THEMATIC REPORT

Authors:

MIDF Team
research@midf.com.my

Foreign Direct Investment and Where to Find Them

KEY HIGHLIGHTS

- **Data center and external trade revival are key FDI supporters. Investments in services sector increased strongly by +10%yoy (1-year high) underpin by domestic trade +7.3%yoy (5-quarter high), financial & insurance by +8.9%yoy (2-quarter high) and ICT by +20.5%yoy (5-straight quarters of double-digit pace).**

- **Telco infrastructure providers such as Telekom Malaysia (NEUTRAL, TP: RM7.03) and Time Dotcom (Non-rated) could potentially benefit from the upbeat demand on data centers in the country.**

- **Mah Sing Group (BUY, TP: RM1.83) recently announced that it has entered into a collaboration agreement with Bridge Data Centers (BDC) for the joint venture development of data center facilities and infrastructure on 17.55 acres of land in Southville City township.**

- **Among renowned names in Malaysia's data center builder space is Sunway Construction (NEUTRAL, TP: RM3.09), Gamuda (BUY, TP: RM6.83) and IJM Corp (BUY, TP: RM3.01).**

- **If there is a change of leadership in the US by the end of this year, we expect greater intensity of existing global trade war. As for Malaysia, re-exports are poised to rise strongly benefiting from potential increase of global and regional distribution hubs.**

- **Westports (BUY, TP: RM4.30), managing nearly 80% of goods flowing through Port Klang, stands as a contender to benefit from the uptick in trade activities.**

- **Steady demand projected for warehousing space. Swift Haulage (NEUTRAL, TP: RM0.54) to capitalize on this trend, as it possesses approximately 56 hectares of unutilized land in strategic locations that can be monetized in the coming years.**

- **Preparing for bigger, wider and sophisticated industrial activities. Malaysia's industrial landscape is on a promising trajectory, with significant developments across key states.**

- **Growing exposure to industrial segment by property companies. Axis REIT (BUY, TP: RM2.02) which has high exposure to industrial properties under its portfolio reported resilient earnings despite Covid-19 pandemic.**

- **S P Setia (BUY, TP: RM1.68) is expanding its industrial segment by creating a new industrial park and expanding its existing industrial parks. Industrial parks of S P Setia are located at Setia Alaman (399 acres with GDV: RM3.09b), Tanjung Kupang (307 acres with GDV of RM1.87b), Setia Fontaines Industrial (323 acres with GDV of RM1.68b), and in Johor (Setia Business Park I and II).**

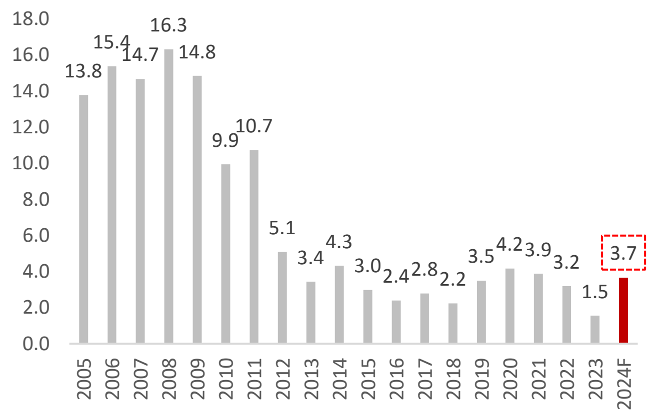
- **Kerian Integrated Green Industrial Park (KIGIP). The development of an industrial park is timely and expected to yield value accretion to the earnings outlook in the mid to long term). Maintain SD Guthrie (NEUTRAL, TP: RM4.18).**

- **Data center announcements are a pleasant surprise and can provide upside to business loans and investment banking businesses. Most banks are already angling to widen their presence in Johor (and other non-Klang valley regions). We highlight HL Bank (BUY, TP: RM21.38) and AMMB (BUY, TP: RM4.75).**

ECONOMIC COMMENTARY AND ANALYSIS

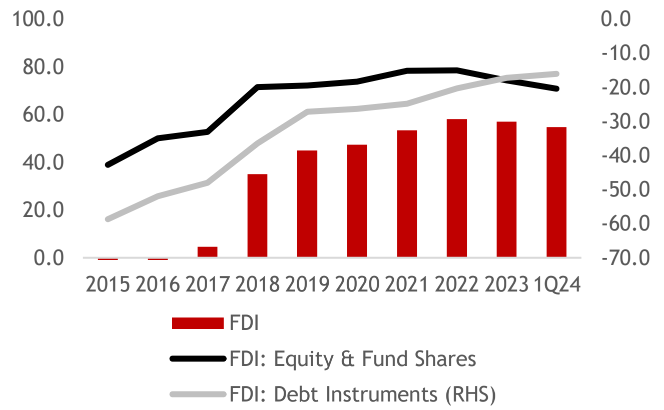
Current account surplus to improve at +3.7% in 2024. Malaysia's current account (CA) surplus bounced back to +3.5% of GDP in 1QCY24, an improvement from the record low of +0.2% in the previous quarter. The current account surplus widened to 4-quarter high of +RM16.2b (4QCY23: +RM0.9b), thanks to higher trade surplus (in both goods and services). Deficits in the services trade continued to narrow to new post-pandemic low of -RM7.3b (4QCY23: -RM7.4b), supported by higher surplus travel services (in line with continued recovery in the tourism sector) as well as higher exports of manufacturing and ICT services. In addition, the wider surplus in the trade of goods, which rose to +RM32b (4QCY23: +RM30.8b) also added to the higher CA surplus. The higher CA surplus during the quarter was also attributable to the narrower deficits in the primary income account, which declined significantly to -RM8.8b (4QCY23: -RM20.3b), largely due to larger surplus in investment income from other investments. Looking at the improvement in CA balance, we now foresee the ratio would increase to +3.7% of GDP in 2024 (2023: +1.5%). The higher surplus will be underpinned by the recovery in the trade of goods and further improvement in the services trade. The services trade will continue to benefit from the recovery in the tourism sector, while the goods trade will recover on the back of improved E&E exports, recovery in global production and restocking activities, and growing demand from major markets.

Chart 1: Current Account Balance (% of GDP)



Source: DOSM, MIDFR

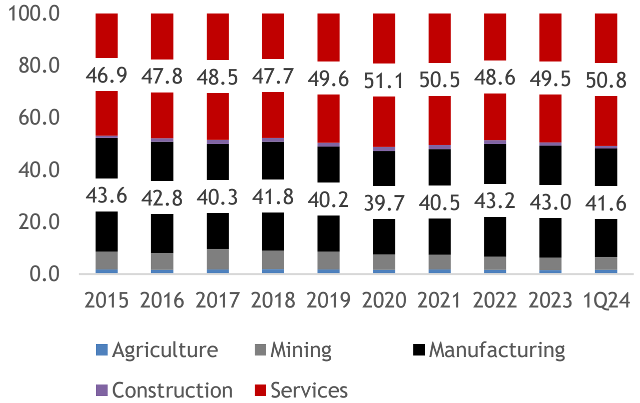
Chart 2: Net Inflows of FDI by Type (% of GDP)



Source: DOSM, MIDFR

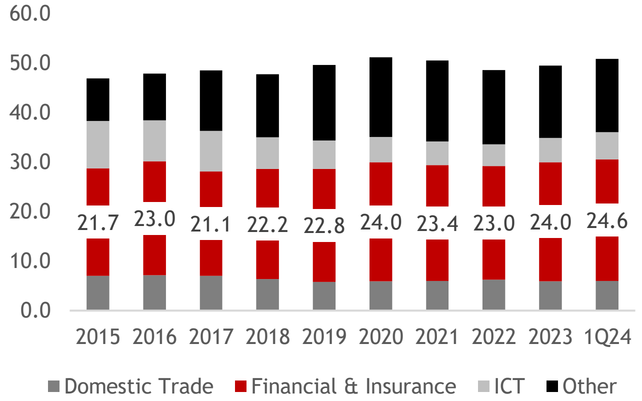
Data center and external trade revival are key FDI supporters. Measured in terms of percentage to GDP, Malaysia's net inflows of FDI remained steady above +50% level since 2021. This was mainly contributed by equity & fund shares whereas debt instruments were still in a deficit ratio. In 1QCY24, the FDI inflows rose by +5.5%yoy (4QCY23: +5.4%yoy, 2023: +7.5%) while equity & fund shares went up by +2.2%yoy (4QCY23: +2.5%yoy, 2023: +5.8%) and debt instruments by +30.2%yoy (4QCY23: +26.6%yoy, 2023: +20.3%). By sector, more than 90.0% of the FDI inflows went into services and manufacturing sectors. Investments in services sector increased strongly by +10%yoy (1-year high) underpin by domestic trade +7.3%yoy (5-quarter high), financial & insurance by +8.9%yoy (2-quarter high) and ICT by +20.5%yoy (5-straight quarters of double-digit pace). We opine the robust FDI growth in ICT is highly related to data center and 5G roll-out projects. Looking ahead, we foresee a stronger pick-up in export-oriented sectors such as manufacturing, mining and agriculture in 2HCY24 amid improving global trade activities and stable global commodity prices.

Chart 3: FDI by Sector (% of FDI)



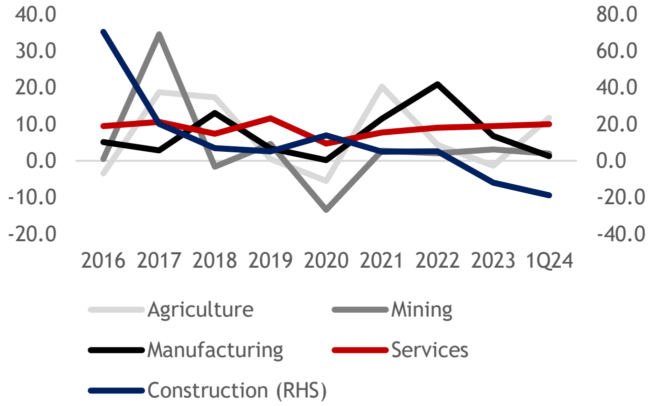
Source: DOSM, MIDFR

Chart 4: FDI by Sub-Sector of Services (% of FDI)



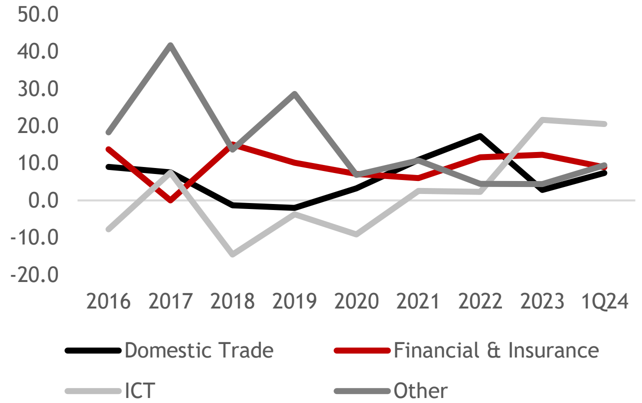
Source: DOSM, MIDFR

Chart 5: FDI by Sector (YoY%)



Source: DOSM, MIDFR

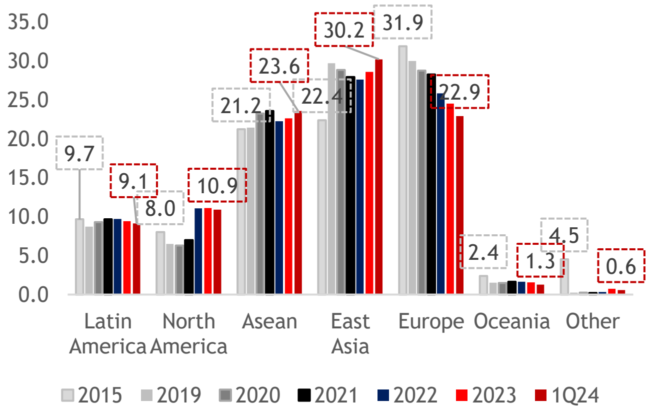
Chart 6: FDI by Sub-Sector of Services (YoY%)



Source: DOSM, MIDFR

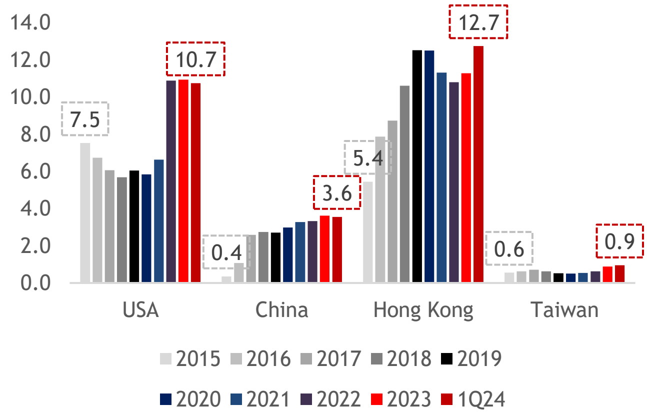
In preparation for potential intensified global trade war. As US-China trade war took place during 2017-2019, Malaysia's FDI saw structural shifts by country of origin. For instance, FDI by USA dropped from 6.7% of total FDI in 2016 to 6.0% in 2019. FDI by China rose from 1.1% to 2.7% and Hong Kong up from 7.9% to 12.5% during the 3-year. However, the FDI trends shifted again especially by the US due to change of country leadership. Post-pandemic saw FDI by the US surged to above 10.0% since 2022 while not much changes by China and Hong Kong investors. Looking beyond 2025, the global economy is facing the possibility of an escalation to the US-China trade war depending on the US Presidential Election which is to be held in Nov-24. If pro-protectionism returns to power, we should expect higher FDI from China and East Asia countries into Malaysia and lesser investments by the US.

Chart 7: FDI by Region (% of FDI)



Source: DOSM, MIDFR

Chart 8: FDI by Selected Country (% of FDI)



Source: DOSM, MIDFR

Real estate and distributive trade key projects for the services sector. In terms of percentage of services approved projects, Real Estate accounted for about 38.0% in 2023. It was 30.0% in 2019 and 20.0% in 2015. Distributive Trade, which comprises of motor vehicles, wholesale and retail trade maintained its share of around 30.0%. One noticeable service sub-sector is Support-Services which grew from 6.0% in 2015 to 17.0% in 2023. Malaysia being ranked third in the Global Services Location Index (GSLI) is expected to improve better in the long-term as the government introduced Global Services Hub Tax Incentive among others income tax rate deduction of 5% or 10% for up to 10 years. By primary sector projects, the Mining sector covers almost 50.0% and roughly 32.0% by Plantation & Commodities which we believe are mainly palm oil plantation.

Table 1: MIDA's Approved Investment Project (Unit)

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Primary	57	41	48	63	66	23	59	72	75
Agriculture	27	16	12	14	9	1	6	10	0
Mining	26	19	32	26	38	11	19	26	47
Plantation & Commodities	4	6	4	23	19	11	34	36	28
Services	4,470	4,392	4,873	4,234	4,233	3,685	3,807	3,644	4,143
Global Establishments	224	211	224	204	169	141	102	102	83
Support Services	251	284	194	346	536	753	954	788	722
MSC Status	249	336	315	107	0	0	27	20	48
Transport	57	15	16	12	9	9	25	30	37
Real Estate	911	680	973	968	1,279	1,045	1,044	754	1,565
Telecommunications	620	586	562	508	537	615	450	391	338
Distributive Trade	1,317	1,449	1,752	1,263	1,136	613	908	1,242	1,145
Hotel & Tourism	118	97	70	63	71	38	29	16	13
Financial Services	48	43	44	47	24	28	53	49	42
Health Services	26	4	3	11	7	1	5	6	4
Education Services	621	669	711	704	463	435	202	237	143
Bionexus Status & Software	28	18	9	1	2	7	8	9	3

Source: MIDA, MIDFR

NIMP2030 focused sectors to dominate investment in Malaysia. Electrical & Electronic (E&E) is the main investment projects contributor. Almost one-fifth of MIDA's approved manufacturing investment projects are for E&E. We predict E&E to remain in radar and in fact contribute higher following the NIMP2030 agenda. The blueprint aims to expand Malaysia's semiconductor industry to Integrated Circuit Design and Wafer Fabrication. According to MITI, Malaysia's strengths for semiconductor are the back-end segments; (i) electronics manufacturing services and (ii) assembly and testing. Apart from that, the blueprint targets to deepen the specialty chemical vertical and launch locally made electric vehicles.

Table 2: MIDA's Approved Investment Project (Unit)

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Manufacturing	680	733	687	721	988	1,049	702	801	883
Food Manufacturing	27	16	12	14	9	1	6	10	0
Beverages & Tobacco	26	19	32	26	38	11	19	26	47
Textiles Products	4	6	4	23	19	11	34	36	28
Leather Products	224	211	224	204	169	141	102	102	83
Wood Products	251	284	194	346	536	753	954	788	722
Furniture & Fixtures	249	336	315	107	0	0	27	20	48
Paper, Printing & Publishing	57	15	16	12	9	9	25	30	37
Chemical Products	911	680	973	968	1,279	1,045	1,044	754	1,565
Petroleum Refineries	620	586	562	508	537	615	450	391	338
Natural Gas	1,317	1,449	1,752	1,263	1,136	613	908	1,242	1,145
Rubber Products	118	97	70	63	71	38	29	16	13
Plastic Products	48	43	44	47	24	28	53	49	42

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Non-Metallic Mineral Products	26	4	3	11	7	1	5	6	4
Basic Metal Products	621	669	711	704	463	435	202	237	143
Fabricated Metal Products	28	18	9	1	2	7	8	9	3
Machinery Manufacturing	315	331	343	330	222	211	83	103	54
Electrical & Electronic Products	368	390	403	385	261	248	89	114	56
Transport Equipment	422	449	463	441	300	285	95	125	58
Scientific & Measuring Equipment	475	508	523	496	339	322	101	136	60
Miscellaneous	529	567	584	552	378	359	107	147	62

Source: MIDA, MIDFR

70.0% of manufacturing projects in Selangor, Johor and Penang. In 2023, the combined shares of the three states to total manufacturing projects at the higher point of 70.9%. The lowest point was recorded at 64.1% in 2006. Penang retains its shares around 16.0%, among others thanks to E&E projects. Johor emerged as the largest recipient of manufacturing projects with shares of 27.5% while Selangor's 26.5% last year. We believe the expansion of chemicals, refined petroleum, E&E, food manufacturing and machinery & equipment among key industries contributed to the manufacturing projects in the state.

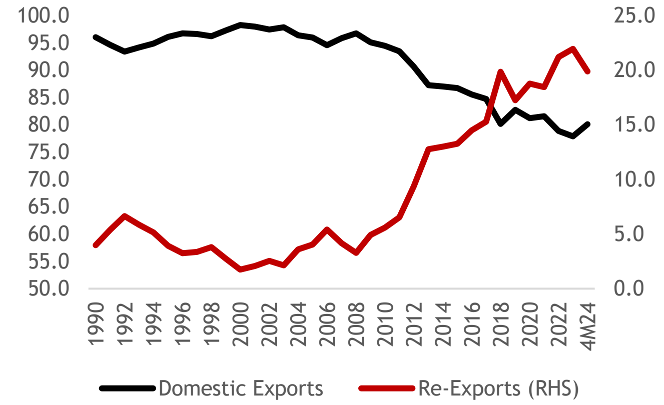
Table 3: MIDA's Approved Investment Project by State (Unit)

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Manufacturing	680	733	687	721	988	1,049	702	801	883
Selangor	222	242	202	241	315	324	247	265	234
Sarawak	22	13	20	11	18	24	6	8	28
Kedah	49	35	41	41	54	76	48	42	63
Johor	137	165	146	144	209	232	134	166	243
Penang	107	106	120	108	166	166	111	135	149
Perak	32	55	45	37	72	60	43	53	43
Melaka	28	23	37	42	35	41	18	33	25
Negeri Sembilan	35	33	28	40	44	48	30	33	38
Pahang	17	19	19	15	34	30	14	13	15
Sabah	10	19	14	13	15	15	14	23	19
Kuala Lumpur	2	12	7	10	12	17	17	11	5
Terengganu	11	5	4	11	8	9	12	11	10
Kelantan	6	5	1	6	5	2	3	7	11
Perlis	1	0	3	1	1	4	1	0	-
Other	1	1	0	1	0	2	4	1	-

Source: MIDA, MIDFR

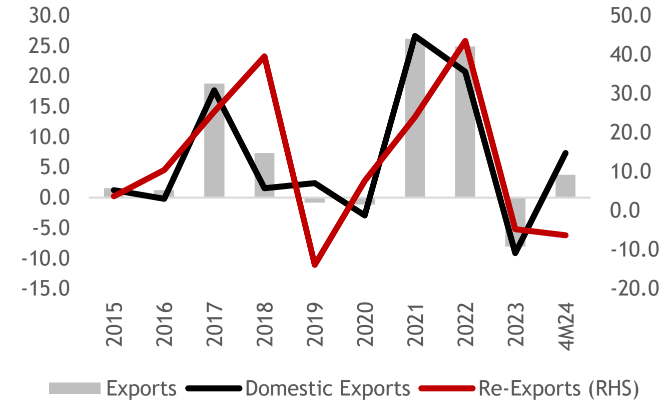
Global trade war accelerated Malaysia's re-exports. Prior to 2012, the re-exports to total exports ratio stayed below 10.0%. After one year Donald Trump became the President of the US, Malaysia's re-exports ratio hit above 20.0% for the first time in Jan-18. The re-exports grew by +25.3%yoy in 2017 and +39.5%yoy in 2018. In comparison, domestic exports only expanded by +17.7%yoy and +1.5%yoy respectively. Looking ahead, if there is a change of leadership in the US by end of this year, we expect greater intensity of existing global trade war. As for Malaysia, re-exports are poised to rise strongly benefiting from potential increase of global and regional distribution hubs. By product, there are four products that make about 90.0% of the re-exports namely (i) Machinery & Transport Equipment, (ii) Mineral Fuels, (iii) Manufactured Goods and (iv) Chemicals. Among the four, Mineral Fuels and Machinery & Transport Equipment have the large re-exports rate of 36.5% and 27.8% in 2023 respectively. We may see re-exports activity improve above 10.0% for Manufactured Goods if global trade war intensified.

Chart 9: Domestic vs. Re-Exports (% of Exports)



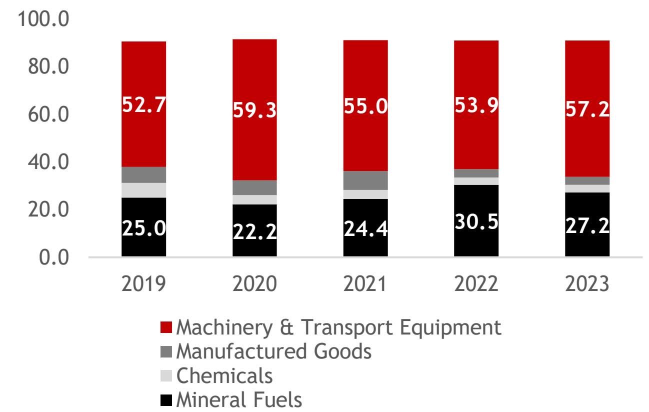
Source: DOSM, MIDFR

Chart 10: Domestic vs. Re-Exports (YoY%)



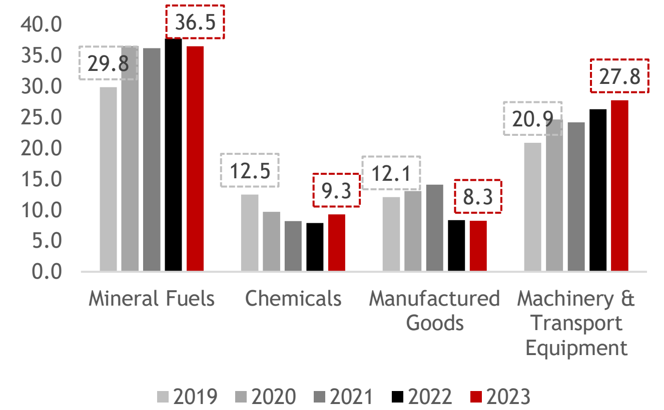
Source: DOSM, MIDFR

Chart 11: Top Re-Exports Products (% of Re-X)



Source: DOSM, MIDFR

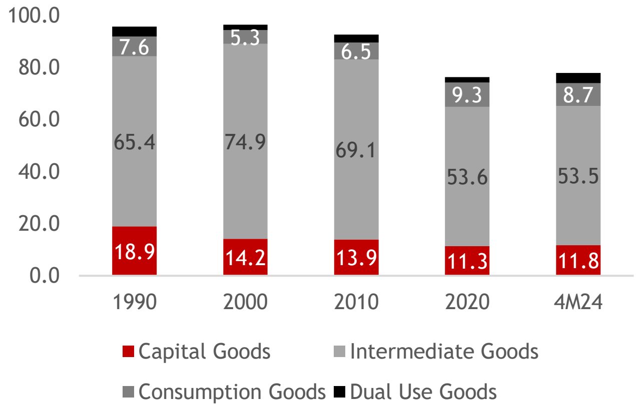
Chart 12: Re-Exports Content (% of Exports)



Source: DOSM, MIDFR

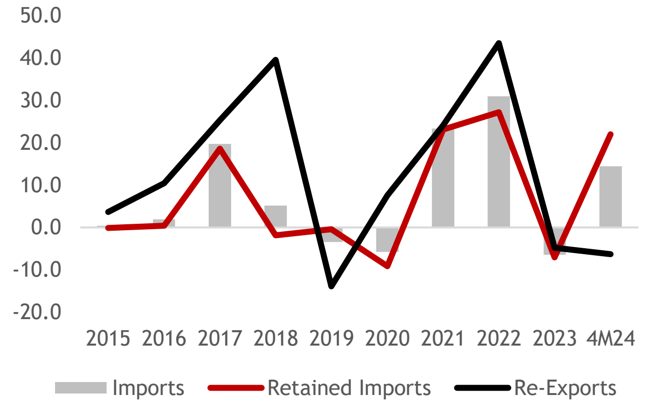
Robust capital goods imports. As of 4MCY24, Malaysia's imports grew faster by +14.4%yoy (2023: -6.5%yoy) while exports rose modestly by +3.8%yoy (2023: -8.0%yoy). By key component, imports of capital goods surged by +36.9%yoy (2023: +7.1%yoy) while intermediate goods rebounded by +18.6%yoy (2023: -11.9%yoy) and consumption goods increased by +15.8%yoy (2023: +0.1%yoy). The strong pick-up in intermediate goods indicate bright prospects for exports of manufactured goods especially in 2HCY24 onwards and steady consumer demand albeit low inflationary pressure and stable job market supported the jump in consumption goods inbound shipments. As for capital goods, robust imports of non-transport equipment soared by +47.3%yoy in 4QCY24 (2023: +7.7%yoy) whereas transport equipment declined by -46.4%yoy (2023: +1.3%yoy). Based on our channel check, purchases of data center server racks are among the factors contributing to the robust imports of non-transport equipment capital goods. Also, the current momentum of capital goods imports is expected to continue following data center projects.

Chart 13: Imports by End-Use (% of Imports)



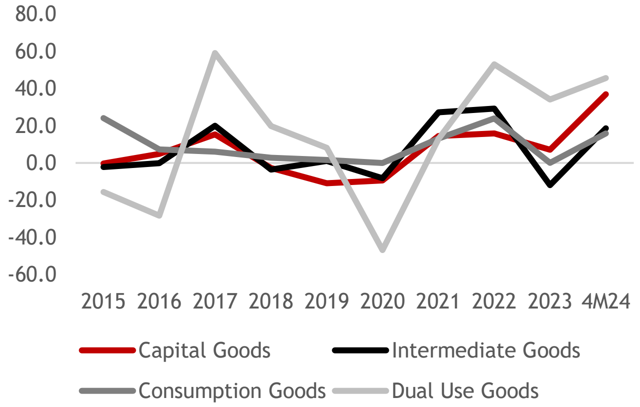
Source: DOSM, MIDFR

Chart 14: Imports Growth (YoY%)



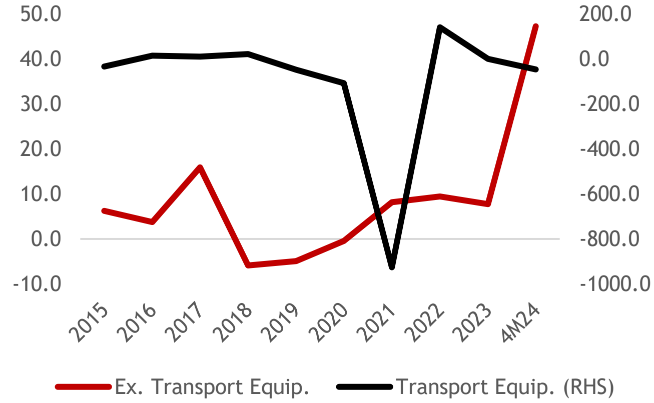
Source: DOSM, MIDFR

Chart 15: Imports by End-Use (YoY%)



Source: DOSM, MIDFR

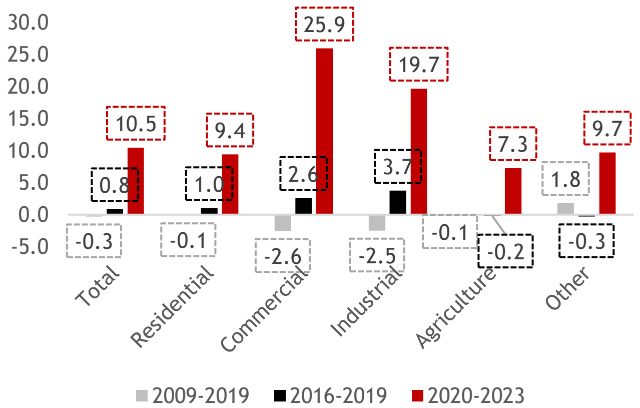
Chart 16: Imports of Capital Goods (YoY%)



Source: DOSM, MIDFR

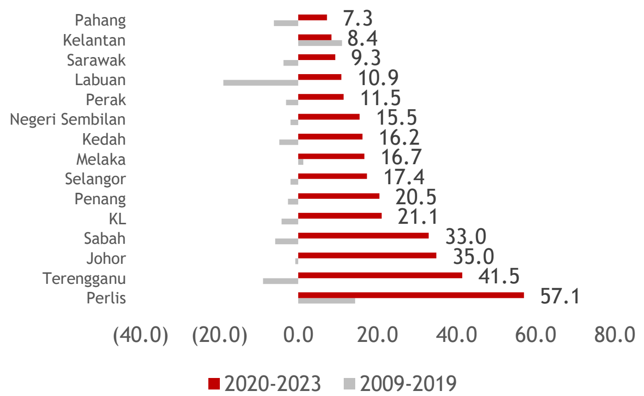
Strong demand for commercial and industrial sales in post-pandemic. Since 1989, total property sales have grown by +3.2% per annum while residential by +3.1%pa, commercial by +4.5%pa, industrial by +4.4%pa and agriculture by +2.4%pa. Post-GFC'08 saw sales of commercial and industrial contracted more than total property sales in Malaysia. However, zooming into the Global Trade War 2017-2019 period we saw the growth rate of industrial sales was the fastest at +3.7%pa against total property sales growth of +0.8%pa. On top of that, the post-pandemic era saw sales of commercial and industrial grew at double-digit pace and way faster than total property sales pace. We opine stability of supply chains are key concerns and reasons by businesses and exporters after the pandemic-led crisis and in preparation for potential intensified global trade war.

Chart 17: Property Sales by Type (CAGR%)



Source: MOF, MIDFR

Chart 18: Industrial Property Sales by State (CAGR%)



Source: MOF, MIDFR

Preparing for bigger, wider and sophisticated industrial activities. Malaysia's industrial landscape is on a promising trajectory, with significant developments across key states. Selangor stands out with ambitious projects such as the Selangor IC Design Park, Selangor International Aeropark and the Green Industrial Park. Johor is experiencing robust growth with ventures like the Johor-Shenzen Industrial Park and Eco Business Park VI. Negeri Sembilan is positioning itself for long-term success with initiatives like the SPD Tech Valley and Malaysia Vision Valley. Also, Pulau Pinang is enhancing its high-tech sector with the Penang Science Park South and Batu Kawan Industrial Park. In East Malaysia, Sabah's 20,000-acre International Industrial Park and Sarawak's Bintulu Industrial Park reflect substantial regional advancements. These strategic developments underscore Malaysia's dynamic and forward-looking industrial future.

Table 4: List of Post-Pandemic New Industrial Parks

State	Industrial Park	Area (ac)	Note
Johor	Johor-Shenzhen Industrial Park and Innovation Hub	1,000	Announced
	Eco Business Park VI	404	Announced
	Tiong Nam and J-Corp. Industrial at Sedenak	300	Announced
	RE Industrial Park	40	Announced
	Tropicana Industrial Park	1,188	Phase 1 Completed in 2022
Kedah	Smart and Green Industrial Park	Not Specified	Announced
	NCT and NGX Industrial Land Development in Delapan	127	Announced
	Bandar Saujana Putra (Industrial and Residential)	1,400	Expected by 2032
	Area Group Data Centre Park	150	Announced
	Kedah Rubber City (KRC)	1,242	Expected by 2030
Kelantan	Tok Bali Industrial Park	Not Specified	Announced
	IBS Industrial Park in Labok	200	Expected by 3QCY24
Melaka	German Technology Park	341	Announced
Negeri Sembilan	SPD Tech Valley Phase	523	Announced
	Bandar Teknologi Enstek Industrial Park Phase 3	250	Expected by 2037
	Malaysia Vision Valley (MVV)	308	Announced
	Fajarbaru Industrial Park	11	Announced
	Kelisa Mewah Industrial Park	99	Phase 1 Expected by 2025
Perak	Silver Valley Technology Park (SVTP)	3,000	Announced
	Lahat Industrial Park	60	2023
	Ipoh Raya Industrial Park by MRCB	833	Expected by 2028
	Seri Iskandar Industrial Park	3,168	2024
	Automative High Tech Valley	1,000	Announced
	Kerian Integrated Green Industrial Park	1,000	Announced
	Perak Halal Industrial Park	107	Expected by 2025
	Lumut Maritime Industrial City (LuMIC)	Not Specified	Announced
	Kossan Rubber City	845	Expected by 4QCY24
Pulau Pinang	AME Elite and Majestic Builders Industrial Park in Seberang Perai Tengah	176	Announced
	IC Design and Digital Park	42.5	Announced
	Bandar Cassia Technology Park	382	2031
	Batu Kawan Industrial Park 3 (BKIP3)	622	2031
	Penang Science Park South	174	2031
	Batu Kawan Industrial Park 2 (BKIP2)	600	Announced
	Penang Technology Park @ Bertam	800	Announced
Sabah	Sabah International Industrial Park	20,000	Proposed
	Kota Marud-Kota Belud Industrial Park	Not Specified	Announced
	Kimanis Oil and Gas Industrial Park	Not Specified	Announced
Sarawak	Sibu Industrial Park	151	2022
	Rantau Panjang Phase II Industrial Park	21	2022
	Bau Industrial Park	30	Work Commenced
	Samalaju SME Cluster	Not Specified	Work Commenced
	Marudi industrial Park	Not Specified	Work Commenced
	5 Anjung Usahawan Industrial Parks	Not Specified	Work Commenced
Selangor	A Park Bangi	20	2024
	Selangor IC Design Park Puchong	Not Specified	Announced
	Selangor International Aeropark	2,000	Announced
	NCT Smart Industrial Park	732	Expected by 2025
	Green Industrial Park (GRIP) Kota Puteri	374	Expected by 2027
	Bandar Bukit Raja IV	948	Expected by 2025
	COMPASS @ Kota Seri Langat	220	Expected by 2026
	Kapar Industrial Park 2	500	2024

State	Industrial Park	Area (ac)	Note
	IOI Industrial Park Banting	265	Expected by 2027
	SBB Industrial Park	1,000	Phase 1 Expected by 2025
	Costa Lagenda Industrial Park	144	Announced
	UMW High Value Manufacturing Park	861	2024
	Banting Industial City	1,253	Announced
Terengganu	Kertih Terengganu Industrial Park (KTIP)	1,007	Phase 1 Expected by 2024

Source: STATE INVESTMENT AGENCIES, MIDFR

EQUITY

THEME 1: DATA CENTRE

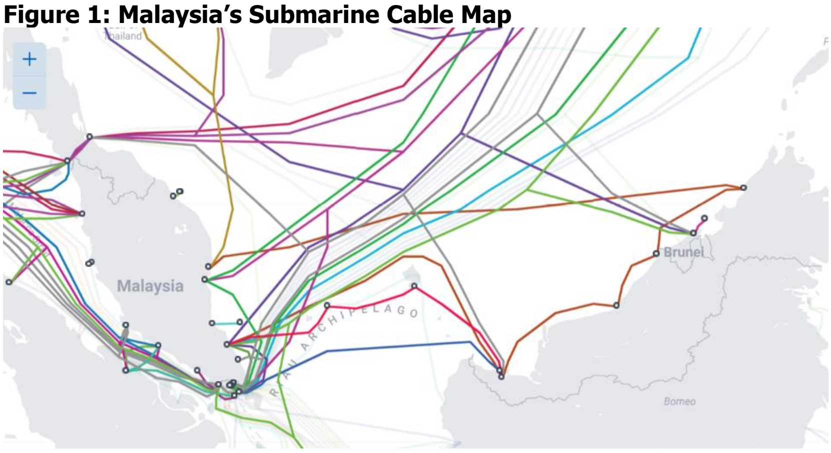
TELECOMMUNICATION...Maintain NEUTRAL

Analyst: Foo Chuan Loong, Martin

Demand shifting to Tier 2 markets. Traditionally, Tier 1 markets such as Singapore, Japan, Taiwan and Hong Kong are the preferred destination to host data center. However, the tier 2 markets are now showing significant traction which includes Malaysia. In general, Malaysia has been one of the main destinations, supported by higher internet penetration and growing population. This has led to expansion of infrastructure; more support from the Government as well as the creation of conductive business environment for data center investment. To put into perspective, the country has received USD16b (RM76b) worth of investments from its data centers between 2021 and March 2023. This is expected to increase by another USD2.25b by 2028. Primarily the investment will be centered around Greater Kuala Lumpur and Johor.

Strategically, proximity of the submarine cables and power are advantageous to the data center providers. Short data path on land will translate to more energy efficient as well as faster data transmission and processing. The latter will lead to decreased latency. Moreover, Malaysia also has the right land for development at competitive price. This could help to manage the initial capital expenditure in terms of set up cost.

Figure 1: Malaysia's Submarine Cable Map



Source: TeleGeography Submarine Cable Map

Malaysia's strategic geographical advantage to Singapore also serves as another impetus for growth in data center investment. We view that Malaysia is still experiencing spillover effect following the moratorium on data centers in Singapore between 2019 and 2022. We do not discount the possibility that the allocated capacity of about 500MW, following the new road map launched by Singapore's Infocomm Media Development Authority (IMDA) may not be sufficient to cater for the load requirement for data centers in South-east Asia.

On a separate note, Minister Tengku Datuk Seri Zafrul Abdul Aziz also mentioned that the Ministry of Investment, Trade and Industry (MITI) will develop special incentives for artificial intelligence (AI) data centers. He added that the National investment Council has agreed for the Malaysia Investment Development Authority (MIDA) to provide an incentive framework, including the use of energy and water-efficient equipment, as well as sufficient renewable energy to facilitate AI data center investments in Malaysia.

Premised on the above, we view that telco infrastructure providers such as **Telekom Malaysia (NEUTRAL, TP: RM7.03)** and **Time Dotcom (Non-rated)** could potentially benefit from the upbeat demand on data centers in the country.

PROPERTY……………………………………………………………………………………………Maintain POSITIVE

Analyst: Jessica Low Jze Tieng

Property companies ventured into data centre. The influx of FDI saw increased demand for data centre in Malaysia which prompted property companies to venture into data centre. Johor remains the favoured location for data centre due to its proximity to Singapore. In view of the growing demand for data center in Johor, **UEM Sunrise (Non-rated)** has recently inked a memorandum of understanding (MoU) with LOGOS Infrastructure Holdco Pte Ltd to explore the opportunity in developing a data center campus in Gerbang Nusajaya, Johor. Besides, the spillover demand for data center has driven the development of data center in Klang Valley due to adequate power supply and good fiber connectivity in Klang Valley. Notably, **Sime Darby Property (Non-rated)** announced that it is developing a hyperscale data center at Elmina Business Park for a multinational technology company. The data center will be located on an approximately 49-acre site. Following completion of construction, the parties will enter a 20-year lease valued at up to RM2b. On another note, **Mah Sing Group (BUY, TP: RM1.83)** recently announced that it has entered into a collaboration agreement with Bridge Data Centers (BDC) for the joint venture development of data center facilities and infrastructure on 17.55 acres of land in Southville City township.

Data center ventures to increase recurring income and improve value of landbank. We view the venture of data center by property companies positively as it allows property companies to unlock value of landbank of property companies. The setting up of the data center will also improve the attractiveness of the companies' business parks and townships. Besides, data center ventures will allow property companies to increase recurring income in the form of rental or profit sharing of data center business. We think that income from data center should remain stable soon due to the growing demand for data center in Malaysia.

CONSTRUCTION…………………………………………………………………………………………Maintain POSITIVE

Analyst: Royce Tan Seng Hooi

Mushrooming of data centers. Data centers are all the rage in recent years, largely contributed from the spillover of demand from Singapore due to the capacity constraints in the country. Recent investments secured by the government from tech giants have also given a boost to the outlook of the data center growth story in Malaysia. Just recently, the Ministry of Investment, Trade and Industry (MITI) secured a USD2b (RM9.4b) investment from Google for the first Google data center and Google Cloud region in Malaysia. Earlier last month, Microsoft announced an investment of USD2.2b (RM10.5b) over the next four years, which includes building cloud and AI infrastructure in Malaysia.

Data center beneficiaries. Among the direct beneficiaries of the growth in data centers are the builders and companies under our coverage that have been securing data center construction jobs in recent years. Amidst the absence of large civil infrastructure projects, data center jobs have been filling the void, especially in Johor and Cyberjaya. Contractors are optimistic on job flows coming from data centers at least over the next five years.

Top names in space. Among renowned names in Malaysia's data center builder space is **Sunway Construction (NEUTRAL, TP: RM3.09)**, which has won RM4.24b of data center projects since 2023. Just on Monday (10^{th} June), SunCon secured RM1.5b of additional works for the JHB1X0 data center at the Sedenak Tech Park bringing the initial contract value of RM1.7b to RM3.2b. Earlier in Mar-24, it also won a RM747.8m data center project in Selangor from a US-based multinational technology company. Meanwhile, the nation's largest construction outfit **Gamuda (BUY, TP: RM6.83)** has recently made its mark as the premium data center builder, following the recent completion of AIMS Cyberjaya Block 2 in only eight months, way ahead of the initially planned period of 13 months, backed by its next-generation industrial building system (IBS). Three weeks ago, the group secured two packages for a RM1.74b hyperscale data center at the Elmina Business Park in Selangor, one for construction and the other for the mechanical, electrical, and plumbing (MEP) fit-out work. While **IJM Corp (BUY, TP: RM3.01)** has yet to secure its own data center project, its industry division has been benefiting from the supply of concrete piles to such projects. That said, IJM has active tenders for data centers and expects to secure its maiden job soon.

Maintain POSITIVE. Margins are rather thin for data center projects, roughly between 5% to 8% but contractors like them due to the fast-paced nature of the job and the availability of job flows in that space. Despite the low margin norm, we gather that data center owners are willing to pay a premium for speed in building and certainty of delivery, placing companies like Gamuda in a sweet spot. We expect the strong growth in data centers to strengthen job flows over the medium term, on top of the expectations of the strong rollout of civil and infrastructure jobs, starting from 2HCY24. We maintain our **POSITIVE** recommendation on the construction sector. Our top picks are **Gamuda (BUY, TP: RM6.83), IJM Corp (BUY, TP: RM3.01)** and **Malayan Cement (BUY, TP: RM6.03).**

THEME 2: REGIONAL MANUFACTURING HUB

TECHNOLOGY……………………………………………………………………………………………Maintain NEUTRAL

Analyst: Foo Chuan Loong, Martin

A push from trade war. Since the onset of the trade wars between US and China, various companies have been looking to diversify its risk away from China via the relocation of its operations and/or supply chain. This includes companies in the semiconductor industry. In this regards, Malaysia's neutral stance in this standoff has led it to become one of the prime destinations in the region to ensure supply chain resiliency. Penang has been under the limelight given its prevailing and vibrant E&E ecosystem.

Going up the value chain. Via the New Industrial Master plan (NIMP) 2030, the Government is looking to further develop Malaysia' semiconductor industry and workforce into higher-value manufacturing which further increase the attractiveness as the semiconductor hub in Asia. To support this initiative, the Government has, through the Nasional Semiconductor Strategy (NSS), announced a RM25b allocation to train 60k local engineers and expand the domestic semiconductor industry. For context, at present the E&E industry in Malaysia produced 13% of the global back-end semiconductors, making up 40% of the country's total exports, making the country the sixth largest exporter in this sector.

Part of the effort also includes the creation of two new IC design park has also been introduced in Selangor and Penang to have more presence in the front-end.

Fostering partnership for growth. Apart from Malaysia, other countries in the region namely Singapore, Vietnam, Thailand and the Philippines have their own unique strengths to the global semiconductor industry. In this regard, having strategic collaboration would also help to further build the semiconductor in Malaysia and in the region. According to Professor Ong Kian Ming, Malaysia should explore the possibility of setting up a joint investment fund to develop a new semiconductor hub in the Johor-Singapore Special Economic Zone. Part of the RM25b announced for the NSS can be directed to this fund. This could replicate the success of China's Greater Bay Area.

TRANSPORTATION………………………………………………………………………………………Maintain POSITIVE

Analyst: MIDF Research Team

A boost for gateway port throughput. Locally produced goods destined for international markets would drive outbound cargo, while the demand for imported raw materials and components would boost inbound cargo. **Westports (BUY, TP: RM4.30)**, managing nearly 80% of goods flowing through Port Klang, stands as a contender to benefit from the uptick in trade activities. The double-digit growth in Westports' gateway volume in the recent quarters owes much to FDIs, notably from China-based paper and solar glass manufacturers, which have initiated production lines that have been operational since last year. Westports' current terminal utilization rate stands at about 76% in 1QCY24, which is considered optimal, allowing for buffer capacity to manage demand fluctuations. While it can accommodate rising traffic in the interim, we view the timing of the approved Westports 2 expansion – doubling its capacity – as advantageous to seize long-term volume growth opportunities. This is particularly relevant given that the establishment and operational readiness of these FDIs may entail a considerable time frame.

Steady demand projected for warehousing space. The establishment of regional manufacturing hubs typically increases the need for warehousing needs. As production activities intensify in these hubs, there is a corresponding need for storage facilities to accommodate raw materials, work-in-progress inventory, and finished goods. We anticipate that with the expected rise in demand for storage facilities, logistics players within our coverage will prioritize expanding their warehousing capacity to seize this opportunity. Among those within our coverage, we favor **Swift Haulage (NEUTRAL, TP: RM0.54)** to capitalize on this trend, as it possesses approximately 56 hectares of unutilized land in strategic locations that can be monetized in the coming years. Meanwhile, **Tiong Nam (Non-Rated)**, which is more prominent in the Southern region, has an unutilized landbank of about 98 hectares. As this land represents a sunk cost, the potential yield for new warehouses constructed on it is expected to be higher.

Strategic cross-selling of transport services. By securing customers for their additional capacity, logistics players can also cross-sell their other business offerings. Leveraging their integrated capabilities, they can provide end-to-end supply chain solutions, a preference often observed among multinational corporations (MNCs). In the land transportation sector, Swift Haulage could emerge as a primary beneficiary, particularly in facilitating connections between seaports and manufacturing hubs. With a sizeable fleet of nearly 1,600 prime movers, approximately three times larger than Tasco's, they command an 8% market share in the container haulage segment. This positions them favorably to meet the growing transportation demands. Meanwhile, the increase in demand for exporting goods also benefits ocean freight forwarders, while air freight forwarders stand to gain in transporting high-value items like E&E products. **Tasco (BUY, TP: RM1.20)** holds a strong presence in this segment, leveraging alliances with the units within its ultimate owner, the NYK Group.

THEME 3: NEW INDUSTRIAL PARKS

PROPERTY……………………………………………………………………………………………………Maintain POSITIVE

Analyst: Jessica Low Jze Tieng

Resilient performance of industrial properties. The influx of FDI will also spur demand for industrial properties as more foreign companies are setting up manufacturing facilities or warehouses in Malaysia. Performance of industrial properties in Malaysia is resilient, evidenced by the stable performance of industrial properties despite Covid-19 pandemic in the past few years. Notably, **Axis REIT (BUY, TP: RM2.02)** which has high exposure to industrial properties under its portfolio reported resilient earnings despite Covid-19 pandemic. Its performance of industrial properties remains stable despite several lockdowns in Malaysia during Covid-19 pandemic. Meanwhile, Axis REIT remains on active acquisition to expand its industrial properties portfolio in view of the resilient performance of industrial properties which typically command positive rental reversion.

Growing exposure to industrial segment by property companies. The higher demand for industrial properties has led to higher exposure of property companies to industrial segment as evidenced by the higher number of business park by property companies. Notably, **S P Setia (BUY, TP: RM1.68)** is expanding its industrial segment by creating a new industrial park and expanding its existing industrial parks. Industrial parks of S P Setia are located at Setia Alaman (399 acres with GDV: RM3.09b), Tanjung Kupang (307 acres with GDV of RM1.87b), Setia Fontaines Industrial (323 acres with GDV of RM1.68b), and in Johor (Setia Business Park I and II). On the other hand, Eco World Development Group is growing its exposure in the industrial segment by having several Eco Business Parks in Johor and Selangor. That led to growing sales contribution from its business parks at 24% in the first four months of FY24. Meanwhile, Mah Sing is joining the bandwagon by setting up Mah Sing Business Park in Sepang to capture the growing demand for industrial properties.

Maintain Positive on property sector. In a nutshell, we see the influx of FDI to benefit property companies due to the growing demand for data center and industrial property. The expanding industrial segment by property companies amid strong demand for industrial properties will create additional income for property companies aside from the residential development. Besides, the booming data center industry in Malaysia will generate recurring income for property companies and enhance value of landbank. Hence, we maintain our POSITIVE stance on the property sector. Our top pick for the sector is **Mah Sing Group (BUY, TP: RM1.83)** as we like its quick turnaround strategy, which has improved its balance sheet to low net gearing of 0.06x. Its venture into the data center and growing industrial property segment should also support earnings growth in the long term.

PLANTATION……………………………………………………………………………………………Maintain NEUTRAL

Analyst: MIDF Research Team

Kerian Integrated Green Industrial Park (KIGIP). The venture into co-developing an industrial park with PNB (property development) is timely and expected to yield value accretion to the earnings outlook in the mid to long term, especially since profit margins from the downstream subsegment (-31.4%yoy) have been hammered by subdued demand. Notably, the low demand for downstream products has persisted for the past 2-3 years due to major importing countries, particularly China, opting for CPO instead of PPO products due to the relatively small spread between prices. Hence, the foray into industrial park development would provide some buffer to the company considering the softer contribution of the downstream segment. This is why Sime Plant is rebranding its name to "SD Guthrie" (announced on April 29); it is a strategic move to assert full control over its plans for the vast landbank and explore unique opportunities in property development. It's worth noting that since the demerger and listing of Sime Plant 6 and a half years ago, it has operated under a license, subject to the terms of a brand and trademark licensing agreement, paying an annual fee for the use of the "Sime Darby" brand. This situation imposes significant constraints on Sime Plant's ability to make its own strategic decisions for the brand and business (they cannot venture into property development, for instance, since there was a Sime Property under Sime Darby's brand).

Currently, with a healthy balance sheet in hand, circa 0.2x in FY23, which is relatively low compared to the average property sector circa 0.4x, Sime Plant is on a stronger footing to embark on this new area. Based on our study, the 1,000-acre (2.4% of Perak planted area; 0.3% of Malaysia planted area) site is in northern Perak, at Tali Ayer Estate, Kerian, roughly 45 minutes from the Batu Kawan Industrial Park (BKIP) area. Being in Malaysia and not directly involved in the US-China trade war, this development, which is designed to attract semiconductors and E&E investments, would be able to lure several clients from China to set up a base in Malaysia for re-export purposes. Notably, the industrial segment offers compelling profits, backed by a double-digit margin; hence, the venture into this segment will yield value accretion to Sime Plant's earnings outlook in the mid to long term. Earnings forecasts remain unchanged at this juncture. Maintain **SD Guthrie (NEUTRAL, TP: RM4.18)**.

TRANSPORTATION…………………………………………………………………………Maintain POSITIVE

Analyst: MIDF Research Team

Long-term gain. Industrial parks play a pivotal role as central nodes within the broader network of port and logistics operations. Firstly, they facilitate cargo diversification, thereby mitigating risks associated with over-reliance on specific commodities or industries. Through a diverse range of tenants and industries, ports can optimize their operations, ensuring a steadier flow of goods and reducing vulnerability to market fluctuations. Secondly, industrial parks provide the groundwork for enhanced infrastructure, fostering smoother logistical processes. Improved roads, railways, and utilities within these parks streamline transportation and distribution networks, bolstering efficiency. However, the development of such facilities typically entails a gestation period of 2-3 years before their full potential in terms of cargo contribution is realized.

BANKING……………………………………………………………………………………………Maintain POSITIVE

Analyst: Samuel Woo

Working capital demands to aid balance sheet growth. Banks have been guiding for stronger business loan growth in 2HCY24, as major public infrastructure projects should be in full swing by then. 1HCY24 hasn't been the strongest, with business loan growth inching by 0.5%YTD. It is worth noting, however, that most of the drag comes from large repayments from the working capital segment (which saw flattish growth YTD) – construction and non-residential property segments saw a promising 2.5%YTD and 2.1%YTD growth thus far.

Data center announcements are a pleasant surprise and can provide upside to business loans and investment banking businesses. Most banks are already angling to widen their presence in Johor (and other non-Klang valley regions), so it's already in line with their current strategy. We feel that core beneficiaries are banks looking to rebalance their loan portfolio to a more business-centric mix (given their higher yields). This provides further opportunities within the saturated SME space – most banks want to grow this segment but are selective with their picks, primarily constrained by asset quality issues and low yields. We highlight **HL Bank (BUY, TP: RM21.38) and AMMB (BUY, TP: RM4.75)**.

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related companies and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loess, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such companies mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* 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 *fall* 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology