Property

Field Report: A Stroll Through Johor Bahru

UNDERWEIGHT
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We recently conducted a field trip to Johor Bahru to get a better sense of the property landscape there. We visited the Sa.young project by ECOWLD (UP; TP: RM1.20), UMCity Medini Lakeside project by UMLand, Princess Cove by R&F Development, as well as Mid Valley Southkey Mall by IGBB (Not Rated). Generally, we sense a promising appetite for properties in Johor Bahru, fuelled by its economic potential and the anticipated surge in demand from the RTS spillover. As a percentage of total GDV, the following developers have the largest exposure in Johor: UEMS (Not-Rated; 70%), ECOWLD (26%), MAHSING (UP; TP: RM1.11) (19%), and SPSETIA (UP; TP: RM0.80) (16%). However, for more immediate earnings visibility, we are still more inclined to put our money on players focusing on affordable housing such as MKH (OP; TP: RM2.11). On a broader perspective, we find it increasingly hard to find value among property stocks as share prices have run way ahead of fundamentals. We cut our call on the sector to UNDERWEIGHT from NEUTRAL and downgrade our recommendations for SIMEPROP (UP; TP: RM0.84) and SPSETIA to UNDERPERFORM from OUTPERFORM and MARKET PERFORM, respectively.

During our trip to Johor, we explored various new property developments by visiting their showrooms and sales galleries. We also took the time to explore the surrounding areas to assess their potential appeal and predict their future demand. Our objective was to gain insights into the property market there and identify promising projects in the future.

Sa.young by ECOWLD

ECOWLD has three townships in Johor – Eco Tropics in Pasir Gudang, Eco Spring in Tebrau, and Eco Botanic in Iskandar Puteri. Our attention was on the **Sa.young** project within Eco Botanic, due to its affordable pricing and promising growth of its township. This expansive township features high-rise buildings, landed houses, and commercial spaces, with its residential products prices ranging from RM520 to RM775 psf. During our visit, the landed houses had an impressive 80% occupancy rate, while all condominium units were sold out.

Our exploration revealed several notable attributes. The area offers convenient access via highways and is nestled within a matured neighbourhood, surrounded by an education hub and thriving communities. Moreover, its proximity to the forthcoming High-Speed Rail (HSR) line adds to its appeal.

As we strolled through the development, we notice its distinctive ambiance, partly attributed to its relatively low population density. Living here provides easy access to daily necessities and dining options within walking distance. Adjacent to this, we observed the ongoing development of Eco Botanic 2 which has a take up rate of >90%. While we were physically unable to tour the construction site, we observe that there is notable progress at the fringes of the site as compared to what is captured from Google Maps, suggesting that its completion date of CY25 is on track.

Eco Botanic township

Source: Kenanga Research

Sa.young – completed (on the right)

Source: Kenanga Research

At the moment, concerns could rise on potential future traffic congestion as the area develops. Additionally, with the impending HSR line, increased traffic flow may be anticipated, which may pose challenges for commuters reliant on bus services to access the train station.

Eco Botanic 2 development site

Source: Google Maps

UMCity Medini Lakeside by UMLand

UMCity Medini Lakeside, situated within Iskandar Malaysia, caught our attention because of its potential designation as a Special Economic Zone planned between Singapore and Malaysia, aimed at attracting foreign investments to the area. During our visit, we understand that the developer is in the midst of reviewing its price points before relaunching their semi-developed products. While we were unable to determine the take-up rates of the project, we reckon that interest may be soft from potential investors due to a wider range of other ongoing developments (i.e. ECOWLD, SUNWAY) also being available. This is aside from Medini – Iskandar Malaysia having more flexible foreign ownership allowances (up to 60% total ownership as opposed to 40%), albeit being predominantly leasehold properties. It was represented that over half of its current buyers are foreign investors originating from China, Korea and Singapore, suggesting a widely diverse mix of potential occupants in the near future should these buyers decide to reside instead.

From our observations, we noted the proximity of the area to the upcoming HSR line, its convenient access to highways, and its proximity to established townships and educational hubs. However, we observed that the area lacks accessibility via other public transportation options. The project currently maintains a quiet ambiance, but this could be due to the low population density within the area at present. While there is potential for the area to become sought-after once it fills up, it may take a considerable amount of time due to the surplus of supplies already available in the Johor Bahru area. Nevertheless, the affordability of the Iskandar Malaysia area could attract renters who are unable to afford rental prices in Johor Bahru and also those who seek a less congested area.

Princess Cove (Phase 2) by R&F Development

Princess Cove caught our attention for being directly adjacent to the Johor Causeway. It features a condominium complex with a mall underneath, offering units priced between RM1,090 to RM1,432 psf. During our visit, we found that 80% of Phase 2 units had already been taken, since its launch in 2017, with Phase 1 being fully sold only recently since its launch in 2014. The developer is planning to develop two more plots of lands once Phase 2 hits 90%.

Based on our observations, we found that Princess Cove is close to the RTS Bukit Chagar station and JB Sentral, right in the city centre. It is made up of stand-alone buildings with a mall on the ground level, which is convenient. However, the area seems quiet, the surrounding developments are not well-maintained, and the roads leading to the development are narrow and could get easily congested with little room for future road expansion. This could worsen with the eventual occupancy of its units. While it may be due to the timing of our visit, the low footfall and optics of the residential buildings suggest that actual occupancy rate might be much lower, perhaps with most of the units bought by investors but yet to be tenanted.

Regarding accessibility, there is a walkway providing access to the JB station, catering to pedestrians while the pedestrian walkway to the RTS station is still under construction. Once completed, it will be a 10-minute walk to RTS Bukit Chagar, potentially drawing in more investors and renters. However, the price range may be carefully considered, weighing whether renters would be willing to pay the price. Alternatively, it may be a hotbed for foreign investors who can take advantage of the weaker MYR.

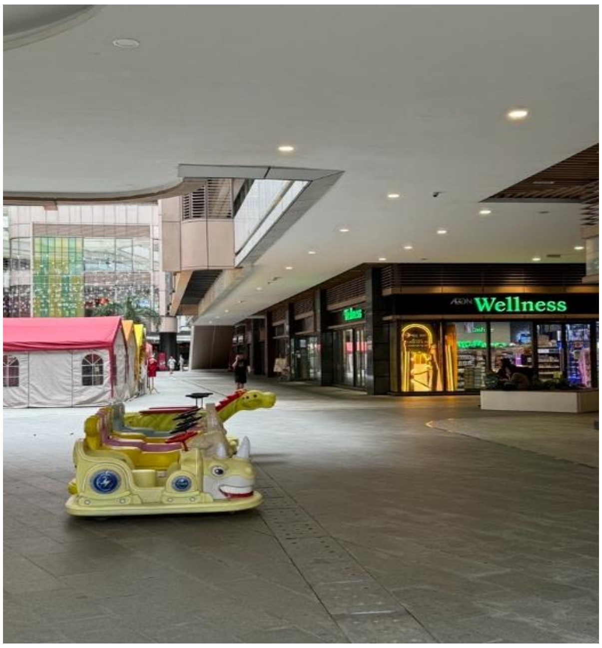
Princess Cove Development Plan

Source: Kenanga Research, Company

Phase 2

Source: Kenanga Research

R&F Mall at Ground Floor



Source: Kenanga Research

RTS Line Visible from R&F Mall Entrance

Source: Kenanga Research

Phase 2 Commercial Area

Source: Kenanga Research

Meanwhile, we also visited **Mid Valley South Key,** developed by **IGBB,** which is located in Johor Bahru to gain some understanding of the Johor Bahru area. The mall does resemble Mid Valley Megamall KL in certain aspects such as the outlook and layout. We saw a decent crowd during our visit at 4pm on a Friday (a state weekend in Johor). Despite it being a stand-alone development, it benefits from a strategic road network which is likely the biggest draw for the customers. The closest nearby notable mall seems to be KSL mall which is 4km away but appears to house less attractive retailers.

We do not see the mall to be the biggest beneficiary from the influx of Singaporeans post-RTS completion given its distance from the proposed station. That said, Singaporeans with private vehicles could certainly access the mall but are not likely to contribute to higher footfall in the future.

Lower Ground Floor

Source: Kenanga Research

Ground Floor

Source: Kenanga Research

Our observation of various property developments in Johor during our field trip unveiled perspectives of the evolving real estate landscape. While promising attributes like attractive pricing, high occupancy rates, and strategic proximity to future infrastructure such as the RTS and HSR lines were evident, challenges such as limited ground public transportation accessibility, potential road congestion, and concerns regarding surrounding development maintenance also surfaced.

These complexities highlight the diverse nature of Johor's property market, where the combination of various factors will ultimately shape its future landscape and attractiveness to both investors and residents. However, it will take time for the market to achieve optimal conditions, given the multifaceted challenges and considerations involved.

Generally, we sense a promising appetite for properties in Johor Bahru, fueled by its economic potential and the anticipated surge in demand from the infrastructure spillovers. Developers with the largest exposure in Johor in terms of percentage of total remaining effective GDV are **UEMS** (**Not Rated**; 70%) **ECOWLD** (26%), **MAHSING** (19%), **SIMEPROP** (6%), and **SPSETIA** (16%). While 55% of **SUNWAY's (UP; TP: RM2.51)** outstanding GDV is in Johor, its property development division only contributes to 19% of group earnings and 25% of our SoP TP.

For more immediate earnings visibility, we are still more inclined to put our money on players focusing on affordable housing. This is because of the challenges posed by the heightened cost of living and rising interest rates, as well as the growing population of young people seeking affordable housing solutions. We like **MKH** given its focus on affordable and transit-oriented development (TOD) projects. The group plans to launch affordable high-rise service apartments and retail shops with a total GDV of RM581.9m, and with RM722.0m in unbilled sales, revenue sustainability is expected over the next two years. We also like **MKH** for its expanding plantation business in Kalimantan and its proximity to the new capital city of Indonesia that opens it up to various opportunities.

On a broader perspective, we find it increasingly hard to find value among property stocks as share prices have run way ahead of fundamentals. We cut our call on the sector to **UNDERWEIGHT** from **NEUTRAL** and downgrade our recommendations for **SIMEPROP** and **SPSETIA** to **UNDERPERFORM** from **OUTPERFORM** and **MARKET PERFORM,** respectively.

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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.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
<u>PROPERTY DEVELOPERS</u>																	
ECO WORLD DEVELOPMENT GROUP	UP	1.48	1.20	-18.9%	4,357.7	Y	10/2024	9.7	10.0	5.2%	3.6%	15.3	14.7	0.9	5.9%	6.0	4.1%
IOI PROPERTIES GROUP BHD	UP	2.10	1.75	-16.7%	11,562.9	N	06/2024	14.1	14.4	23.5%	2.0%	14.9	14.6	0.5	3.4%	4.5	2.1%
MAH SING GROUP BHD	UP	1.27	1.11	-12.6%	3,167.3	Y	12/2024	9.4	10.1	5.7%	8.0%	13.5	12.5	0.8	6.0%	4.0	3.1%
MKH BHD	OP	1.34	2.11	57.5%	773.7	Y	09/2024	18.0	20.1	41.8%	11.2%	7.4	6.7	0.4	5.3%	6.0	4.5%
S P SETIA BHD	UP	1.45	0.800	-44.8%	6,703.9	Y	12/2024	5.9	6.1	16.0%	2.7%	24.6	23.9	0.4	1.9%	5.5	3.8%
SIME DARBY PROPERTY BHD	UP	0.960	0.840	-12.5%	6,528.8	Y	12/2024	6.0	6.4	1.7%	7.5%	16.1	15.0	0.6	3.9%	3.0	3.1%
SUNWAY BHD	UP	3.55	2.51	-29.3%	19,956.6	Y	12/2024	14.6	14.7	26.0%	1.2%	24.4	24.1	1.4	6.0%	6.0	1.7%
UOA DEVELOPMENT BHD	MP	1.89	1.79	-5.3%	4,706.9	Y	12/2024	10.6	10.4	19.3%	-2.1%	17.8	18.2	0.8	4.5%	6.5	3.4%
SECTOR AGGREGATE					**57,757.8**					**17.3%**	**3.1%**	**18.2**	**17.7**	**0.7**	**4.6%**		**3.2%**

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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