CLSA

Malaysia property & infra

Sector outlook

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Malaysia

Property/Infra

EcoWorld	(ECW MK)
Rec	**BUY**
Market cap	US$0.6bn
Price	RM0.91
Target	RM1.20
Up/downside	+32%
Mah Sing	(MSGB MK)
Rec	**BUY**
Market cap	US$0.5bn
Price	RM0.93
Target	RM1.20
Up/downside	+29%
SP Setia	(SPSB MK)
Rec	**SELL**
Market cap	US$2.1bn
Price	RM2.23
Target	RM2.20
Up/downside	-1%
Sime Prop	(SDPR MK)
Rec	**SELL**
Market cap	US$1.8bn
Price	RM1.08
Target	RM0.97
Up/downside	-10%
IJM	(IJM MK)
Rec	**O-PF**
Market cap	US$2.0bn
Price	RM2.25
Target	RM2.55
Up/downside	+16%
SunCon	(SCGB MK)
Rec	**BUY**
Market cap	US$0.5bn
Price	RM1.96
Target	RM2.30
Up/downside	+15%
Gamuda	(GAM MK)
Rec	**SELL**
Market cap	US$1.9bn
Price	RM3.13
Target	RM2.75
Up/downside	-11%

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Outlining the implications of the Bandar Malaysia project revival

Malaysia's PM Mahathir announced last week the revival of the Bandar Malaysia project. While we think this exacerbates the issues plaguing the property sector (high unsold units and the oversupply of office space), the project could present competition for the BBCC (40% owned by ECW). On the flip side, this is positive for construction job replenishment, especially given the promise of local content participation (share unspecified). It is still early to conclude another HSR revival, though its reversal could see Gamuda among the beneficiaries. In our view, potential winners include IWC, GAM, MRCB and HSS; ECW is a potential loser.

Lucrative in theory, however price points could lead to problems

- At the indicated GDV of RM140bn the estimated average sale price per gross floor area (assuming a 4.05 plot ratio and maximum efficiency) is RM1,633psf.
- Assuming a c.RM172p GFA land cost accounting for 20% of the cost, this translates to a development cost of RM860p GFA (not including the cost for the 10,000 affordable homes), implying c.47% PBT margin (>typical high rise margin of 15%-20%).
- While lucrative in theory, at the estimated sale psf, the majority of units are likely to be >RM1m (RM1m = 612sq ft); sales are likely to be challenging with this price segment (i.e. >RM1mil) having the largest unsold unit share by value (48% of total) as of 3Q18.

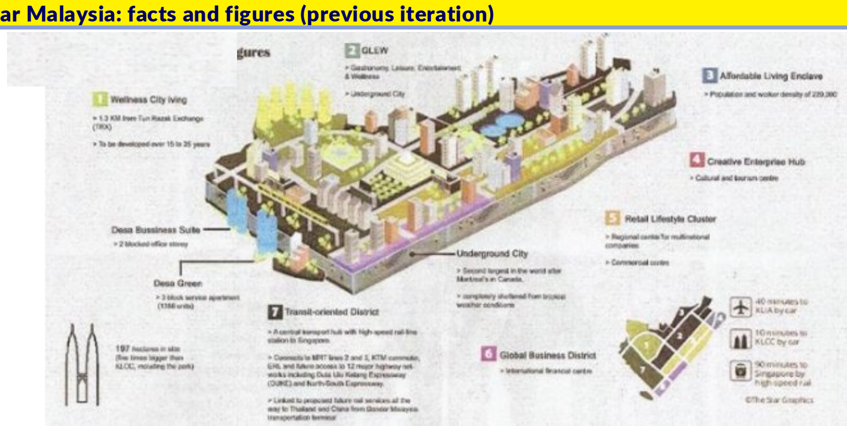
Positive for job flow in construction (O-WT); HSR odds seen to have improved

- **Better visibility**: It is supportive of longer-term sector job visibility. With local content participation not side-lined, this reinforces our positive sector view of a job inflection point, though no specific local portion was stated, unlike the ECRL (40% of civil).
- **Improved HSR odds:** Having a transport hub in Bandar Malaysia increases the odds that the KL-SG high speed rail (HSR) could resume. In our view, this may yet hinge on cost savings, especially after the ECRL (RM45bn) resumption. Cost saving studies for the up-to RM110bn HSR (or 15% of the RM0.7tn federal government debt) underway.

Potential winners and losers

- **Property:** Iskandar Waterfront City (IWC MK, N-R) is a clear winner in our view as it is the lead in this massive government-backed development. Bandar Malaysia's significant size advantage (innately more potential due to higher economic activity) will be stiff competition to the relatively smaller, city-centre, large-scale mixed development projects, the Bukit Bintang City Centre (BBCC, 40% owned by EcoWorld) and the Tun Razak Exchange (TRX), especially in the office segment.
- **Infrastructure:** Among our covered names, Gamuda (SELL) may see the reinstatement of two stations on the MRT2, though incremental earnings of only c.+0.5% a year for the forecast period, we estimate. If HSR returns, Gamuda is likely to benefit. Likewise, YTL was also a project manager for the HSR (southern stretch). Separately, MRCB (N-R) would have been involved in the development of the transport hub, while Ekovest (N-R), linked as a substantial shareholder to IWH, previously expressed interest as a development partner. Elsewhere, HSS Engineers (N-R) was involved in the HSR consultation.

Bandar Malaysia: facts and figures (previous iteration)



Source: CLSA

The IWC-CREC JV have 60 days to pay the original deposit plus an additional RM500m

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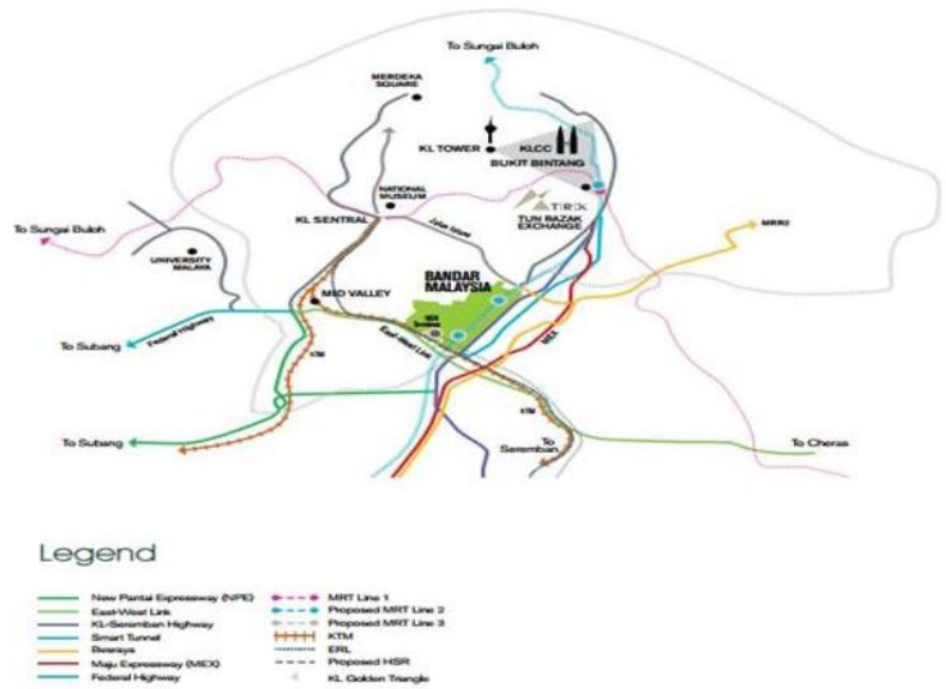
To recap, 60% of equity interest in the Bandar Malaysia project (for RM7.41bil) was terminated back in May-2017 as the JV of IWC CREC (JV of Iskandar Waterfront City – IWC MK and China Railway Engineering Corp) had failed to meet obligatory payments despite reminders. The project faced further contention when the HSR, which initially meant to pass through the project, was called off. Last week, Malaysia Prime Minister Tun Dr Mahathir Mohamad announced the revival of the project, providing the IWH-CREC JV 60 days to pay the original deposit sum of RM741mil with an additional RM500m.

Large development very close to the city centre

Figure 1

Bandar Malaysia location



Source: CLSA

The previous master plan included a wellness city living portion

Lucrative in theory, however price points could lead to problems

While it has yet to be revealed whether the reinstated project will retain the previous Master Plan, we assume for the sake of this discussion that the wellness city living portion will remain, and would entail high rise residential units. In addition, it has been stated that there will be 10,000 affordable housing in the project as well.

The indicative average sale price is RM1,663psf

At the indicated GDV of RM140bil and assuming the previous plot ratio of 4.05x still stands (implying 1,968 acres of gross floor area or 85.7mil square feet), the estimated average sale price per gross floor area is RM1,633psf (assuming 100% efficiency).

Figure 2

Bandar Malaysia indicative sales price

Total land area (acres)	486
Plot ratio (x)	4.05
Total gross floor area (acres)	1968.3
Total gross floor area (mil' sq ft)	85.7
Indicative GDV (RMb)	140
Sale price psf (RM)	1633

Source: CLSA

A 47% PBT margin appears lofty

Over on the cost side, we estimate land cost to be c.RM172pGFA. Utilising this figure and assuming land cost makes up 20% of total development cost, this translates to a development cost of RM860pGFA (note that this does not include the cost for the 10,000 affordable homes, which is typically break even for developers), implying a c.47% PBT margin (>typical high rise margin of 15-20%).

Figure 3

Bandar Malaysia average land cost and PBT margin

Total land area (acres)	486	
Plot ratio (x)	4.05	
Total gross floor area (acres)	1968.3	
Total gross floor area (mil' sq ft)	85.7	
Total land cost (RMbil)	14.8	Including RM2.4bil relocation cost
Land price (RMpsf)	172	
Sale price (RMpsf)	1633	
Total development cost (RMpsf)	860	Inclusive of construction, financing and land; assuming land cost is 20%
PBT (RMpsf)	773	
PBT margin (%)	47.3	

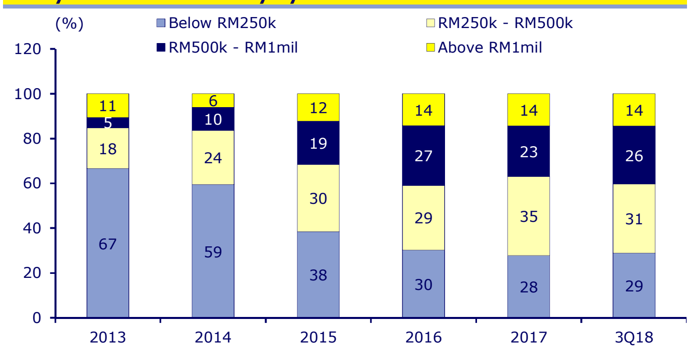
Source: CLSA

A >RM1m property segment makes up 48% of the total unsold inventory in terms of value

While the residential segment is lucrative in theory, at the est. sale psf, majority units are likely to be >RM1mil (as anything below RM1m will result in the unit being below 612 sq ft), sales are likely to be challenging with this price segment (i.e. >RM1mil) having the largest unsold units share by value (48% of total) as at 3Q18.

Figure 4

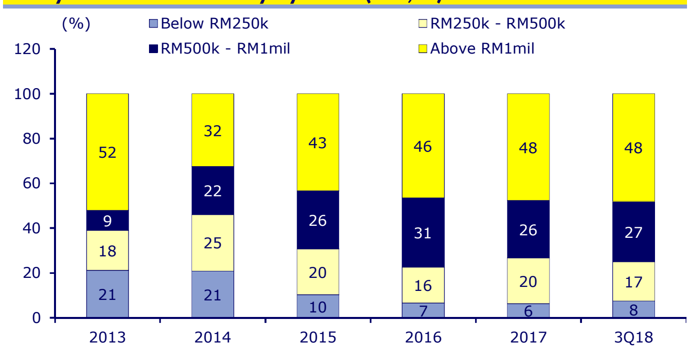
Malaysia unsold inventory by no. of units



Source: NAPIC

Figure 5

Malaysia unsold inventory by value (RM, m)



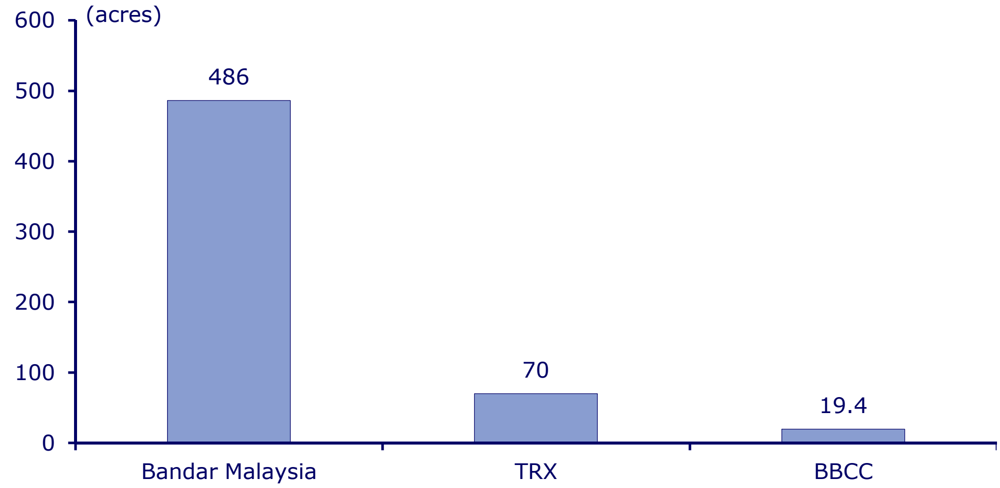
Source: NAPIC

Bandar Malaysia's significant size advantage (which innately means that it has high accretive potential due to its likely higher economic activity) will be stiff competition to relatively smaller, city-centre, large-scale mixed development projects Bukit Bintang City Centre (BBCC, 40% owned by EcoWorld) and the Tun Razak Exchange (TRX), especially in the office segment, which already appears to be in dire straits. Other names that could be affected is SP Setia (KL Eco City project, although the project is located outside the city centre) as well as REITs with a focus on office property, such as MRCB-Quill REIT (N-R).

Bandar Malaysia has significantly more potential to be accretive

Figure 6

Comparison by size: large mixed development projects in the city centre



Source: CLSA

Construction (O-WT): reinforces view of inflection point for job awards

Emphasis on local content a boon for the construction sector, although the percentage involvement has not been disclosed

Per the announcement by the Prime Minister's office, the construction process for the Bandar Malaysia will prioritise local content, a positive signal for participation opportunities for Malaysian firms to replenish backlog over a multi-year horizon. Unlike ECRL however, there is no stipulated percentage. Details on the cost, or any master development changes have not yet been disclosed. It was also revealed that besides being envisaged as a high impact global finance, technology and entrepreneurial firms over the 486 acre development, there are people-focused components as well such as a People's Park and a doubling of affordable homes (previously, 5000). Earlier, phase one of Bandar Malaysia is understood to have cost RM50-60bn, over five years.

Not federal government funded

From the country's financial standing perspective, the project will be private driven initiative under a public-private partnership model, relieving strain on government coffers. The financial impact, however, could be felt in an indirect form, possibly in considering incentives to woo top companies and institutions. If we were to estimate that construction work forms some 40% of GDV, this would amount to a ball park cRM55 bn of construction activity, spread over more than 2 decades. CREC is familiar with construction in Malaysia, having been awarded the Gemas-Johor Bahru rail project under a 3-party consortium together with China Railway Construction Corporation and China Communications Construction Company. CREC also has construction tie-up with Titijaya Land (N-R) for property development.

No shortate of willing funders previously; construction companies in focus

Going by previous experience, Bandar Malaysia will not have shortage of willing funders, with 4 local banks (CIMB, RHB, Maybank, Affin Bank) and four international banks (mostly Chinese banks) forming part of a fund to finance the development. Previously, the master developer had also entered into a MOU with Malaysian Resources Corp Bhd (MRCB, N-R) for construction of the integrated transport terminal. Ekovest (N-R), a construction and highway concession company linked to IWH by way of substantial shareholder Tan Sri Lim Kang Hoo, has also previously expressed interest to be a development partner. Avenues for participation of other contractors will hinge on more details once the master development plan is made known, we believe.

Improving odds of a HSR return; MRT 2 could see additional stations

Strengthens argument for a high speed rail comeback

Prime minister Tun Mahathir recently stated that Malaysia does not need a high-speed train for KL-Singapore connectivity at the moment. That being said, tender for technical consultation has been called, which we understand is to study possible cost reduction (via scale, scope, or realignment). A decision by Malaysia on the suspended KL-SG high speed rail is expected before 31 May 2020. Bandar Malaysia, with a transport hub for MRT, KTM Komuter and Express Rail Link, was also designed to be the terminus for the HSR.

Debt burden could be high, inclusive of HSR, acting as a constraint

Crux of the matter lies with the high price tag currently, which had previously been pointed out by the Pakatan Harapan government as up to RM110 bn (inclusive of interest and other costs). This amounts to c15% of federal government debt of RM0.7 tn, which appears burdensome unless significant savings can be found, in our view. This is particularly so given the green light for ECRL to proceed (RM44 bn of construction work).

Previously, the civil infrastructure work was to be rolled out via a PDP format

Previously, Gamuda-MRCB consortium had been appointed the project delivery partner (PDP) for civil infrastructure work for the northern portion of the HSR, while the southern stretch had been entrusted to YTL-TH Properties Sdn Bhd (N-R) consortium. In all, total civil work would have been up to RM40 bn worth of jobs. As well YTL, we see Gamuda being a beneficiary to HSR, should it make a return.

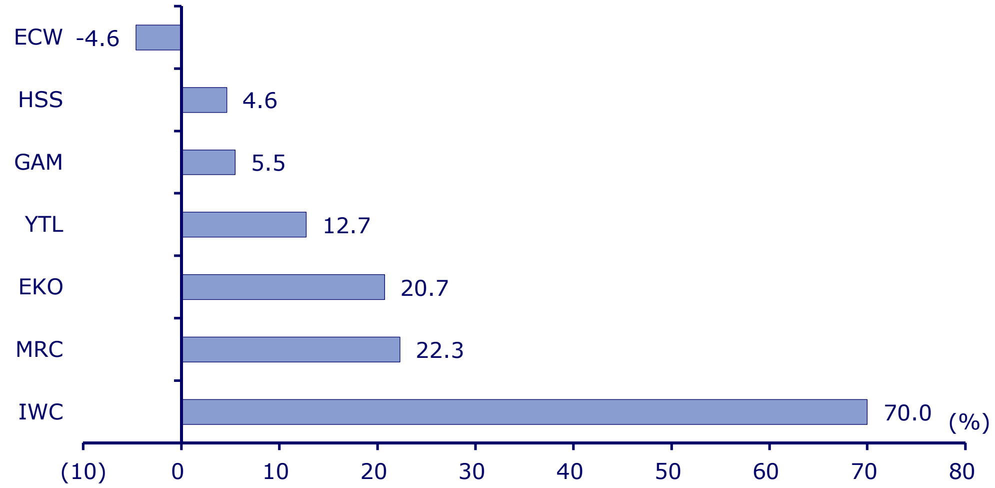
The likelihood to reinstate two stations for MRT may benefit Gamuda

As a result of the shelving of Bandar Malaysia previously as part of the MRT2 cost review, two underground stations – namely Bandar Malaysia North and Bandar Malaysia South – had been left out of the revised cost, reducing the number of stations down to 33 from 35. The alignment of MRT2 had been kept intact, and thus along with it the room for additions of the two stations. This would be an incremental bump up for Gamuda, if it makes a return. Assuming the two stations were to cost RM300 mn in combination, this would generate an additional c0.5% of PATMI for Gamuda, based on its 50%-share of earnings during forecast horizon.

March was when speculation over project revivals began to gain momentum

Figure 7

Share price performance of mentioned winners and losers since 1 March



Source: CLSA, Bloomberg

Figure 8

Domestic property peers

			Mkt Cap	PE (x)		EPS growth (%)		PB (x)		ROE (%)		Yield (%)	
		Rec	(US$m)	CY19	CY20	CY19	CY20	CY19	CY20	CY19	CY20	CY19	CY20
SP Setia	SPSB MK	SELL	2,139	20.8	17.2	-41.1	21.1	0.6	0.6	3.4	4.0	2.2	2.8
Mah Sing	MSGB MK	BUY	550	8.7	8.3	1.3	4.6	0.6	0.6	7.8	8.0	5.2	5.5
Eco World	ECW MK	BUY	657	12.3	9.7	30.3	28.9	0.7	0.8	4.9	5.9	0.0	0.0
Sime Prop	SDPR MK	SELL	1,789	15.1	14.4	78.7	37.9	0.7	0.7	5.2	5.3	1.4	1.5
UEM Sunrise	UEMS MK	N-R	969	14.5	21.1	1.7	-31.1	0.6	0.5	3.7	2.5	1.6	1.0
UOA Dev	UOAD MK	N-R	988	11.1	10.7	2.6	3.5	0.8	0.8	8.5	7.3	6.4	6.4
Hua Yang	HYB MK	N-R	33	57.1	8.6	1108.3	421.9	0.2	0.1	1.7	3.1	0.2	2.2
Matrix Concept	MCH MK	N-R	351	6.7	6.7	-9.5	1.0	1.1	1.1	16.2	16.2	6.4	6.7
Weighted average				**15.2**	**14.3**	**14.8**	**16.3**	**0.7**	**0.7**	**5.6**	**5.6**	**2.7**	**2.9**

Source: CLSA

Figure 9

Domestic infra peers

			Mkt cap	PE		EPS Growth		PB		ROE		Yield	
		Rec	(US$m)	CY18	CY19	CY18	CY19	CY18	CY19	CY18	CY19	CY18	CY19
				(x)	(x)	(%)	(%)	(x)	(x)	(%)	(%)	(%)	(%)
IJM	IJM MK	OPF	2,002	20.5	19.0	-38.2	2.2	0.9	0.8	4.5	4.5	2.1	2.1
Gamuda	GAM MK	SELL	1,915	13.9	14.2	-8.2	-1.5	1.4	1.4	7.7	7.3	3.8	4.0
SunCon	SCGB MK	BUY	607	18.62	19.3	10.10	-3.52	4.58	4.29	25.98	22.92	3.57	3.57
Eversendai	EVSD MK	N-R	94	6.3	6.0	9.7	5.1	0.4	0.4	6.8	7.1	2.4	1.0
Hock Seng Lee	HSL MK	N-R	199	18.3	14.2	-31.7	29.3	1.1	1.1	6.3	7.8	1.5	1.7
Kimlun Corp	KICB MK	N-R	109	6.8	8.2	-20.0	-17.5	0.7	0.7	11.2	8.5	3.8	3.5
Muhibbah	MUHI MK	N-R	323	10.5	8.7	20.0	20.1	1.2	1.2	12.1	13.5	2.2	2.7
George Kent	GKEN MK	N-R	164	9.7	6.1	61.7	59.2	1.9	1.5	25.5	17.0	4.0	7.1
TRC Synergy	TRC MK	N-R	87	11.6	16.9	36.2	-31.3	0.8	0.8	8.1	5.1	2.7	2.7
WCT	WCTHG MK	N-R	317	9.3	12.5	17.2	-25.5	0.5	0.4	4.9	3.9	3.5	2.7
Gadang	GADG MK	N-R	114	5.2	26.7	3.1	-51.1	0.8	-	14.9	9.2	4.5	3.6
Gabungan AQRS	AQRS MK	N-R	165	11.4	9.4	-46.9	76.8	1.7	1.6	16.6	16.5	2.8	4.0
Weighted average				**15.67**	**15.57**	**(12.45)**	**2.64**	**1.45**	**1.37**	**9.44**	**8.62**	**3.01**	**3.15**

Source: CLSA, Bloomberg

Figure 10

Mentioned winners and losers

		Rec	Mkt Cap (US$m)	PE (x) CY19	CY20	EPS growth (%) CY19	CY20	PB (x) CY19	CY20	ROE (%) CY19	CY20	Yield (%) CY19	CY20
Iskandar Waterfront	IWCB MK Equity	N-R	206	na	na	na	na	na	na	na	na	na	na
Ekovest	EKO MK Equity	N-R	346	8.2	7.9	10.8	3.0	na	na	na	na	na	na
MRCB	MRC MK equity	N-R	1,020	34.3	30.0	33.3	14.3	0.8	0.9	2.5	2.9	1.6	1.7
HSS Engineering	HSS MK Equity	N-R	135	na	16.6	-166.7	-312.5	1.8	na	11.3	na	2.0	2.1
YTL Corp	YTL MK Equity	N-R	2,934	26.4	24.6	-16.7	8.0	1.0	1.2	4.1	5.2	4.1	4.4

Source: Bloomberg

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Companies mentioned

Affin Bank (N-R)
AQRS (N-R)
CCCC (1800 HK - HK$8.05 - BUY)
China Railway Engineering Corp. (N-R)
CIMB (CIMB MK - RM5.07 - O-PF)
Eco World (ECW MK - RM0.93 - BUY)
Ekovest (N-R)
Eversendai (EVSD MK) (N-R)
Gamuda (GAM MK - RM3.08 - SELL)
George Kent (N-R)
Hock Seng Lee (N-R)
HSS Engineers (HSS MK) (N-R)
Hua Yang (HYB MK) (N-R)
IJM (IJM MK - RM2.20 - O-PF)
Iskandar Waterfront City (IWC MK) (N-R)
Kimlun Corp (KICB) (N-R)
Mah Sing (MSGB MK - RM0.94 - BUY)
Matrix Concept (MCH MK) (N-R)
Maybank (MAY MK - RM9.09 - BUY)
MRCB (N-R)
MRCB-Quill (N-R)
Muhibbah (N-R)
RHB Bank Bhd (RHBBANK MK - RM5.80 - BUY)
Sime Darby Property (SDPR MK - RM1.09 - SELL)
SP Setia (SPSB MK - RM2.23 - SELL)
SunCon (SCGB MK - RM2.00 - BUY)
TH Properties Sdn Bhd (N-R)
Titijaya Land (N-R)
TRC Synergy (N-R)
Tun Razak Exchange (N-R)
UEM Sunrise (N-R)
UOA Development (N-R)
WCT (N-R)
YTL (N-R)

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