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Strategy - Retail

Steady Outlook For Outlet Malls In Malaysia

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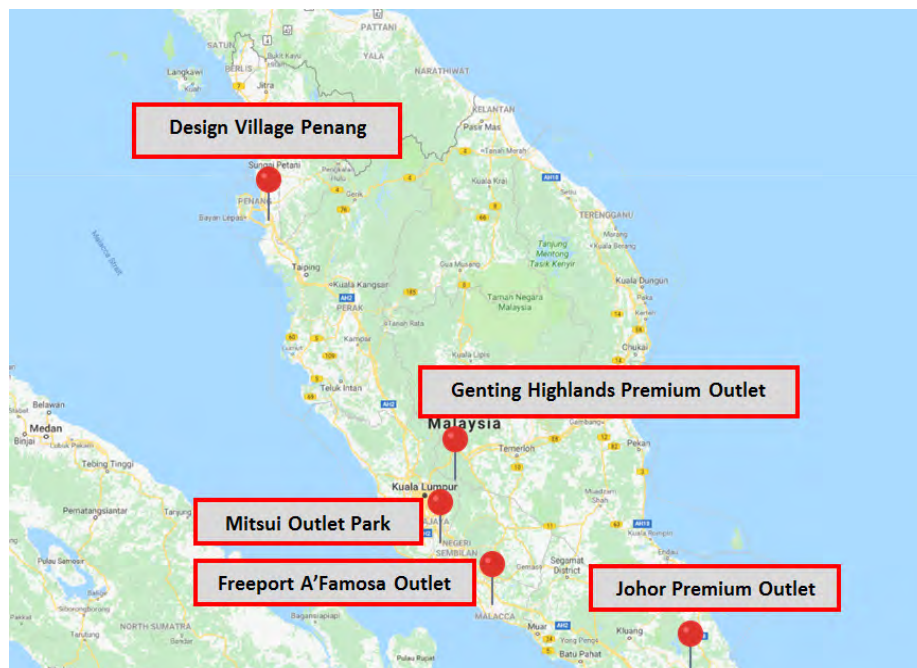
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KEY HIGHLIGHTS

- Malaysia has five outlet malls currently
- The outlet mall concept is growing popular in Malaysia
- Policy from newly elected government, if implemented successfully should result in higher Consumer Sentiment Index
- The projected increase in Chinese tourists will have a spilled over effect to outlet malls
- Retail sales growth should recover in 2018
- Among companies under our coverage, Genting Plantation (GENP) and Malaysia Airports Holdings (AIRPORT) have exposure to outlet industry

Malaysia has five outlet malls currently. The first outlet mall in Malaysia was Oriental Village in Langkawi, which opened 10 to 15 years ago. But perhaps built ahead of its time, it did not gain traction and eventually closed down. In 2011, Johor Premium Outlets (JPO), which is a joint venture effort between the Genting Group and Simon Property Group, was launched in Kulai, Johor. This marked a second entry of outlet mall in Malaysia and it look set for stay this time around. Following its success, four other outlet malls were launched between 2011 and 2016 namely Mitsui Outlet Park KLIA in Sepang, Freeport A'Famosa Outlet in Malacca, Genting Premium Outlet and Design Village in Penang. Furthermore, there are other outlet malls which may open in the future and these include Horizon Village Outlets in Sepang and Silverlakes Brand Village Outlet in Batu Gajah, Perak.

Exhibit 1: Location of the five outlet malls in Malaysia



Source: Google Map, MIDF Research

The outlet mall concept is growing popular in Malaysia due to the increasing demand for retailers to put off-season merchandise in a separate channel. The outlet mall provides a secondary platform for retailers to have better inventory management by rechanneling products and lower operating costs as well as to create brand awareness. Apart from that, the fashion and fashion accessories segment growth in Malaysia is quite healthy with 3.9% year-on-year growth recorded in 2017 in comparison to the subdued overall Malaysia's retail sales growth of 2.0%. This is partly attributed to the luxury apparels and accessories segment which has experience double digit sales growth year-on-year where 85.0% of the luxury retail sales growth was fuelled by Gen Y and Z. In addition, the stronger Ringgit also contributed to better affordability of luxury brand.

Exhibit 2: Summary of five outlet malls in Malaysia

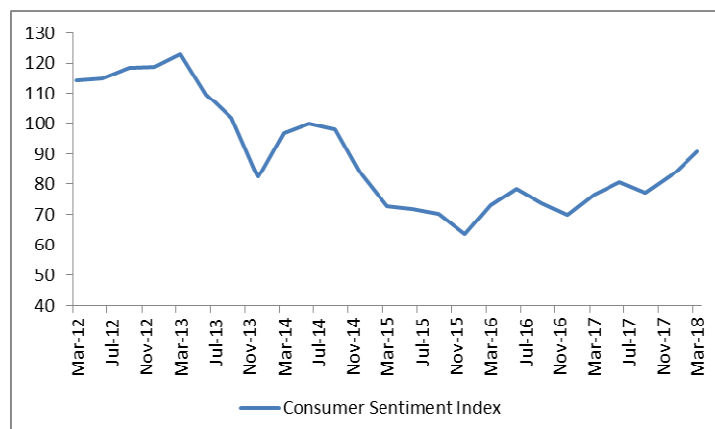
Outlet Name	Location	Net Lettable Area, sqft	Opening Date	No Of Stores
Design Village Outlet Mall	Bandar Cassia, Penang	400,000	23-Nov-2016	150
Freeport A'Famosa Outlet	Alor Gajah, Melaka	180,000	28-Jan-2016	80
Genting Highlands Premium Outlet	Genting Highlands, Pahang	275,000	15-Jun-2017	150
Johor Premium Outlet	Kulai, Johor	269,000	Phase 1: 12-Nov-2011 Phase 2: 15-Nov-2013	130
Mitsui Outlet Park	Sepang, Selangor	473,612	29-Jul-2015	*250

*Upon completion of phase 3

Source: Companies, MIDF Research

Policy from newly elected government, if implemented successfully should result in higher Consumer Sentiment Index. The latest publication from Malaysian Institute of Economic Research (MIER) shows that 1Q2018 Consumer Sentiment Index (CSI) has improved to 91.0 from 4Q2017's 82.6 and 3Q2017's 77.1. In addition, the newly elected government has pledged to increase consumer disposable income through initiatives such as higher minimum wages as well as the abolishment of GST. We also gather that current prospect of job and financial expectations has improved post-election. Therefore, we believe that consumer sentiment is on an upward trajectory to pass the 100 optimistic threshold level.

Exhibit 3: Consumer Sentiment Index

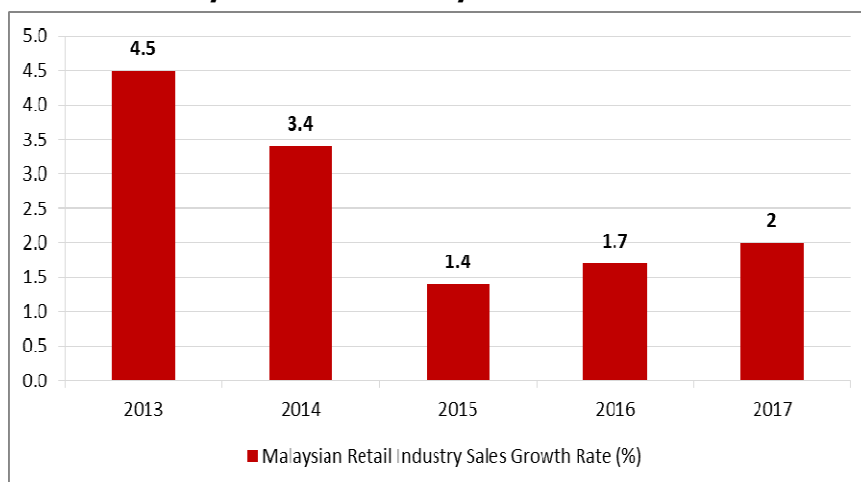


Source: Malaysian Institute of Economic Research

The projected increase in Chinese tourists will have a spilled over effect to outlet malls. Globally, consumer confidence is improving particularly in major economies such as China, US and Europe underpinned by stable job market. For instance, China unemployment rate has touched 3.9% in the previous quarter, the lowest ever recorded. Looking further into the consumer confidence index, China has breached 120 points, a level not seen for 24 years. This favourable atmosphere augurs well with the tourism industry as Chinese tourist represented a notable percentage of international tourists in Malaysia. As a result, Tourism Malaysia forecasted the number of Chinese tourists will reach eight million by the year 2020, a compound annual growth rate (CAGR) of approximately 28.0% from the number recorded in 2017. We believe that the increase in Chinese tourists have a spilled over effect to outlet malls given the fact that they are located in major tourist attraction and tourists normally spent a third of their budget on shopping.

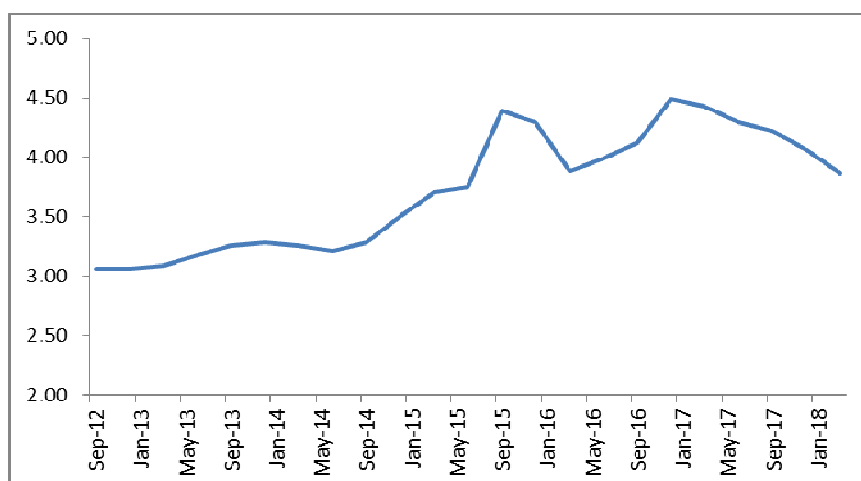
Due to the aforementioned factors, we project that the Malaysia's retail sales growth will recover in 2018 and to be better than the 2.0% year-on-year growth recorded in 2017. This is in line with the Retail Group Malaysia (RGM)'s forecast of 4.7% in 2018. As the prospect for Malaysia retail industry is improving going forward, we expect that it will benefit outlet malls as well.

Exhibit 4: Malaysia Retail Industry Sales Growth Rate



Source: Retail Group Malaysia

Exhibit 5: USDMYR Rate



Source: Bloomberg

Among companies under our coverage, Genting Plantation (GENP) and Malaysia Airports Holdings (AIRPORT) have exposure to outlet industry. GENP (BUY; TP: RM12.00) has exposure to outlet industry by owning 50% stake in Genting Simon Sdn. Bhd. (GSSB) which in turn owns Genting Highlands Premium Outlet (GHPO) and Johor Premium Outlet (JPO). In FY17, GSSB contributed Profit Before Tax of RM30.3m (or 6.6% of GENP PBT). This is a significant improvement of 44% yoy. Besides that, AIRPORT (BUY; TP: RM9.80) owns 30% stake in MFMA Development Sdn. Bhd. (MDSB) which in turn owns Mitsui Outlet Park.

Sum-of-Parts Valuation for GENP

Divisions	Valuation	Note	Fair Value (RM 'm)
Plantation	23.7x FY18E earnings	23.7x is at 10% discount to big cap planters Target PE	8,507
Property	RNAV	Mainly land in Johor & Kedah	1,109
Sum-Of-Parts (RM m)			9,617
No of shares (m)			802
Target Price (RM)			12.00

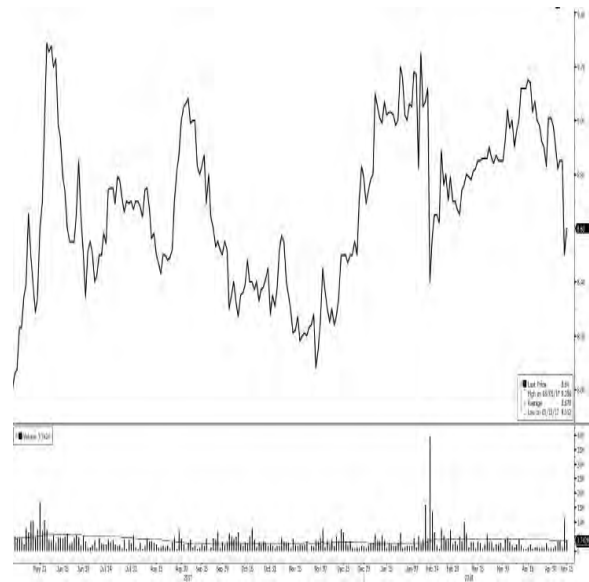
Source: MIDF Research Estimate

Exhibit 6: GENP Share Price



Source: Bloomberg

Exhibit 7: MAHB Share Price



Source: Bloomberg

A. Design Village Outlet Mall (DVOM)

Design Village Outlet Mall (DVOM) is located at 733, Jalan Cassia Barat 2, 14110 Bandar Cassia, Penang which is a newly developed township in Batu Kawan. It is owned by PE Land Sdn Bhd, which also owns and operates The Spring shopping mall in Kuching. DVOM is easily accessible via the Second Penang Bridge from Penang island. It is also near the Bandar Cassia exit off the North South Expressway. DVOM has Net Lettable Area (NLA) of 400,000 square feet set in set in a lush 24-acre tropical garden. It begins operation on the 23rd November 2016. Currently, it houses close to 150 stores of international and regional brands with occupancy rate of about 80%. For more details on DVOM, readers can visit their website at <http://designvillage.today/>.

Location map of Design Village Outlet Mall:



Source: Google Map

GPS Coordinates: 5.24507, 100.43863

Pictures of Design Village Outlet Mall:



Source: Company



Source: Company

B. Freeport A'Famosa Outlet (FAO)

Freeport A'Famosa Outlet (FAO) is located at Jalan Kemus/Sempang Ampat, 78000 Alor Gajah, Malacca. It is a joint venture between UK based outlet specialist, Freeport Retail Ltd and Langkah Realiti Sdn Bhd, the owner of the popular A'Famosa Resort in Malacca. FAO has Gross Built Up area of 310,000 square feet which will be developed over three phases. The phase 1 which covers a gross built up area of 180,000 square feet and feature more than 80 retail units, 1,200 parking bays as well as an exhibition and event hall. FAO was opened on 28th January 2016. Currently, it enjoys close to 100% occupancy rate as it houses over 100 designers and brand name stores. For more details on FAO, readers can visit their website at <http://freeportafamosa.com/>.

Location map of Freeport A'Famosa Outlet :



Source: Google Map

GPS Coordinates: 2.44501, 102.20661

Pictures of Freeport A'Famosa Outlet:



Source: Company



Source: Company

C. Genting Highlands Premium Outlets (GHPO)

Genting Highlands Premium Outlets (GHPO) is located at KM13, Genting Highlands Resorts, 69000 Genting Highlands, PAHANG. It is owned by Genting Simon Sdn. Bhd. which is a 50:50 joint venture (JV) between Genting Plantations (GENP) and Simon Property Group (SPG). GHPO has Gross Built Up area of 600,000 square feet with Net Lettable Area (NLA) of 275,000 square feet. GHPO opened its doors to the public on 15 June 2017.

With more than 150 designers and brand name stores offering savings of up to 70%, GHPO is currently enjoying 99% occupancy rate. For more details on GHPO, readers can visit their website at <https://www.premiumoutlets.com.my/genting-highlands-premium-outlets/>.

Location map of Genting Highlands Premium Outlets:



Source: Google Map

GPS Coordinates: 3.40598,101.79439

Pictures of Genting Highlands Premium Outlets:



Source: Company



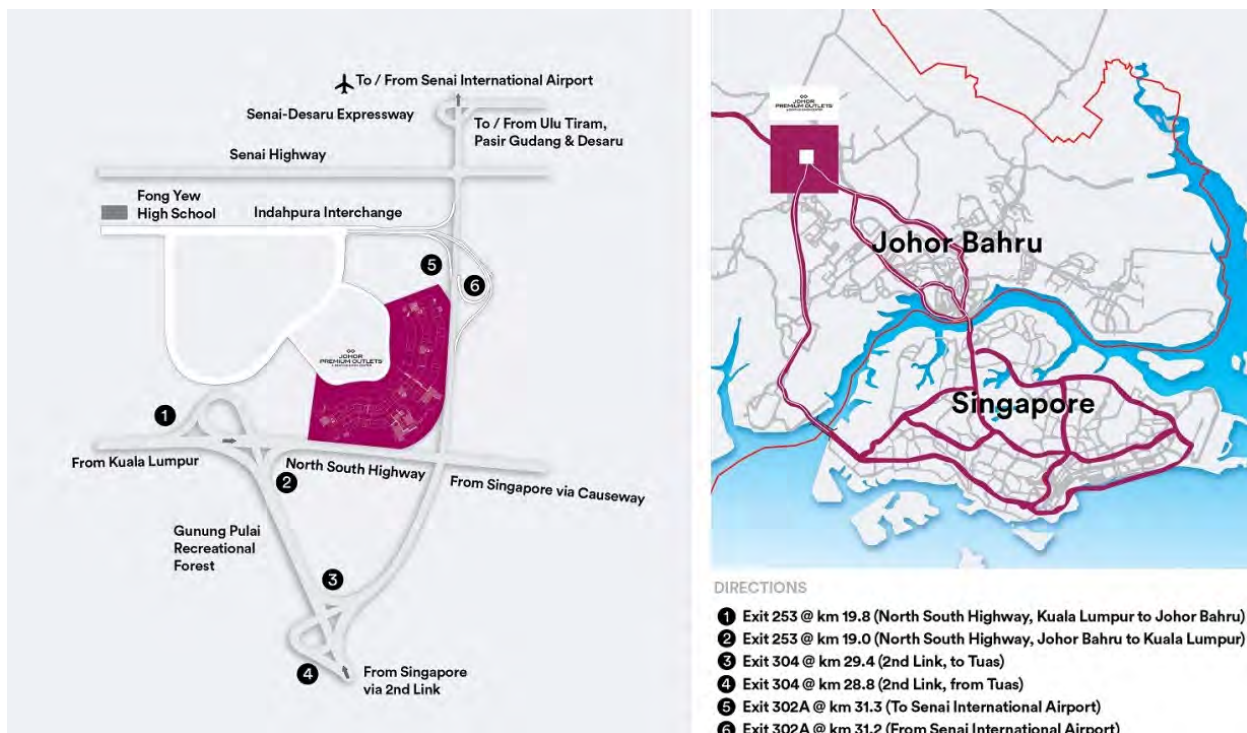
Source: Company

D. Johor Premium Outlets (JPO)

Johor Premium Outlets (JPO) is located at Jalan Premium Outlets, Indahpura, 81000 Kulai Johor Darul Takzim. It is owned by Genting Simon Sdn. Bhd. which is a 50:50 joint venture (JV) between Genting Plantations (GENP) and Simon Property Group (SPG). JPO has Gross Built Up area of 379,511 square feet with Net Lettable Area (NLA) of 331,766 square feet. JPO Phase 1 was officially opened on 11-December- 2011. Following the success of Phase 1, JPO Phase 2 expansion was completed on 15-November-2013.

JPO has 130 designers and brand name stores offering savings of up to 65%. For more details on JPO, readers can visit their website at <https://www.premiumoutlets.com.my/johor-premium-outlets/>

Location map of Johor Premium Outlets:



Source: JPO Website

GPS Coordinates: 1.60305,103.62138

Pictures of Johor Premium Outlets:



Source: Company



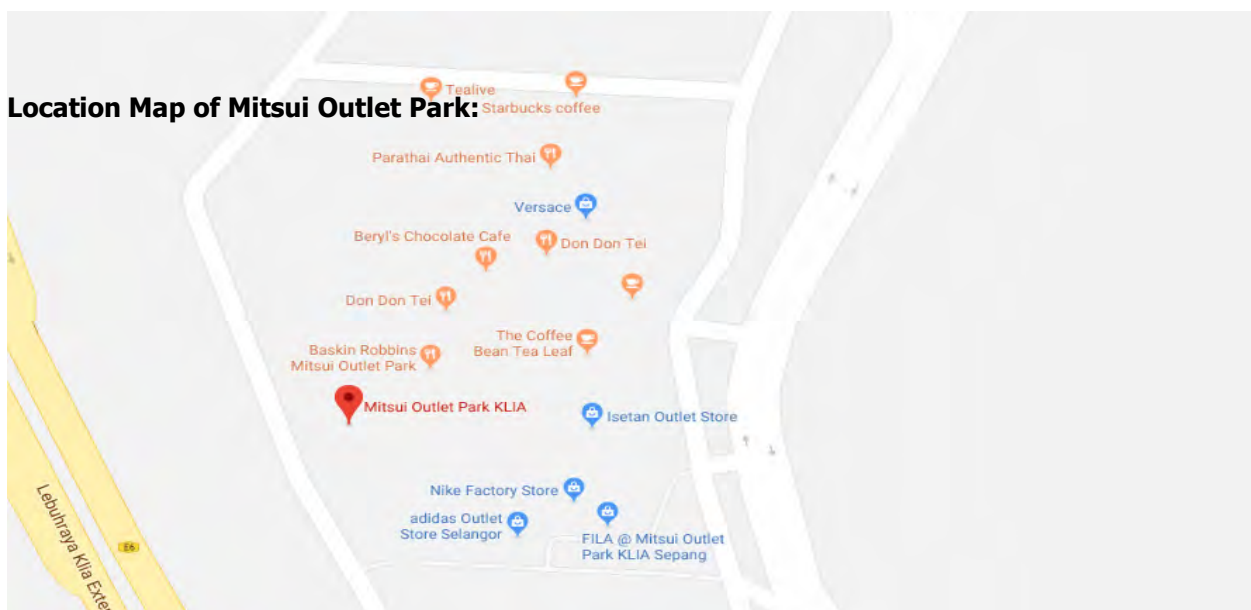
Source: Company

E. Mitsui Outlet Park

Mitsui Outlet Park was one of the outlet stores available in Malaysia, with a potential of being the largest in Southeast Asia. The building is located near to KLIA terminal, with gross built up of 178,000 square meter. At this juncture, its net lettable area (NLA) is around 44,000 square meter and expected to grow once the third phase construction is completed. The entire project is owned by a joint venture partnership between Mitsui Fudosan and Malaysia Airports. The JV formed is named MFMA Development Sdn. Bhd, an entity that is responsible to construct the outlet store buildings and lease the spaces out to tenants. Note that MAHB owns 30% stake in MFMA Development Sdn. Bhd.

While the entire project is expected to complete by 2021, the early phases of the project are already in operation. Notably, the premium outlet store was officially opened to public on 29th July 2015. As of this writing, there are approximately 130 stores opened, housing global brand names like Nike, Timberland, Sacoor and Levi's. Given the huge consumers demand in the region, Mitsui Premium Outlet now has 97% of occupancy rate. For more details on MPO, readers can visit their website at:

<https://www.mitsuioutletparkklia.com.my/shopping.php>



Source: Google Map

GPS Coordinates: 2.77927,101.67661

Mitsui Outlet Park Front Entrance



Source: Company

Mitsui Outlet Park Interior



Source: Company

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BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.