# THEMATIC REPORT

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## JS-SEZ: A New Southern Catalyst

### KEY HIGHLIGHTS

- **Agreement between governments of Malaysia and Singapore for the creation of JS-SEZ have been finally signed.**
- **The key objectives of JS-SEZ are enhancing cross-border connectivity, facilitate freer movement of people (which we believe the critical aspects are workers and tourists), and strengthen business ecosystems to foster a robust business environment.**
- **The area of JS-SEZ will be an expansion of existing IDR, with 3 new flagship zones and 5 new priority sectors.**
- **Johor GDP grew faster than national economy in 2023 where Johor has played an important role in contributing towards the national economic growth, particularly being one of the top 6 major states in terms of overall GDP and the major economic sectors.**
- **Potential upside to employment and consumption within the state of Johor whereby increasing economic activity within the Johor region will lead to the expansion of business opportunities within the Johor area resulting in the creation of better employment opportunities.**
- **We think this will have a trickle down towards the small and micro businesses growing in the region as the population is expected to increase due to the pickup in business activities.**
- **The upgrading of technology will enhance the movement of people and goods and the increase in clearance capacity will support the JS-SEZ potential.**
- **The Johor Talent Development Council (JTDC) is set to take on a vital role in implementing various human capital development programs within the state, which adopt a more targeted approach to meet industry needs.**
- **Sectors that will likely benefit the most are: (i) Property, (ii) Construction, (iii) Utilities, (iv) Oil & Gas, (v) Transport and Logistics**
- **Some of the key beneficiaries (non-exhaustive):**

| Sector | Beneficiaries |
|---|---|
| Property | Sunway Berhad (NEUTRAL; TP: RM4.92), UEM Sunrise (Non-rated), Eco World Development (NEUTRAL, TP: RM2.01), Mah Sing Group (BUY, TP: RM2.08), IOI Properties Group (NEUTRAL, TP: RM2.04), Glomac (NEUTRAL, TP: RM0.39) |
| Construction | Gamuda (BUY, TP: RM5.42), IJM Corp (BUY, TP: RM3.89), Malayan Cement (BUY, TP: RM6.81), Sunway Construction (NEUTRAL, TP: RM4.46) |
| Utilities | Samaiden (BUY, TP: RM1.69), Pekat (BUY, TP:RM1.32), Sunview (BUY, TP: RM0.64), Tenaga (NEUTRAL, TP: RM14.20) |
| Oil & Gas | MMHE (BUY, TP: RM0.72), Petronas Chemicals (NEUTRAL, TP: RM4.89) |
| Transport & Logistics | Swift Haulage (NEUTRAL, TP: RM0.46) |

## BACKGROUND – WHAT IS JS-SEZ?

**Johor-Singapore Special Economic Zone (JS-SEZ) agreement to formalise the strengthen of ties.** After many discussions, the long-awaited agreement between governments of Malaysia and Singapore for the creation of JS-SEZ have been finally signed. The key objectives of JS-SEZ are enhancing cross-border connectivity, facilitate freer movement of people (which we believe the critical aspects are workers and tourists), and strengthen business ecosystems to foster a robust business environment. This will envision the JS-SEZ to: (i) enhance cross-border business interactions, (ii) ease flow of labour between countries, (iii) create holistic business ecosystem and enhanced ease of doing business, (iv) improve connectivity and cost-effectiveness in trade, and (iv) increase economic development.

**Iskandar Development Region (IDR) 2.0 – an expansion to the existing IDR flagship.** The area of JS-SEZ will be an expansion of existing IDR, with 3 new flagship zones and 5 new priority sectors. Recall, that IDR has 6 existing flagship zones with an area roughly three times of Singapore, with priority sectors in manufacturing, business services, education, logistics, energy, healthcare, tourism and business services. The new flagship zones are; (i) Flagship G – Forest City for financial services, (ii) Flagship H – Pengerang Integrated Petroleum Complex for manufacturing, energy and logistics, and (iii) Flagship I – Desaru for education, food security, health and tourism. Meanwhile the new priority sectors are; (i) aerospace, (ii) E&E, (iii) chemical, (iv) medical devices, and (v) pharmaceuticals.

**Five key value propositions offered by JS-SEZ.** The JS-SEZ will be offering distinctive value propositions, inclusive of the necessary government support. These are:

| | Value propositions | Initiatives/support/rationale |
|---|---|---|
| 1 | Strategic location and strong connectivity | • Technology-enhanced movement of people and goods for increased clearance capacity, automated immigration lanes and paperless clearance of goods.<br>• Enhanced passes.<br>• Strategic hub with regional and global connectivity , i.e. goods manufactured in JS-SEZ exported via Johor or Singapore. |
| 2 | Attractive policies and incentives | • Special corporate tax rate to companies that undertake new investments in high growth and high value-added activities within JS-SEZ.<br>• Special personal income tax rate to be announced at a later date by the Ministry of Finance. |
| 3 | Designated flagship zones | • Encompass Iskandar Development Region (IDR) and Pengerang. |
| 4 | Strong government support | • Malaysia government to establish fund for purposes of infrastructure support.<br>• Singapore government to design funding support to facilitate Singapore companies' expansion in JS-SEZ and potential twinning operations of MNCs in Singapore and JS-SEZ. |
| 5 | Competitive cost advantage | • Affordability in areas such as:<br>○ Real estate<br>○ Labour costs<br>○ Favourable tax regime |

*Source: Ministry of Economy*

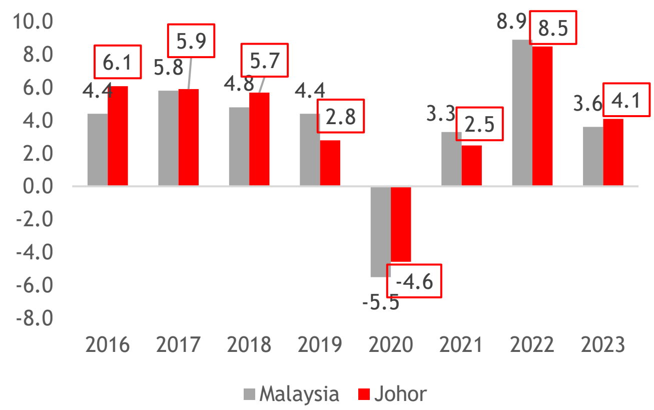
**One facilitating agency.** To coordinate and facilitate investments into JS-SEZ, Investment Malaysia Facilitation Centre – Johor (IMFC-J) will act as one-stop centre. This includes expediting approvals and streamlining processes. In addition, there will be continuous collaboration between Malaysia and Singapore government to ensure successful implementation of the JS-SEZ.

## ECONOMICS & POLICY

**Johor GDP grew faster than national economy in 2023.** Johor has played an important role in contributing towards the national economic growth, particularly being one of the top 6 major states in terms of overall GDP and the major economic sectors. The size of Johor's economy in 2023 covered about 9.4% of national GDP (2022: 9.2%), the 4th largest state by economic size. Johor's real GDP growth was relatively stronger at +4.1% exceeding the +3.6% growth registered at the national level. Aside from the contraction in the agriculture sector (2023: -1.1%; 2022: +3.1%), all other sectors in Johor recorded positive growth albeit moderating from more robust post-pandemic expansion in 2022. The revival in construction activities, in particular, saw the sector recording another year of double-digit growth (2023: +13.2%; 2022: +15.9%). Meanwhile, following the reopening of the economy, the services sector growth in Johor maintained another year of positive growth (2023: +5.4%; 2022: +11.0%). The manufacturing sector also sustained positive growth at +2.8% in 2023, albeit moderating from +15.9% expansion in the previous year.

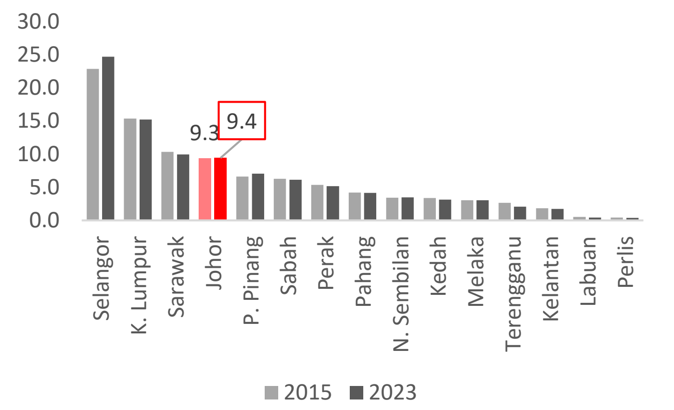
**Johor to grow by +5.5% a year in 2023-2025.** According to the revised target under the Mid-Term Review of 12MP (MTR-12MP), Johor's GDP is projected to grow by +5.4% a year in 2021-2025, with slightly higher growth of +5.5% in 2023-2025. This is close to the national GDP growth target of +5.5% in the 5-year period to 2025. The MTR-12MP projection anticipates the services and manufacturing sectors would be growing relatively stronger at +6.1% a year, followed by +5.4% yearly expansion in the mining sector. Although the MTR-12MP only assumed the projected growth for construction to be around +3.8% a year, we believe the robust growth in the construction activities in the recent years could see the sector taking up a larger share in Johor's economy. The agriculture sector, on the other hand, is expected to grow at +1.5% annually, the same pace as in the 11th Malaysia Plan.

**Chart 1: Real GDP Growth: Malaysia and Johor (%)**



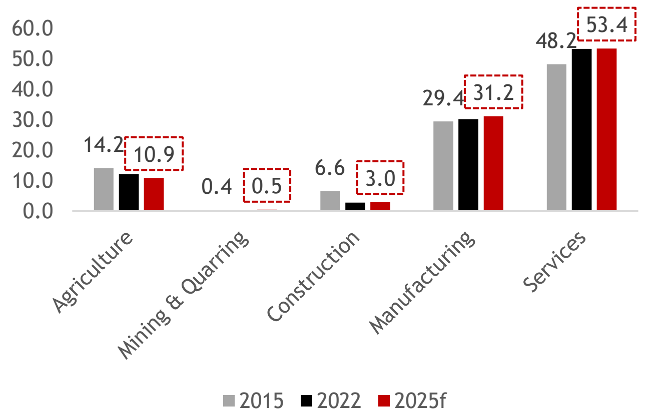

Source: DOSM, MIDFR

**Chart 2: Share of National GDP by State (%)**



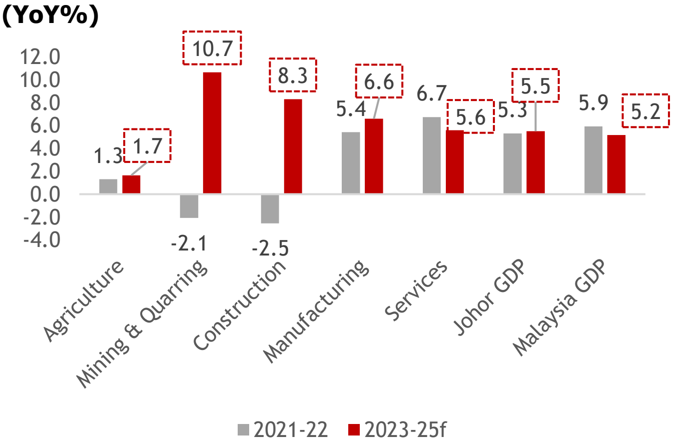

Source: DOSM, MIDFR

**Chart 3: Johor GDP Structure under MTR-12MP (% of State GDP)**




Source: Ministry of Economy, MIDFR

**Chart 4: CAGR of Johor vs. Malaysia under MTR-12MP (YoY%)**




Source: Ministry of Economy, MIDFR

**Table 1: Johor's Economic Structure by Sector (% of State GDP)**

| | 2015 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|
| **Agriculture** | **14.2** | **12.2** | **13.2** | **12.9** | **12.2** | **11.6** |
| Crops | 10.1 | 8.5 | 9.1 | 8.9 | 8.3 | 7.9 |
| Livestock | 2.9 | 3.0 | 3.3 | 3.3 | 3.1 | 2.9 |
| Forestry & Logging | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Fisheries/Aquaculture | 1.1 | 0.7 | 0.7 | 0.7 | 0.8 | 0.8 |
| **Mining & Quarrying** | **0.4** | **0.6** | **0.5** | **0.4** | **0.4** | **0.5** |
| **Manufacturing** | **29.4** | **29.9** | **30.2** | **31.0** | **30.2** | **29.8** |
| Oils & fats from vegetables & animals, processed foods, beverages and tobacco products | 4.2 | 4.1 | 4.3 | 4.0 | 3.9 | 3.9 |
| Textiles, clothing and leather products | 1.2 | 1.4 | 1.2 | 1.3 | 1.3 | 1.3 |
| Wood products, furniture, paper products and printing | 3.2 | 3.4 | 3.4 | 3.6 | 3.6 | 3.5 |
| Petroleum, chemical, rubber and plastic products | 6.0 | 5.9 | 6.4 | 6.8 | 6.4 | 6.3 |
| Non-metallic mineral products, base metals and fabricated metal products | 4.7 | 4.4 | 3.9 | 3.9 | 3.8 | 3.7 |
| Electrical, electronic and optical products | 8.7 | 9.6 | 9.8 | 10.2 | 10.1 | 10.0 |
| Transportation equipment, other manufacturing and repair | 1.4 | 1.2 | 1.1 | 1.2 | 1.2 | 1.1 |
| **Construction** | **6.6** | **5.0** | **3.3** | **2.6** | **2.8** | **3.0** |
| Residential & Non-Residential Building | 3.6 | 2.0 | 1.6 | 1.1 | 1.2 | 1.3 |
| Civil Engineering | 2.3 | 2.6 | 1.3 | 1.0 | 1.0 | 1.2 |
| Special Trade | 0.7 | 0.4 | 0.4 | 0.5 | 0.5 | 0.6 |
| **Services** | **48.2** | **51.1** | **51.9** | **52.0** | **53.3** | **54.0** |
| Utilities, transport & storage and information & communication | 11.1 | 12.9 | 13.4 | 13.9 | 14.1 | 14.4 |
| Wholesale and retail trade, food & beverage and accommodation | 13.8 | 15.1 | 14.4 | 13.9 | 15.4 | 15.6 |
| Finance and insurance, real estate and business services | 10.2 | 10.0 | 10.1 | 10.1 | 10.1 | 10.0 |
| Other Services | 5.0 | 5.2 | 5.2 | 5.0 | 5.0 | 5.1 |
| Government Services | 8.2 | 8.0 | 8.8 | 9.0 | 8.8 | 8.8 |

Source: DOSM, MIDFR

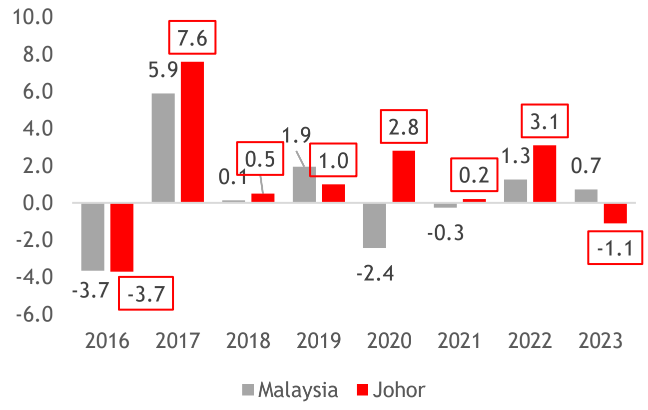
**The number one agriculture producer in Malaysia.** Johor remained as the largest contributor to the national agriculture output, with a share at 17.1% of national agriculture GDP in 2023 (2022: 17.4). The main crop is oil palm, covering almost three-quarters of the agricultural land in the state since 2015. According to Rancangan Struktur Negeri Johor 2030 (RSNJ2030), the oil palm agricultural area to expand modestly by +0.9% annually. This explains the state agriculture sector is more affected and exposed to the movement in the CPO prices. On another sector, Johor remained the fourth national contributor of 7.9% to Malaysia's construction GDP in 2023 (2022: 7.4) after Selangor, Kuala Lumpur and Sarawak. We continue to expect construction sector to take up a bigger share of the state GDP given the robust growth in recent years, supported by various construction projects such as Johor Bahru–Singapore Rapid Transit System (RTS), Gemas-Johor Bahru electrified double-tracking rail project (Gemas-JB EDTP), data centres, residential & non-residential, expansion of highways and road upgrades to boost economic activities in Johor.

**Table 2: Projection of Agricultural Area Suitability in the State of Johor by Crop Type, 2015 to 2030 (% of Agri. Area)**

| | 2015 | 2020 | 2025 | 2030 | CAGR in 2015-2030 |
|---|---|---|---|---|---|
| Oil Palm | 73.5 | 74.8 | 75.7 | 76.3 | 0.9 |
| Rubber | 17.4 | 17.0 | 16.5 | 15.9 | 0.0 |
| Coconut | 1.2 | 0.8 | 0.5 | 0.4 | -6.9 |
| Cocoa | 0.0 | 0.0 | 0.0 | 0.0 | -11.6 |
| Pepper | 0.0 | 0.0 | 0.1 | 0.1 | 15.0 |
| Coffee | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 |
| Pineapple | 1.1 | 1.3 | 1.5 | 1.6 | 3.1 |
| Paddy | 0.3 | 0.3 | 0.3 | 0.3 | 0.6 |
| Fruits | 4.4 | 3.5 | 2.7 | 2.1 | -4.4 |
| Vegetables | 1.5 | 1.6 | 1.7 | 1.8 | 1.9 |
| Other Crops | 0.4 | 0.6 | 1.0 | 1.4 | 8.8 |
| **Total** | - | - | - | - | 0.6 |

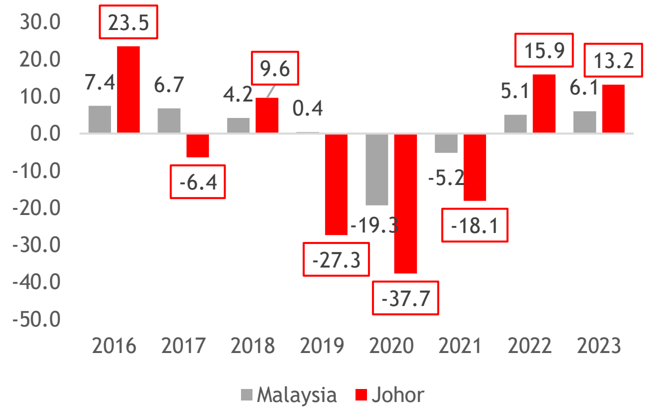
Source: RSNJ2030, MIDFR

**Chart 5: Agriculture GDP Growth: Malaysia and Johor (%)**




Source: DOSM, MIDFR

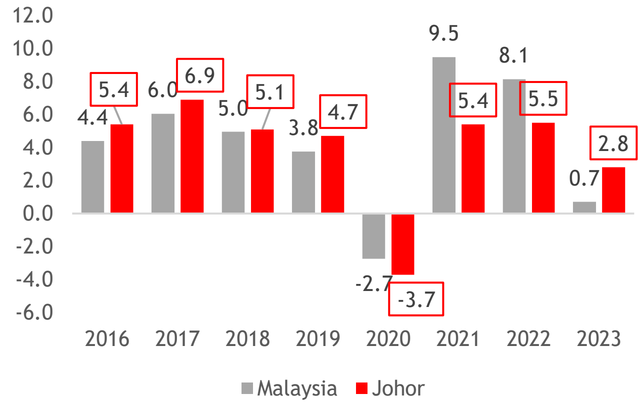
**Chart 6: Construction GDP Growth: Malaysia and Johor (%)**




Source: DOSM, MIDFR

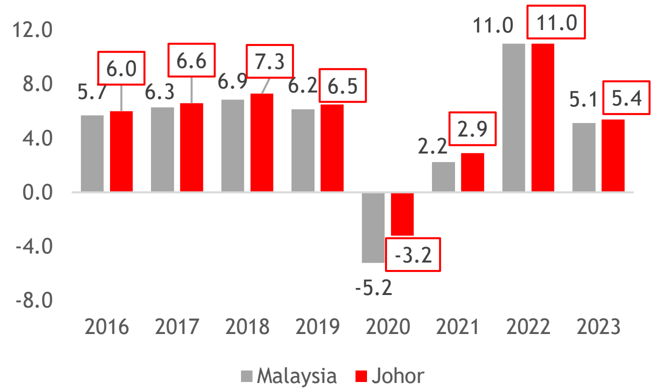
**Manufacturing & services sectors covered 83.8% of Johor's GDP.** In 2023, manufacturing and services sectors accounted new high of 83.8% of Johor's GDP in 2023 (2022: 83.5%; 2015: 77.7%). Johor was the 3rd largest contributor to the national manufacturing GDP during the year, after Selangor and Penang. The manufacturing sector in Johor grew by +2.8% in 2023 (2022: +5.5%), driven by stronger growth in textile (+7.9%; 2022: +4.9%) and petroleum, chemical, rubber and plastic products (+4.1%; 2022: +0.9%). Apart from petrochemicals and E&E, the growth in the sector was also influenced by palm oil downstream segment. These three products covered around two-thirds of factory output in the state. As for services sector, Johor contributed 8.6% of national services GDP in 2023, also the 3rd largest after Selangor, Kuala Lumpur and Kuala Lumpur. We foresee brighter outlook in the long run especially after the completion of RTS. The ease of people mobility will provide more rooms for Johor's services sector to expand especially with the ratio of non-resident to Singapore's population has been above 25% since 2009. The key sub-sector of services namely utilities & transport, distributive trade and real estate will benefit from the ease of mobility between Johor and Singapore.

**Chart 7: Manufacturing GDP Growth: Malaysia and Johor (%)**




Source: DOSM, MIDFR

**Chart 8: Services GDP Growth: Malaysia and Johor (%)**

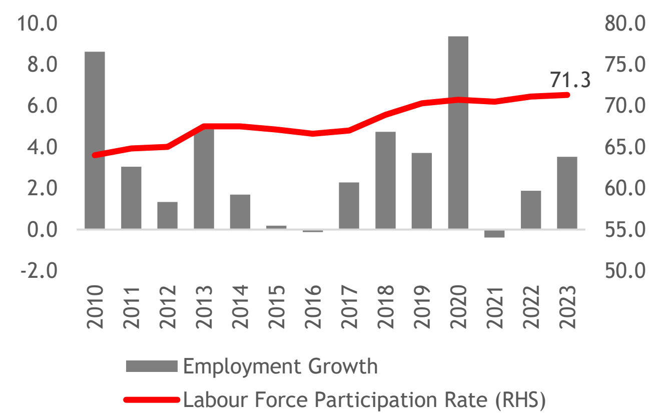



Source: DOSM, MIDFR

**Unemployment rate among the lowest in the country.** Following the sustained pick-up in economic in the post-pandemic period, employment growth in Johor rose faster at +3.5% in 2023 (2022: +1.9%), surpassing the labour force growth (2023: +2.9%; 2022: +1.3%) for the 2nd straight year. With employment in Johor reaching new record high of 2.0m in 2023 (2022: 1.95m), the labour force participation rate also rose to new high of 71.3% (2022: 71.1%), continued to remain above the national level (2023: 70.0%; 2022: 69.3%). On the back of robust employment, unemployment rate in the state declined further to 2.6% (2022: 3.2%) already better than 2.7% in 2019. At that rate, the 2023 unemployment rate in Johor was lower than the national level of 3.4% (2022: 3.9%). As at 3QCY24, Johor's unemployment rate stood at 2.3%, lower than 3.2% at national level. This suggests the healthy labour market conditions in Johor persisted into 2024, and we expect the situation will sustain into 2025. During the state 2025 budget tabling in Nov-24, the state projected 35,000 job opportunities would be offered in 2 years benefiting from RM113.7b investment into the state.

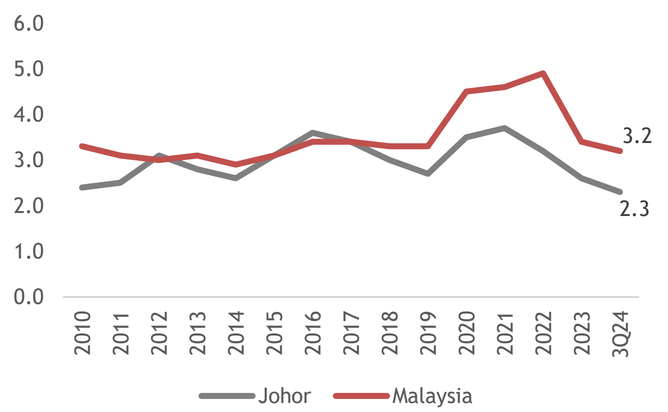
**More robust growth would push income level higher.** Despite the strong wage growth in 2023, the level of wages for formal employees in Johor remained below the national level. As of 2QCY24, the median wages in Johor stood at RM2,500 per month, lower than RM2,736 at national level. Nevertheless, in line with stronger business and investment activities, the median wage increased by +5%yoy in 2QCY24 (2023: +9.0%), still higher than the national (2QCY24: +4.6%yoy; 2023: +5.8%) and among the fastest growing after Penang (+6.0%yoy), Perlis (+5.5%yoy) and Terengganu (+5.3%yoy). Through the JS-SEZ, income growth will be further boosted with more focus given towards improving human capital and talents to ensure the state will be able to attract more investments.

**Chart 9: Johor: Employment Growth vs. Labour Force Participation Rate (%)**



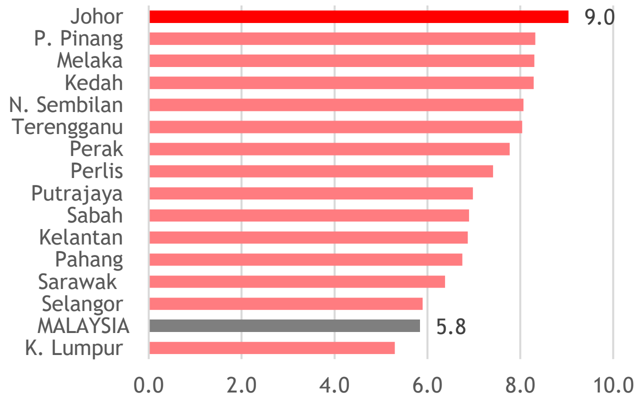

Source: DOSM, MIDFR

**Chart 10: Unemployment Rate: Malaysia and Johor (%)**



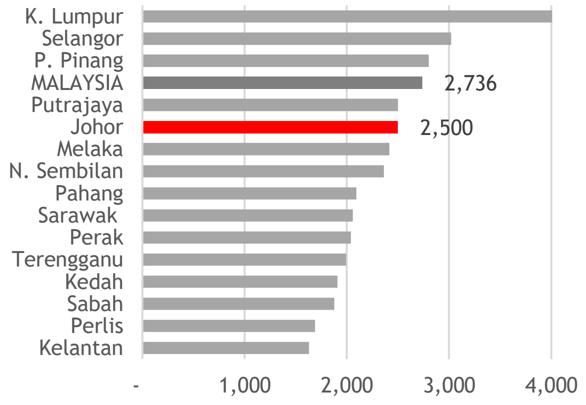

Source: DOSM, MIDFR

**Chart 11: Growth in Median Wages for Formal Workers by State in 2023 (%)**




Source: DOSM, MIDF

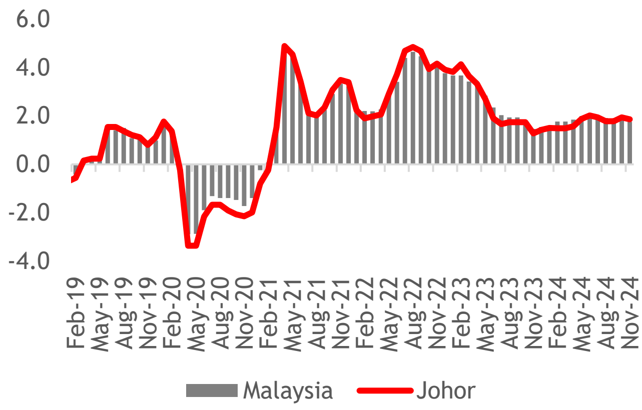
**Chart 12: Median Wages for Formal Workers by State as of 2Q24 (RM per month)**




Source: DOSM, MIDFR

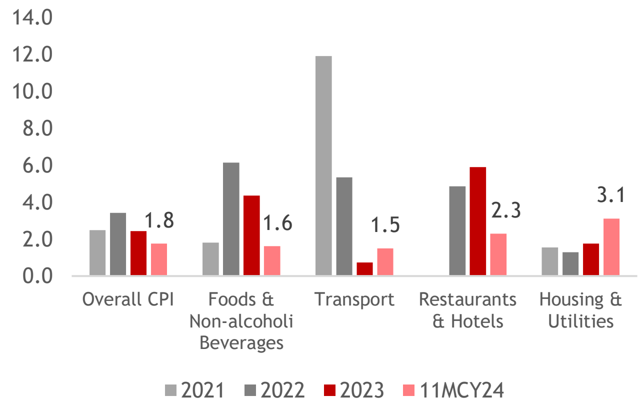
**Price movement in Johor closely tracked national inflation.** CPI inflation in Johor mirrored closely the inflation trend at national level. In the post-pandemic period, Johor's CPI inflation accelerated to +3.4% in 2022 (2021: +2.5%) and later moderated to +2.4% in 2023. Based on the trend in 2021-2023, Johor's inflation moved in tandem with the national level, only higher or lower by 0.1%-point. In 11MCY24, inflation in Johor averaged lower at +1.8%yoy attributable to slower rise in education charges (+2.5%yoy; 2023: +7.1%) and slower price inflation for restaurants & hotels (+2.3%yoy; 2023: +5.9%) and food & non-alcoholic beverages (+1.6%yoy; 2023: +4.4%). Price pressures during the 11-month period were mainly from housing & utilities (+3.1%yoy; 2023: +1.8%) and transport (+1.5%yoy; 2023: +0.7%), which can be linked price increases triggered by policy and rate changes.

**Chart 13: CPI Inflation: Malaysia and Johor (YoY%)**




Source: Macrobond, MIDF

**Chart 14: Johor: CPI Inflation by Selected Components (YoY%)**

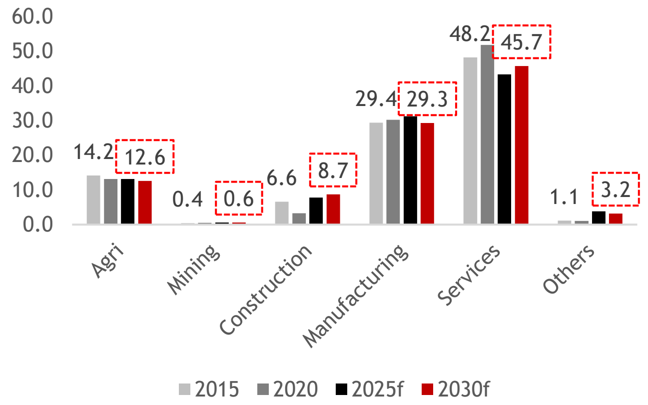



Source: DOSM, MIDFR

**More than a quarter of national external trade go through Johor**. In terms of total trade, Johor accounted 28.0% of Malaysia's total trade flows as of 11MCY24. Johor came in second after Selangor (11MCY24: 30.0% of total trade). More exports than imports flow in the state, resulting trade surplus of RM32.2 billion as of 11MCY24. Johor's total trade rebounded to +5.6%yoy in 11MCY24 (2023: 4.8%), mainly thanks to the pick-up in imports (11MCY24: +5.1%yoy; 2023: -8.6%) while exports fell for another year (11MCY24: -4.0%yoy; 2023: -4.1%). The strong imports were generally in line with the strong investment in the state; with capital investment in Johor rising to 5-year high of RM14.6b in 2023. On the other hand, the lower exports performance, which fell by -4.6%yoy in the 3-month period to Nov-24, matched with the overall weakness in exports of petroleum products at the national level, where this can be explained partly by lower oil prices. Given more investments can be attracted into the state, there is potential that manufacturing exports can also be boosted going forward.

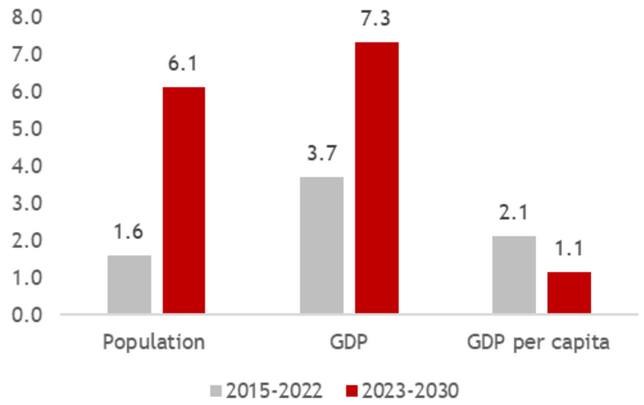
**Johor GDP to grow +7.3% annually in 2024-2030 to reach mid-term state target**. Under the state structural plan or *Rancangan Struktur Negeri Johor 2030* (RSNJ2030), Johor's GDP per capita is projected to reach RM45,301 with population size of 6.2m. As of 2023, the GDP per capita already reached RM41,837 with the state's population at 4.1m. The blueprint set real GDP to hit RM281.7b by 2030. Hence, the state has to grow by +7.3%pa in 2024-2030. Unlike MTR-12MP, RSNJ2030 foresee bigger contribution rate of construction sector at 8.7% (2025F: 7.8%) while agriculture's share of GDP at 12.6% by 2030 (2025F: 13.2%). Manufacturing sector's share (2025F: 31.2%) is almost similar to the one projected in MTR-12MP, while the services sector contribution is predicted to trend lower at 45.7% (2025F: 43.3%).

**Chart 15: Johor GDP Structure Forecasts by 2030 (%)**




Source: RSNJ2030, MIDFR

**Chart 16: Johor Long-Term Forecasts (CAGR %)**




Source: RSNJ2030, MIDFR

**State government committed to improve public service delivery.** Favourable government policies and measures to improve bureaucracy are among the catalysts to drive long-term growth in Johor. The state government announced various initiatives to reduce red tape in business affairs with an emphasis on digitalisation, which include the development of new systems such as 'Portal Sistem Pendaftaran Tanah Berkomputer (SPTB) Dan E-Serahan' and 'Sistem Pengurusan Tanah Serah Balik Kurnia Semula (E-SBKS). Furthermore, RM700,000 is allocated for AI technology to speed up and facilitate the screening process for property-related applications. In line with improving government affairs efficiency, the state government will introduce Invest Johor Super Lane at Invest Malaysia Facilitation Centre – Johor (IMFC-J) to standardize processes and improve the ease of doing business at JS-SEZ which will expedite business approval processes. We believe that the state government's commitment to enhancing its efficiency will facilitate market entry and boost competitiveness by attracting both foreign direct investment (FDI) and international trade.

**Various sector-specific measures from Budget 2025.** The Johor state budget initiatives are poised to support and boost SEZ-designated sectors including construction, industrial and the property sectors. The budget allocation of RM4.8b for crucial state projects such as Johor Bahru-Singapore RTS Link, and the expansion of the North-South Expressway (PLUS) are expected to enhance Johor's connectivity, improve property buyer's confidence and long-term growth prospects. In response to the strong demand for industrial and landed residential property stemming from new manufacturing and warehouse/logistics facilities, the state government has increased promotional efforts on Johor property market. This includes an allocation of RM2m to host Johor Property Expo (JPEX). Sector-specific measures by the state government are anticipated to strengthen the business ecosystem within JS-SEZ and thus accelerate growth in Johor.

**Table 3: Johor state budget business-friendly initiatives and breakdown by selected sectors**

| Initiatives Johor State Budget 2025 |
|---|
| **Business-friendly initiatives** |
| • Introduction of the Johor Super Lane or JSL at IMFC-J as a platform for standardising processes and improving the ease of doing business in the JS-SEZ.<br>• SL is a manifestation of improvements to the Kulai Fast Lane (KFL) initiative, which has become a benchmark, reference and follow-up for other local authorities (PBT) in Johor and PBTs in several other states such as Melaka and Selangor. |

- Among the significant improvements through the implementation of JSL is the time saving of 2 years in the land development process that does not yet have a Layout Planning Permission which was shortened from 37 months to only 13 months.

**Automotive, energy/utilities**

- Johor Green Transportation Policy 2030 And Guidelines for the planning and development of Johor 'electric vehicle charging points. This policy will guide the work to achieve the target of 1,245 EV Charging Bays (EVCB) by 2030 in the State of Johor.
- Development of electric vehicle charging centers in Kota Iskandar. The State Government through Permodalan Darul Ta'zim in collaboration with Gentari will develop an EV charging center which will be equipped with 4 DC charging points and 4 AC charging points.

**Financial services**

- To benefit from the Johor-Singapore Special Economic Zone (JS-SEZ) and the Forest City Special Financial Zone (FC-SFZ)
- RM2.1mil allocated for the implementation of the investment promotion mission and strengthening investment network relationships.
- RM300k allocated for the Invest Malaysia Facilitation Centre Johor, IMFC-J. IMFC-Jwill serve as the one-stop investment centre for Johor by involving close cooperation with all federal government agencies, state governments related to investments and PBT.
- RM300k allocated to promote Johor as a major investment destination by introducing the Invest Johor Transformation Initiative.

**Property**

- Implementation of plot tax for strata owners. This new initiative will allow strata property owners to continue paying their parcel tax at the Land Offices as opposed to currently paying the tax to the JMB or MC. To support this initiative, the State Government has agreed to provide a 20 percent rebate on the total 2025 parcel tax paid before 31 May 2025.
- RM500k allocated for encouraging online land tax payment. Through this initiative, landowners who pay taxes online can win a lucky draw.
- RM300k allocated for the provision of mobile counters for Johor land administration.
- RM1.5mil allocated to provide *Pendaftaran Tanah Berkomputer* system (SPTB) and *E-serahan* portal. This new initiative is to enable applications for title search, consent for transfer of ownership and transfer of transactions and non-transactions to be carried out online.
- RM480k allocated for the development of *Pengurusan Tanah Serah Balik Kurnia Semula* (E-SBKS) system. This is also a new initiative to increase the efficiency and speed of the land development approval process.
- RM2mil allocated for the organisation of Johor Property Expo (JEXPO).
- RM600k allocated for the PKPJ Property Roadshow 2025 Program. This program will help the people obtain information, open registration for e-home accounts, direct offers for property purchases and developer consultations.

**Construction**

- Allocation of RM4.8b for the development expenditure of the 5th Rolling Plan (2025) under the Twelfth Malaysia Plan for the state of Johor which includes 143 new projects and 433 extension projects. These include:
    - i. Construction of Phase 3 of the additional North-South Expressway (PLUS) lanes from 4 to 6 lanes, from Simpang Renggam to Machap;
    - ii. New elevated interchange on the Second Link Highway and improving the road network in the Gelang Patah area towards Sultan Ibrahim Stadium;
    - iii. Upgrading and improving the road from Johor Bahru to Mersing;
    - iv. Upgrading and widening the Pontian Besar bridge;
    - v. Construction of 18 new schools including a school for special needs students;
    - vi. Construction of the Riverside Reservoir Barrage in Sungai Sedili Besar, Kota Tinggi;
    - vii. Upgrading the existing regional sewage treatment plant and building a sewerage pipe network in Sungai Kim Kim to curb water pollution;
    - viii. Sungai Skudai Conservation Project in Kulai and Johor Bahru Districts;
    - ix. Development of the Inclusive Housing Project (PIM) in Johor Bahru; and
    - x. Construction of the Asian End of the Continent Square in the Johor Tanjung Piai National Park.

**Tourism**

- Allocation of RM20.4mil channelled to the state of Johor for new projects, upgrading tourism products in Tanjung Piai National Park, Pontian and the Redevelopment of Air Papan Beach, Mersing.

**Technology**

- RM 700k is allocated for the use of AI technology in collaboration with the Johor State Housing Development Corporation (PKPJ). This initiative aims to speed up the screening process for applications for People's Housing, Affordable Housing, and Bumiputera properties, as well as increase accuracy, speed, and cost efficiency by evaluating data objectively and automatically on a large scale.

**Utilities**

- Tenaga Nasional Berhad (TNB) will implement several initiatives, including RM171.5mil allocations for the addition of main distribution substations in the Seri Impian Kluang, Pekan Nenas, Iskandar Puteri, Sierra Perdana and Johor Jaya areas.
- RM 83.4mil is allocated for the upgrade of high voltage systems in Bandar Penawar, Kota Tinggi, Taman Sri Temenggong, Muar, Felda Maokil, Segamat, Kampung Gajah Mati, Mersing and Majidee, Johor Bahru.

**Food security, plantation/agriculture**

- RM2mil allocated for the rice field industry development in Johor state, covering the expansion of new rice fields in Kahang covering an area of 10 hectares and Sungai Balang covering an area of 27 hectares.
- RM12.3mil allocated for the vegetable industry development project which includes the Strategic Agreement between FarmByte Sdn. Bhd., a subsidiary of JCorp with AgroBank amounting to RM11.9mil.
- RM38mil allocated for the sustainable agricultural development project which is a joint venture project between FarmByte Sdn. Bhd. (Malaysia) with Archisen Pte. Ltd. (Singapore) in Iskandar Puteri.
- RM800k allocated for the fruit industry development project.
- RM600k allocated for the development and strengthening of 'Taman Kekal Pengeluaran Makanan (TKPM) project.
- RM1.1mil allocated to implement the program to strengthen modern and smart agriculture.
- RM500k allocated for the development and expansion of the black pepper industry in the state of Johor.
- RM200k allocated for the kontan plant development project.
- RM200k allocated for the coconut industry development project.
- RM2.6mil allocated for the development of the livestock industry to reduce dependence on the use of imported meat and increase local production including increasing dairy production.
- RM1.7mil allocated for the conservation of fisheries resources and development of the aquaculture industry. This initiative targets a 10 percent increase in projected aquaculture production from 29k Metric Tons in 2024 to 32k Metric Tons in 2025.
- RM1.4mil allocated for the empowerment of agro-based industries and agricultural entrepreneurship.
- RM800k is allocated for the Johor State Halal Development Plan 2030 in collaboration with the Johor Islamic Corporation Holdings (PIJH) which will be launched in 2025 to boost the Johor halal industry, especially in the JS-SEZ.

**Education/ labour**

- Establishment of the Johor State Talent Development Council or also known as the Johor Talent Development Council (JTDC). The JTDC will be a pillar in efforts to meet the needs of talent and skilled workforce among young people required by the industry in parallel with the implementation of the JS-SEZ.

**Table 4: Federal state budget business-friendly initiatives in Johor and breakdown by selected sectors**

**Initiatives Federal Budget 2025**

**Business-friendly initiatives**

- Forest City approved as a duty-free island to spur tourism and local economic activities.
- Tax incentive package for the FC-SFZ to stimulate financial service activities for global business services, financial technology and attracting investments.
- Special incentives that can attract quality investments and offer high-value jobs to drive growth the growth of JS-SEZ as a sustainable special economic zone. These special incentives will be announced by the end of this year.
- The Invest Malaysia Facilitation Centre – Johor (IMFC-J) is being established to facilitate investment in JS-SEZ. The centre aims to reduce bureaucracy at various levels by expediting approval process.

**Construction**

- Third phase of the North-South Expressway (PLUS) expansion, increasing from four to six lanes on the Simpang Renggam-Machap stretch.
- The Johor-Singapore Rapid Transit System Link (RTS) project which is expected to be operational in 2027.
- The construction project of a riverbank barrage and water reservoir at Sungai Sedili Besar, Kota Tinggi.

**Financial services**

- The Single-Family Office Scheme launched for the FC-SFZ to promote family fund management. To facilitate the operation of the Family Office, the Securities Commission Malaysia will act as the approving authority for the issuance of Resident Passes and Employment Passes to the respective Family Office Founding Investors and related investment professionals.

**Enhanced collaboration between Johor and Singapore.** One of the JS-SEZ objectives is to create economic value by joint efforts to foster stronger business connections and improved connectivity between Malaysia and Singapore, leveraging each other strengths. Therefore, it includes enhancing cross-border connectivity, facilitating freer movement of people, and strengthening business ecosystems to foster a robust business environment, bolstering the overall business ecosystem. Key sectors that would benefit are electrical & electronics, financial services, business-related, services, healthcare such as medical devices and pharmaceuticals, aerospace and manufacturing among others.

**Potential upside to employment and consumption within the state of Johor.** Increasing economic activity within the Johor region will lead to the expansion of business opportunities within the Johor area resulting in the creation of better employment opportunities. The employment opportunities will create a diaspora towards the JS-SEZ region, which will potentially spur consumption within the region. We think this will have a trickle down towards the small and micro businesses growing in the region as the population is expected to increase due to the pickup in business activities.

**Ease in the movement of labour between two countries, attracting high-quality workforce talents.** Enhancement of the existing visa system is expected. One of the key developments is the implementation of a passport-free quick response (QR) code clearance system to expedite the movement of people at land checkpoints. This will lessen the travelling cost for workers between Johor and Singapore. The upgrading of technology will enhance the movement of people and goods and the increase in clearance capacity will support the JS-SEZ potential.

**JS-SEZ will be a strategic hub with global connectivity.** We opine the JS-SEZ will potentially be a strategic hub due to its connectivity to both Johor and Singapore ports, which provide regional and global connectivity. The goods manufactured in the JS-SEZ can be exported through both ports. On top of that, both ports possess modern facilities and infrastructure that could accommodate high transaction activities. Singapore's port connects more than 600 ports across 130 countries, making it one of the most connected in terms of global shipping. On top of that, the port has consistently ranked among the top of the world for container throughputs, among others. Meanwhile, Johor Port is well connected by road and rail to the rest of Malaysia and Singapore, facilitating the movement of goods and materials. The increase in production in these areas and the strength of connectivity would further strengthen export activities for Malaysia.

**JS-SEZ includes several other mature industrial parks.** The JS-SEZ will encompass Iskandar Development Region and Pengerang, and other industrial parks within the region, which are designated flagship areas with prioritised sectors. The development of the JS-SEZ will provide additional boosts to the activities of the current industrial parks, as new businesses will obtain special incentives and tax breaks but will also have the benefits of having existing demand or customers that have established their business in the area. On top of that, the existing industrial park was developed with a focus and concentrated expertise, resources, and investment in a specific area, fostering industry clusters. Therefore, new investor risk is minimised while reaping benefits from the readily available infrastructure. On the flip side, the established industry will gain from more vibrant economic activities. We think the spillover effect of the activities will create more opportunities for SMEs and micro-businesses to grow, especially as part of the value chain.

**Government support and commitment add confidence to investors.** Changes introduced by the state government and improved investment facilitation by the government will also drive more business activities in Johor.

- **One-stop business/investment service centre in Johor.** The centralisation and the streamlining of the application process for various approvals and licenses that are required for foreign business entities to set up in Johor. The alignment and cooperation among the federal and state agencies to address matters such as facilitating investments, expediting approvals, and streamlining processes to be organised under a single roof namely with Invest Malaysia Facilitation Centre-Johor. In our view, this will improve the ease of doing business in Johor and could encourage smaller foreign businesses that do not have the expertise to set up a business overseas. This initiative would create a more diverse business ecosystem, hence the opportunity in Johor is not only for deep pocket companies. Therefore, job creation can also be offered across all sizes of businesses.

- **Financial support and assistance to act as an enabler to the projects.** Both governments are in support of the projects and are willing to provide financial assistance. Malaysia's government is to establish funds for the purposes of infrastructure development. Meanwhile, the Singapore government would support and facilitate Singapore companies' expansion in JS-SEZ and the potential twinning operations of Multi-National Companies in Singapore and JS-SEZ.
- **Pro-business incentives and policies would attract investment and FDI.** As a further catalyst to the development of the JS-SEZ region, government support is expected to cushion investors entering the projects, such as tax breaks, grants, and streamlined regulations. A special corporate tax rate is provided to companies that initiate new investments in high-growth and high-value-added projects and activities within the JS-SEZ. On top of that, a special personal income tax rate is expected to be announced later by MOF. Among other incentives to attract investors are tax incentives for relocating to Malaysia and green technology, pioneer status, investment tax allowance, and global service hub incentives. In return, we think this would help dampen risk from an investor's perspective and increase the attractiveness of the investment in this area.

**Competitive cost advantage in Johor.** Johor has the advantage of attracting more investments into the state in terms of cost competitiveness, both in terms of operations and human capital.

- **Affordability in Johor will be a key advantage.** The JS-SEZ will offer investors the "best of both worlds" with access to Singapore's sophistication and the cost and resource advantages of Johor. Johor provides affordability in areas such as real estate and labour costs which businesses would find attractive given its location and connectivity. One of the key contributions to the lower cost is due to the foreign exchange strength against the ringgit. Singapore based companies would benefit from the FX differences between SGDMYR, especially in terms of cost structure. On the other hand, in terms of real estate, the state government is proactively discussing strategies to address the anticipated rising cost due to the implementation of the JS-SEZ, which could increase real estate values and costs of living in the surrounding areas. This will pose a challenge for local B40 and M40 groups.

**Human capital development plays a key role.** The Johor Talent Development Council (JTDC) is set to take on a vital role in implementing various human capital development programs within the state, which adopt a more targeted approach to meet industry needs. Some of the key initiatives that will be undertaken for human capital development are a series of skill training programs, such as Pro-Mahir which is aimed to align workforce capabilities with the development of the JS-SEZ. The government has allocated RM20m channeled through the Human Resource Development Corporation (HRDC). This initiative is also to ensure the training programmes are tailored to the market demands. We believe that talent development and the supply of high-quality labour will ensure the competitiveness of the labour market and a plus point from the investor's point of view. We opine Singaporean companies will benefit from the lower cost of hiring high-skilled labour available in Johor.

## EQUITY – SECTORAL IMPACT OF JS-SEZ

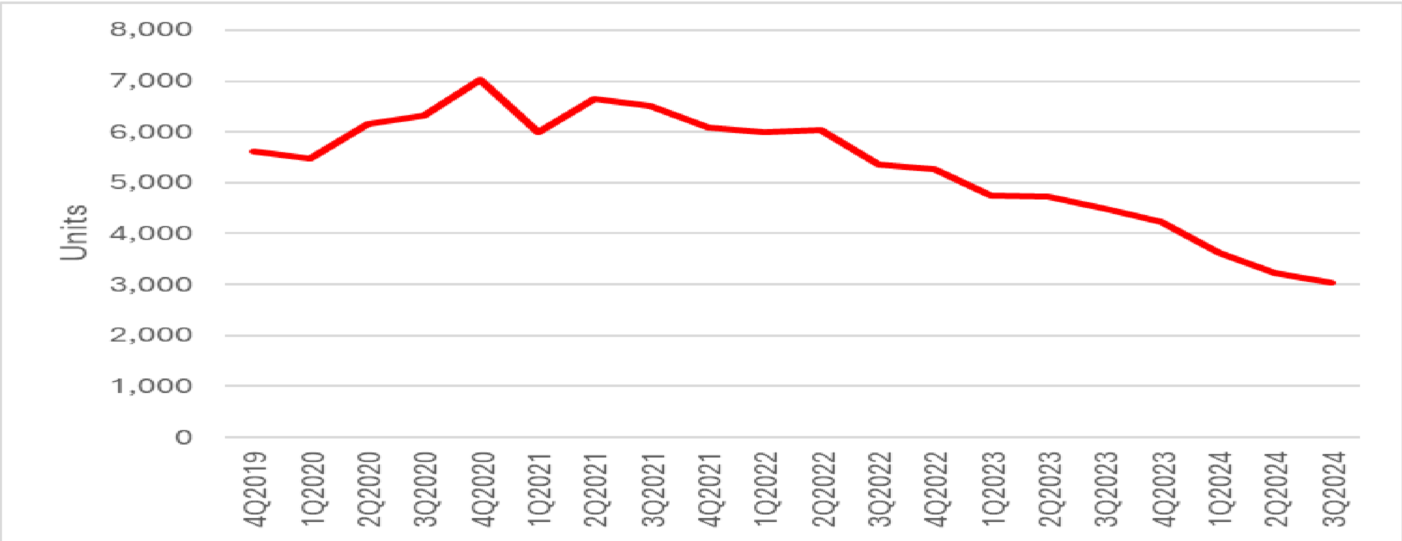
**PROPERTY………………………………………………………………………………………………Maintain POSITIVE**

*Analyst: Jessica Low Jze Tieng*

**Signing of JS-SEZ boosts property market in Johor.** With the signing of JS-SEZ, it set to give a strong boost to the economy of Johor as it targets to attract investment from several sectors. Besides, JS-SEZ will increase investors' confidence in Johor as JS-SEZ will boost trade and strengthen economic connectivity between Johor and Singapore. In addition, more jobs are expected to be created from JS-SEZ and that will benefit property market in Johor due to expected stronger buying interest from locals and foreigners on properties in Johor.

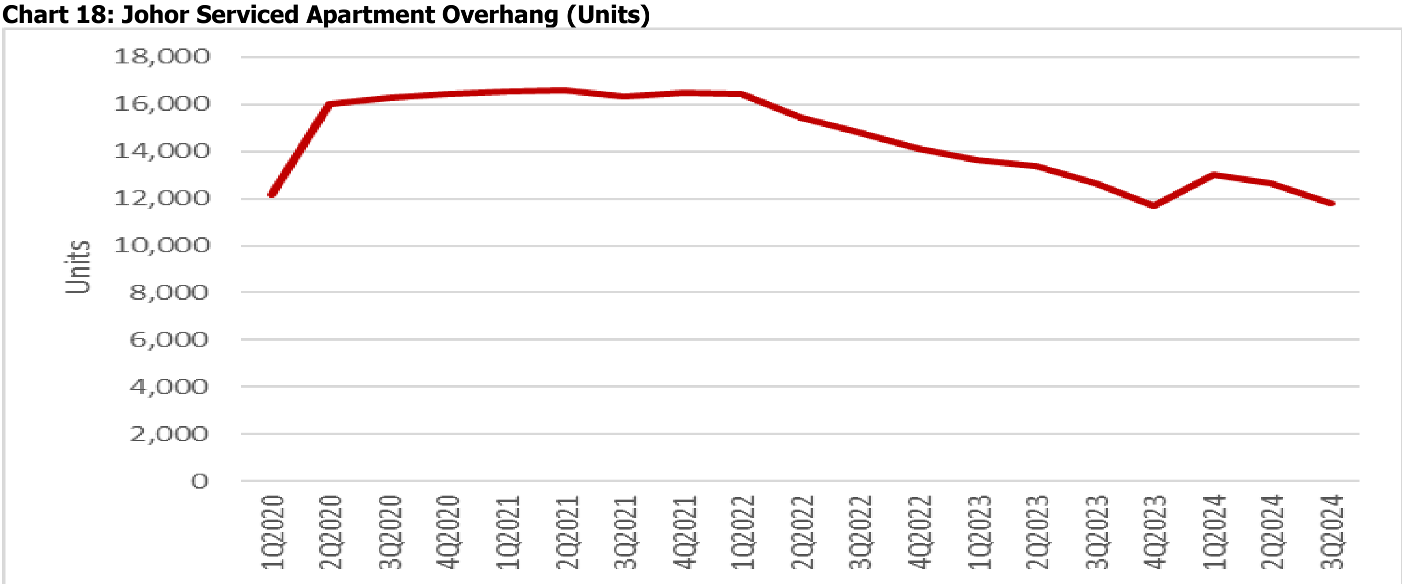
**JS-SEZ to further improve property overhang in Johor.** Residential overhang in Johor declined to 3,030 units in 3QCY24 from 3,219 units in 2QCY24 and 4,500 units in 3QCY23. Meanwhile, serviced apartment overhang in Johor decreased to 11,810 units in 3QCY24 from 12,618 units in 2QCY24 and 12,646 units in 3QCY23. The declining property overhang in Johor was mainly attributed to the stronger buying interest on property in Johor due to anticipation of better economic outlook for Johor and better connectivity between Johor and Singapore as completion of Johor Bahru–Singapore Rapid Transit System (RTS) Link in expected in January 2027. With the signing of JS-SEZ, it is expected to further improve property overhang in Johor as buying interest on property in Johor is expected to be stronger.

**Chart 17: Johor Residential Overhang (Units)**




Source: NAPIC, MIDF Research

**Chart 18: Johor Serviced Apartment Overhang (Units)**




Source: NAPIC, MIDF Research

**Property developers with landbank in Johor will benefit from JS-SEZ.** Property developers that have landbank in Johor are expected to see better land value due to improving property landscape in Johor. Among listed property companies, **Sunway Berhad (NEUTRAL; TP: RM4.92)** has ~740 acres of land in Sunway Iskandar. Meanwhile, **UEM Sunrise (Non-rated)** has around 7,800 acres of remaining landbank in Johor. **Eco World Development (NEUTRAL, TP: RM2.01)** has 1,200 acres of undeveloped land in Johor. Meanwhile, Eco World Development has a few business parks in Johor which should benefit from the higher trade investment into Johor. Elsewhere, **Mah Sing Group (BUY, TP: RM2.08)** has close to 900 acres of land in Johor Meridin East Johor township and 155 acres of land in M Tiara township. Mah Sing further strengthened its foothold in Johor with the proposed acquisition of 5.99 acres of land in Taman Pelangi, Johor Bahru which is located 3km from the Bukit Chagar RTS Station. Likewise, **IOI Properties Group (NEUTRAL, TP: RM2.04)** has close to 3,800 acres of remaining landbank in Johor. Besides IOI Properties is planning to increase more industrial parks in its township in Kulai which should benefit from JS-SEZ. Lastly, **Glomac (NEUTRAL, TP: RM0.39)** has remaining 238 acres of landbank in Johor.

**Maintain POSITIVE on property sector**. We see the outlook for the property sector to remain positive, underpinning by the continuous recovery in buying sentiment and catalysts from JS-SEZ and RTS. Our top picks for the sector are **Mah Sing Group (BUY, TP: RM2.08)** and **Matrix Concepts (BUY, TP: RM2.60)**. We are positive on Mah Sing as new property sales should remain solid on the back of healthy demand for affordable residential projects. Besides, Mah Sing expanded its landbank in Johor which will help the company to benefit from the booming Johor property market. We also like Matrix Concepts due to strong earnings visibility from MVV City. Matrix Concepts has broken ground for the first phase of MVV City in December 2024. Note that MVV City has a total acreage of 2,382 acres and GDV of RM12b which will propel property sales and earnings growth beyond FY27.

## CONSTRUCTION.....................................................................................................Maintain POSITIVE

*Analyst: Royce Tan Seng Hooi*

**Poised for further growth in Johor.** As with the development of any country, state or city, construction plays a vital role mainly due to the requirements of modern infrastructure and the need for improved connectivity. The spillover from Singapore and the recently signed Johor-Singapore Special Economic Zone (JS-SEZ) agreement on 6 January 2025 herald a transformative phase for Johor's construction sector. This agreement positions Johor as a strategic hub for cross-border economic activities, supported by strong infrastructure commitments from both nations. The JS-SEZ's focus on flagship zones, such as JB City Centre and Iskandar Puteri, emphasizes sectors like business services, digital economy, and manufacturing, fostering demand for industrial properties, office buildings, and urban developments which ultimately benefit the construction industry. Among the SEZ's key objectives is to streamline trade and logistics between Johor and Singapore, leveraging infrastructure such as the RTS link and integrated industrial parks. The phased expansion model – mirroring Shenzhen SEZ's success – ensures long-term growth while accommodating innovative policies and incentives. These initiatives are further bolstered by the region's competitive cost advantages, including affordable real estate and a favourable tax regime. Additionally, the Government's plan to establish a fund for the purposes of infrastructure support is a positive move in our view, ensuring swifter approvals for crucial projects. We believe this could be similar to the authority that was given to Sabah and Sarawak to approve any development project worth RM50m or less without approval from the Federal level.

**RTS link.** The construction of the Rail Transit System (RTS) link connecting Johor Bahru to Singapore, is well on track with a progress of 93% as at Sep-24 on the Malaysian side while Singapore's progress has exceeded 80%, with viaducts nearing completion and architectural works set to continue in parallel. Transport Minister, YB Anthony Loke has reiterated his confidence that the transport system will be fully operational on Jan 1, 2027. It is a RM10b project, of which Malaysia is expected to bear 39% of the cost while Singapore foots the remaining 61%. To recall, the RTS Link is a modern LRT system spanning 4km from Bukit Chagar in Johor Bahru to Woodlands in Singapore. With the JS-SEZ agreement now signed, the RTS Link has become a critical enabler for seamless cross-border mobility, aligning with the SEZ's goal of enhancing trade and investment. Developments surrounding the RTS link are set to ride the wave of connectivity improvements. These projects aim to alleviate congestion and attract MNCs seeking robust infrastructure. One of the main aims of the RTS Link is to alleviate the bottleneck at immigration checkpoints for both Malaysia and Singapore with its capacity of 10,000 passengers an hour. With the expected improvement in connectivity, another area where construction players stand to benefit would be projects coming from the transit-oriented development (TOD) or mixed development around the Bukit Chagar station area. MRT Corp and Hong Kong's MTR Corp Ltd inked an MoU in Jul-23 to implement an urban development project on a six-acre site adjacent to the Bukit Chagar RTS station, with a GDV of RM3b. We believe there could be a spillover of jobs in the vicinity with developments aiming to ride the RTS wave.

**Johor Bahru LRT?** We were made to understand in a previous visit, that the three lines that have been identified by the state government for the JB LRT, namely the Tebrau Line, Skudai Line and Iskandar Puteri Line – spanning approximately 30km around Johor Bahru would take on the routes that were initially planned for the Bus Rapid Transit (BRT). While the Federal Government has no objection on public transport infrastructure development in the state, Transport Minister YB Anthony Loke previously mentioned that various factors have to be considered, especially the country's financial standing. The Federal Government, has emphasized the importance of financial sustainability in large-scale transport projects, making public-private partnerships a likely approach for implementation. In Mar-22, a consortium comprising Ancom Bhd (Non-rated), Nylex (M) Bhd, LBS Bina Group Bhd, Sinar Bina Infra Sdn Bhd and Thailand's BTS Group Holdings proposed the JB LRT; as of Oct-24, Theta Edge Bhd has switched over to this consortium, from the competing consortium made up of YTL Power International Bhd, SIPP Rail Sdn Bhd, Mobilus Sdn Bhd and Lion Pacific Sdn Bhd, intensifying competition in the region. We believe it is timely for an implementation of an LRT system in JB, potentially in phases, considering its densely populated area and the potential spillover of visitors from Singapore, both for business and leisure, now that the JS-SEZ agreement has been made official. With the SEZ framework in place, the JB LRT project has received renewed attention, as it aligns with the SEZ's strategic priorities of improved connectivity and urban mobility. The project is expected to facilitate seamless movement across flagship zones such as JB City Centre and Iskandar Puteri, both earmarked for key sectors like business services and digital economy. This proposed system is well-positioned to enhance Johor's overall attractiveness, with an increased spillover from Singapore.

**Date centres**. Prospects are strong in terms of the data centre play especially in Johor thanks to the spillover from Singapore. Apart from the Sedenak Tech Park, other main locations include the Nusajaya Tech Park, Nusa Cemerlang Industrial Park and the YTL Green Data Centre Park. The recently signed JS-SEZ agreement has further strengthened Johor's appeal, leading to investments from companies like Microsoft Azure, Equinix, and Princeton PDG. Johor also now boasts Malaysia's largest data centre, a 500 MW facility by YTL Power in Kulai, which is set to anchor the region's position as a digital infrastructure leader. A report by real estate consultancy Knight Frank in Apr-23 attributed the surge in interest in Johor for data centres due to the capacity constraints in Singapore. Other factors include favourable support from local authorities and the availability of land and power. Among the end users that will be anchoring the usage of the data centres and increasingly so in the future, are social media platforms and over-the-top media service providers. According to data centre research company, Baxtel, Johor has a total of 29 DC facilities spanning over 2.32m sq ft with 461MW of capacity. There are also another eight DCs under construction. The state is currently ranked as the largest DC market in the country and eighth in Asia-Pacific, positioning Johor as a prime prospect for future construction works in the DC space. There should be an interesting growth prospect for data centres, with many other upcoming projects, which corroborate with our channel checks that companies are actively bidding for data centre jobs.

**Our views.** Our **POSITIVE** recommendation on the construction sector is premised on infrastructure development rollouts as envisioned under the 12th Malaysia Plan Mid-Term Review and the significant development expenditure of RM86b under Budget 2025. For 2025, this momentum is further bolstered by the JS-SEZ agreement, which was officially signed in Jan-25. This agreement positions Johor as a critical regional hub, with key infrastructure projects such as the RTS Link, the potential JB LRT, and extensive DC developments attracting foreign investments and MNCs. Rather than relying solely on spillover benefits from Singapore, Johor is proactively establishing itself as a regional economic powerhouse by enhancing its infrastructure, improving connectivity and fostering a pro-business ecosystem. Key zones such as JB City Centre, Sedenak Tech park and Iskandar Puteri are already showing strong investment traction, underpinned by Government-led initiatives and private sector participation. Adding to these are plans by the Federal Government to establish a trade zone and financial hub in the state. All these will definitely come with major developments, that will be a strong catalyst for construction players. A mega project that may potentially be decided upon this year is the revival of the KL-Singapore High Speed Rail (HSR), which completed its request for information (RFI) exercise in Jan-24, attracting seven proposals from seven consortiums comprising a total of 31 companies. MyHSR Corp has been evaluating the proposals before presenting it to the Cabinet for deliberation. A significant portion of the rail alignment would be in Johor, providing substantial opportunities for construction players to secure contracts, from station developments to ancillary infrastructure. Our top picks for the construction sector are **Gamuda (BUY, TP: RM5.42)**, **IJM Corp (BUY, TP: RM3.89)**, **Malayan Cement (BUY, TP: RM6.81)** and **Sunway Construction (NEUTRAL, TP: RM4.46)**, the latter being the first mover for data centres in Johor. Prices of some of these counters have run up in recent weeks and we are in the process of reviewing our target prices, especially for SunCon which is now trading above our existing target price. We believe the upside is present in these contractors, premised on the rollout of the mega projects and their ability to clinch the jobs.

## UTILITIES……………………………………………………………………………………………Maintain NEUTRAL

*Analyst: Royce Tan Seng Hooi*

**Towards a more seamless RE trade.** We view that the SEZ would facilitate a more seamless RE trade with Singapore, being the exports of our green energy to the country. Recall that the Cabinet had in May-23, agreed to lift the export ban on renewable energy (RE) and Malaysia has since set up Energy Exchange Malaysia (ENEGEM) to facilitate cross border green electricity sales to neighboring countries, underpinning one of the key components of the National Energy Transition Roadmap (NETR). Under the Cross Border Electricity Sales (CBES) guideline, RE exports will utilise existing Peninsular Malaysia-neighboring countries (i.e., Singapore and Thailand) interconnection. The interconnection capacity between Malaysia and Singapore stands at 1,000MW of which 300MW is allocated for the CBES RE Scheme and 200MW for the Lao PDR-Thailand Malaysia-Singapore Power Integration Project (LTMS-PIP) Phase 2. **Tenaga Nasional Berhad (NEUTRAL, TP: RM14.20)** exported its maiden RE supply to Singapore on 13 December 2024. Sembcorp Power Pte Ltd, being the licensed electricity importer of Singapore, has agreed to import 50MW of green energy, in a bidding process through the ENEGEM. Opportunities in this space remains abundant, in our view, as Singapore's long-term plan is to import 6GW of low-carbon electricity by 2035.

**All eyes on RE.** With RE being among the main focus of the SEZ development, higher RE capacities may potentially be introduced, with the immediate beneficiaries being those in the solar EPCC subsector. Corporate consumers, including data centres, can also tap on the Corporate Renewable Energy Supply Scheme (CRESS) that was introduced in Sep-24. It is a scheme that opens up third party access (TPA) to the electricity grid to improve the corporates' access to green energy. Through an open grid access concept, third parties will be able to purchase or sell electricity through the grid with predetermined system access charge.

**The power utilities sector is a spillover beneficiary of Johor's data centre development** as data centres are huge consumers of energy. Data centres generate immense amount of heat, hence significant power is required for cooling systems, on top of energy requirements to power servers and hard drives. Additionally, the energy consumed by data centres is constant throughout its 24-hour operations. The Sedenak Tech Park (STeP) Phase 1 is connected to 275kv/132kV/33kV PMUs (main incoming substation) with a power supply of 600MW and a committed addition of 400MW. Meanwhile, STeP Phase 2 is expected to see 1,000MW of power supply capacity. While these data centres are still expected to be heavily reliant on more reliable conventional power sources given their constant demand, we believe there will be increasing demand for cleaner energy sources given ESG requirements by predominantly MNC-owned facilities at STeP. JLand Group is in fact exploring options to construct a solar farm within the STeP development to complement power supply to the area.

**EPCC sub-sector are potential immediate-term beneficiary.** We believe the solar EPCC sub-sector in particular are potential immediate-term beneficiaries for RE EPCC services. Our BUY calls in the space are **Samaiden (BUY, TP: RM1.69)**, **Pekat (BUY, TP:RM1.32)** and **Sunview (BUY, TP: RM0.64)**. In addition, **Tenaga (NEUTRAL, TP: RM14.20)** is well positioned to benefit from potentially new revenue streams from wheeling and transactions services through the export of electricity to Singapore and the increased capex requirement to connect data centres to the grid having proactively introduced the Green Lane Pathway, a strategic offering for Malaysia's data centre market to streamline the on-boarding process for data centres and fast track supply offerings with a reduced connection period of just 12 months from a usual 36-48 months.

**OIL & GAS……………………………………………………………………………………………………Maintain POSITIVE**

*Analyst: MIDF Research Team*

**Apt location for energy transportation and refineries.** Located within the international maritime trade route, JS-SEZ is poised to positively impact the energy industry, particularly in the Oil and Gas's midstream division. Pasir Gudang served as a hub for shipbuilding and maritime solutions, as well as the Johor and Tanjung Langsat ports for shipping vessels that passed through the Tebrau Strait, which comprised of general cargo ships, oil tankers and LNG carriers. With the establishment of the JS-SEZ collaboration, we are expecting that shared development could improve this area in terms of vessel traffic and route upkeep. Meanwhile, Johor's vital region for the sector, the Pengerang Integrated Petroleum Complex (PIPC), is poised to be the main downstream hub for oil and gas refinery. As of writing, the complex boasted: (i) a petroleum refining capacity of 300kbpd, (ii) petrochemical facilities capable of producing 3.6Mtpa of petrochemical products, and (iii) overall storage capacity of over 175mcft. With PIPC's large acreage (approximately 20,000 acres) and plans to evolve the complex until CY37, we believe the investment opportunity in PIPC is extensive, including in the development of industrial parks, waste management plants, logistics hubs and commercial areas. One of its significant large-scale projects is the Refinery and Petrochemical Integrated Development (RAPID), which is expected to centralise PIPC as a regional petrochemical hub.

**All in all, we are positive on the impact of the JS-SEZ development for the sector.** Given that crude oil prices are anticipated to stabilize within the USD70-80pb range, and LNG demand are expected to rise among ASEAN countries, we opine that the development of a regional hub for upstream newbuilds, midstream transportation and storage, as well as downstream refineries, is crucial to streamline operations, policies and workforce among local and regional oil and gas players. Additionally, we see an opportunity to advance the energy hubs to include renewable energy and green fuel in the long run, as its ports and storage hubs in Pasir Gudang, and refinery plants in PIPC, are continuously equipped to manage new and cleaner energy.

**Our TOP PICKS are MMHE (BUY, TP: RM0.72) for upstream and midstream, and Petronas Chemicals (NEUTRAL, TP: RM4.89) for downstream.** We like MMHE for its: (i) strong order book, (ii) diverse portfolio which includes vessel maintenance and rig platform newbuilds, and (iii) strategic partnerships with major oil and gas players. We opine that MMHE also has a leverage in renewable energy for its role in constructing offshore wind farms, as well as the opportunity for growth under its maintenance division for LNG carriers. Although we have a NEUTRAL call on Petronas Chemicals, we believe that in the long run, the group could leverage on its well-established and integrated production facilities in Malaysia, as well as its portfolio on green and specialty chemicals. We believe that the sector's recovery is imminent in CY25 due to the expected increase in fertilizer and methanol demand, locally and regionally, in line with the anticipated improvement in the consumer and plantation sectors.

**HEALTHCARE……………………………………………………………………………………………Maintain POSITIVE**

*Analyst: MIDF Research Team*

**Enhancing healthcare services via hospital partnerships.** Given that the flagship areas for the JS-SEZ include the two major cities - Johor Bahru City Centre and Iskandar Puteri – we opine that the healthcare sector, notably the healthcare service providers, will benefit from the investment initiatives for the coalition. The two Johor cities are connected to Singapore via the Johor-Singapore Causeway and Malaysia-Singapore Second Link bridges, providing immediate access between the state and Singapore. This encourages easier access for medical tourists to healthcare services including treatments of rare diseases and laboratory works, in both countries. Johor had been one of the main contributors in the medical tourism, with patients arriving from Indonesia, Singapore and China. Additionally, the JS-SEZ is expected to emphasis on the twinning operations of similar industries, and we believe this would include the healthcare sector, wherein the hospitals will not only collaborate in terms of patient, but also in sharing advanced technology, infrastructure and skilled labour. With over 55,000 registered private medical personnel and about 120,000 in public in Singapore, we believe the collaboration could help in medical labour shortages in Johor.

**All in all, we are optimistic about the establishment of the JS-SEZ for the healthcare sector**, given the positive impact from medical tourism and twinning operations of hospitals between the two locations. Our top pick for the sector is

**KPJ Healthcare (BUY, TP:RM2.54).** We like KPJ for its focus in Malaysian healthcare, which warranted a higher demand due to its affordability in treatments, adherence to ESG and technological advancements, and good cost management initiatives. Additionally, we believe that KPJ has the wherewithal to further expand healthcare services access to Northern and Eastern Johor and improving hospital infrastructures within the JS-SEZ flagship locations.

**TECHNOLOGY.........................................................................................................Maintain NEUTRAL**

*Analyst: Martin Foo Chuan Loong*

**Another Tech hub down south?** The JS-SEX industrialisation zone could potentially undertake the creation of another tech hub in the southern region. Nonetheless, it remains to be seen what the action plan is to create another tech hub as Malaysia already has an established tech hub in the northern region of the peninsular.

**Potentially more investment from Singapore.** Forging partnership with Singapore government could potentially see some of the E&E companies in Singapore setting up manufacturing presence in Johor. Nonetheless, we view that having the necessary incentives would also be vital for the Government to kickstart the new tech hub.

**TELECOMMUNICATION.............................................................................................Maintain NEUTRAL**

*Analyst: Martin Foo Chuan Loong*

**Benefiting the enterprise segment.** The increasing number of data centre would create a positive spillover effect for local telecommunication companies. Inherently, data centre would need several fibre connectivity to and for its premise. This is to ensure there is back-up line should any of the fibre line is down. Thus, it would create a win-win situation for all telcos.

**On the flip side, with higher presence of data centre**, the telcos would have a wider pool of vendor to provide cloud related services such as GPU-as-a-Service (GPUaaS). These would help to boost the telcos revenue from the enterprise segment as traditionally they would largely rely on contribution from mobile and fibre services to end consumer. Our top pick for the sector is **Maxis (BUY, TP: RM4.47)**. Another potential beneficiary is **TM (NEUTRAL, TP: RM6.78)** as the largest fibre provider.

**TRANSPORTATION (PORT & LOGISTICS)..................................................................Maintain NEUTRAL**

*Analyst: MIDF Research Team*

The JS-SEZ is set to boost cargo-generating activities, particularly in the logistics and port sectors. The strategic locations and focus on key industries, combined with enhanced infrastructure and streamlined processes, are key factors that will stimulate increased cargo volumes and improve the overall efficiency of cross-border trade between Malaysia and Singapore.

**Increased industrial and manufacturing activity.** The JS-SEZ targets a variety of high-value industries, including manufacturing, electronics, logistics, and e-commerce. The establishment of the Invest Malaysia Facilitation Centre in Johor is a crucial step in simplifying and accelerating investment-related processes for businesses. As companies establish or expand their operations in the zone, there would be an increased need to transport raw materials, finished products, and components. This could drive demand for both inbound and outbound cargo movements, boosting port activities. Given that the majority of gateway cargoes in the Southern region pass through Johor Port, it is expected to be the bigger beneficiary compared to the Port of Tanjung Pelepas (PTP), which focuses mainly on transhipment activities (>90% of its total volume).

**Improved connectivity and cross-border trade.** The development of integrated infrastructure, such as digitised cargo clearance systems and enhanced road and rail links, is expected to reduce logistical bottlenecks and improve the flow of goods between Malaysia and Singapore. Based on our engagement with logistics players, one of the key concerns is the time it takes for vehicles to cross the Johor-Singapore border, which can average up to two hours and extend to four hours during festive periods. In this regard, the RTS Link is a crucial development that is expected to ease the traffic congestion at the

Johor-Singapore Causeway. The installation work for the RTS Link rail system has reportedly begun, with passenger service expected to commence by the end of CY26.

**Increased demand for bonded warehousing services.** With the expected growth in manufacturing, logistics, and trade activities within the JS-SEZ, there would likely be higher demand for bonded warehousing. Companies operating in the JS-SEZ may use bonded warehouses to store goods in transit without immediately incurring import duties. This could be particularly advantageous for companies engaged in high-volume trade. The quicker clearance mechanism mentioned above would benefit bonded warehouse operators by minimising bureaucratic delays and enabling faster turnaround times for goods. With the expected growth in warehousing activities, there would also be a subsequent rise in demand for land transportation services, as integrated logistics players are typically preferred for their end-to-end supply chain solutions.

**Maintain NEUTRAL.** Although the establishment of the JS-SEZ is overall positive for the sector, FDIs require time to establish their operations, meaning that any significant impact is not expected in the short-term. Among the companies under our coverage, **Swift Haulage (NEUTRAL, TP: RM0.46)** could be a beneficiary from its involvement in container haulage and freight forwarding operations in Johor. Swift Haulage holds a market share of around 5% based on the number of containers it hauled at both PTP and Johor Port. The Group began operating short-haul transportation for petroleum products in Singapore in CY22, marking its first venture into the market. It has also previously considered entering the Singapore distribution market due to the proximity of its Tebrau warehouse to the Tuas Second Link.

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## DISCLOSURES AND DISCLAIMER



| **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