEO of HCS, whose team conducts active on-ground visits and surveying of land banks and existing developments to establish comprehensive mapping of land values and uses. With regards to Johor's property market, we share several key highlights below:

- 1. A new lifeline to Forest City.** Initiated in 2006 with a projected duration of twenty years, the project which was a key development in Iskandar Malaysia was initially slated to accommodate a highly ambitious target of up to 700k residents. However, it would appear that only 9,000 residents currently occupy that area. In a revitalisation effort, Prime Minister Anwar Ibrahim announced the creation of "special financial zone" and perks including a special income tax rate and fast entry workers from Singapore aimed to spur the economy in Iskandar Malaysia. While there are government incentives in place, we hold the opinion that the project still remains overly ambitious, requiring additional efforts to attract a larger crowd. As Country Garden, the developer in Forest City fights for its survival, drastic effort will likely be needed from both China and Malaysia, to revive the development currently in standstill.
- 2. Johor property buyers.** HCS noted three distinct categories of property buyers in Johor namely: (i) former Malaysians who are now Singaporean citizens, (ii) Malaysians who are employed in Singapore, and (iii) native Malaysians. Typically, these buyers have connections to Malaysia either through their nationality or their professional endeavours and interestingly, there appears to be limited interest from foreign investors as they may rather invest in more aspirational locations (i.e. KL City). We agree with the speaker's view that to enable foreign buyers to invest in Malaysian properties, the government should consider introducing incentives to bolster the real estate sector in Johor. It was also gathered that the household income for Johor may still be behind the Klang Valley, possibly indicating a more limited capacity for property acquisition locally (*refer to Exhibit 1: Monthly Household Gross Income in Johor*).
- 3. Property oversupply.** According to the National Property Information Centre, there is still a significant property overhang issue in Johor. As of 1QCY23, Klang Valley has 8,418 unsold launched units (19% of total launched), while Johor has 4,759 unsold units (23% of total launched). Condominiums and apartments account for the majority (58% of the total) of unsold units, highlighting the need for developers that have acquired land in Johor to ensure that their projects are well-developed, and the land is sufficiently matured to attract potential buyers to invest in their properties.
- 4. Developers purchasing Johor land.** In June, July, and September this year, **MAHSING (MP; TP: RM0.80)**, **SCIENTX (UP; TP: RM2.99)**, and **ECOWLD** acquired lands in Johor. While developers' interest in Johor projects is evident, our perspective differs regarding the RTS Link's role as a catalyst for revitalizing Johor Bahru city centre. Although we anticipate Johor Bahru's revitalization, we believe it may be a gradual process due to the ongoing property overhang situation. Additionally, we also gather that said land acquisitions are progressively moving towards the fringes of the city centre which may depend on further public transport developments to improve accessibility.
- 5. Accessibility remains a key feature.** Building on from the above, HCS noted that while train lines may be lacking at present, Iskandar Malaysia's public transport system is supported by the Iskandar Malaysia Rapid Bus Transit which provides access to the city centre and therefore a connection to the RTS Link. At the moment, we may be more inclined to attribute better success to developments attached to existing networks, with other areas possibly demanding an extension or better concentration alongside transport hubs (*refer to Exhibit 2: Key Public Transport Lines in Johor Bahru*).

**Conclusion.** We share the same precaution as HCS with regards to the state of Johor’s property market. They emphasized that the persistent property overhang issue in Johor remains a significant concern, and the government’s involvement is crucial in addressing the challenges faced by the Johor property sector. While there is evident developers’ interest in Johor, it is essential to address the problem of oversupply alongside carefully considering the introduction of new projects by these developers. In our view, the growth of Johor may not depend solely on the RTS (particularly with its estimated completion date slated to be by 2026) with more tangible expectations likely being built on the state’s improving economic prosperity.

**Maintain NEUTRAL on the property sector.** While we choose to stay cognizant of the sector’s underlying challenges, we believe there are still opportunities as some names will still stand out in terms of fundamental prospects. We like **IOIPG** due to its focus on high-value products in matured townships with its well-diversified and expanding investment property portfolio across several key regional hubs. Its Marina View Residence project in Singapore looks to be a new landmark development for the group. We also like **ECOWLD** as the group’s strong branding has enabled it to stay afloat of industry challenges. The group is also looking to tap into **JOHOR** with landed offerings focused in Iskandar Malaysia, which we believe may still remain aspirational amongst locals in the current climate.

Exhibit 1: Monthly Household Gross Income in Johor



Source: HCS Research

Exhibit 2: Key Public Transport Lines in Johor Bahru



Source: HCS Research

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## Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.				
<b>PROPERTY DEVELOPERS</b>																	
ECO WORLD DEVELOPMENT GROUP	OP	0.995	1.03	3.5%	2,929.6	Y	10/2023	8.3	8.4	2.1%	1.5%	12.0	11.9	0.6	5.0%	5.0	5.0%
IOI PROPERTIES GROUP BHD	OP	1.59	1.75	10.1%	8,754.8	N	06/2024	14.1	14.4	23.5%	2.0%	11.2	11.0	0.4	3.4%	4.5	2.8%
MAH SING GROUP BHD	MP	0.785	0.800	1.9%	1,905.7	Y	12/2023	8.0	8.2	13.2%	3.6%	9.9	9.5	0.5	5.3%	4.0	5.1%
S P SETIA BHD	UP	0.875	0.680	-22.3%	3,571.0	Y	12/2023	3.3	5.7	29.8%	73.9%	26.6	15.3	0.2	1.8%	2.0	2.3%
SIME DARBY PROPERTY BHD	MP	0.695	0.660	-5.0%	4,726.6	Y	12/2023	4.1	4.6	-16.5%	11.3%	16.9	15.1	0.5	3.0%	2.0	2.9%
SUNWAY BHD	OP	1.97	2.27	15.2%	9,760.6	Y	12/2023	14.6	15.1	44.5%	3.2%	13.5	13.1	0.7	5.6%	5.0	2.5%
UOA DEVELOPMENT BHD	MP	1.72	1.77	2.9%	4,283.5	Y	12/2023	8.9	10.2	-2.7%	14.4%	19.3	16.8	0.7	3.8%	10.0	5.8%
<b>SECTOR AGGREGATE</b>					<b>35,931.9</b>					<b>16.7%</b>	<b>8.2%</b>	<b>14.0</b>	<b>12.9</b>	<b>0.5</b>	<b>4.0%</b>		<b>3.8%</b>

Source: Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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