

SECTOR UPDATE

Property – Malaysia

Say Goodbye To “Ghost Town” – Forest City Is About To Glow Up!

New incentives for the Forest City Special Financial Zone include a 0% tax rate for family offices with RM30m in AUM and a 15% personal income tax for workers, enhancing its appeal over Singapore. Positive trends in Malaysia’s property market, particularly in Kuala Lumpur and Johor, reflect increased transactions and growth in the residential sector, driven by strategic locations and increased vibrancy in the area. Maintain OVERWEIGHT. Top picks are laggards such as Lagenda and IOIPG.

WHAT’S NEW

- Last Friday, new incentives for the Forest City Special Financial Zone (FCSFZ) were unveiled, aimed at attracting financial services to establish operations and revitalize the area. What caught our eyes include a 0% tax rate for up to 20 years for family offices with a minimum AUM of RM30m, and exemptions on property transfer stamp duty, making it an appealing option for wealthy individuals, particularly from China. Compared with Singapore, where family offices must have a minimum AUM of S\$10m (approximately RM34m) under Section 130, and S\$50m under Section 13U, Forest City provides a more accessible entry point. The inclusion of the Malaysia My Second Home (MM2H) programme, with a reduced RM500,000 threshold, further enhances its appeal to expatriates and retirees, compared with recent the national silver tier, which currently requires a threshold of RM650,000.
- Other key incentives include a 15% personal income tax rate for a wider audience including Malaysians working in FCSFZ, which previously only applied to select industries in Iskandar Malaysia, to attract skilled professionals. To compare with Singapore, non-residents face a flat 15% tax on employment income, while other incomes, like director’s fees, are taxed at 22-24%. Additionally, a 5% tax rate for up to 20 years for fintech and financial services companies fosters a tech-driven ecosystem in Forest City, shifting the focus from Iskandar 1.0’s traditional sectors like manufacturing to high-value industries.

STOCK IMPACT

- While none of the developers under our coverage have projects in Forest City, we believe these incentives could have ripple effects, driving property demand and economic activity in surrounding areas like Iskandar Puteri. Moreover, the recent US\$1b investment by GG56 Korea to develop Malaysia’s first Korean Culture Town signals growing international interest in Forest City. We view this as a significant move that positions the area for a dynamic future, not just as a financial hub. Ultimately, we believe these new developments and incentives could help Forest City shed its “ghost town” image and further improve Johor’s property image.

ACTION

- **Maintain OVERWEIGHT.** The sector is trading at 0.85x P/B (reaching +1SD to 10-year mean of 0.7x; previous highs trading close to +3SD in 2014), which is justified by its expectation of a long-term uptrend in the sector driven by record-high investments in Malaysia over the past 2-3 years. Property transactions value are hitting all-time highs, the overhang is decreasing, and real estate investment is growing. Key drivers include: a) expanding industrial development, which offer developers new growth opportunities beyond residential projects; and b) rising land values, boosted by special economic/financial zones, data centre demand, and infrastructure projects. **Our top picks include laggards like IOIPG** (for its increased launches and large Johor landbank) and **Lagenda** (with high margins and ROE of >16%). We also like developers with **data centre exposure like Mah Sing and Eco World.**

OVERWEIGHT

(Maintained)

FOREST CITY SFZ INCENTIVES

CATEGORY	INCENTIVES
For Companies	
	- Only location with fiscal and non-fiscal incentives
	- 0% tax rate for up to 20 years
Forest City Island 1 (Family Office)	- Minimum AUM of RM30m
	- Domestic investment of RM10m or 10% AUM, whichever is lower, operational by 1Q25
	- Stamp duty exemption on transfer of properties into Single Family Office Vehicle (SFOV) at initial establishment
Forest City Island 1 (Fintech, Insurtech, Regtech, Islamic Fintech)	- Foreign payment system operation
	- Mid-office and back-office support Services undertaken by financial institutions, banks, capital markets, and fintech companies
	- 5% tax rate up to 20 years (10 + 10 years)
Forest City Island 1 (Financial Institutions, Banks)	- Capital market insurance
	- Insurance/Takaful companies
	- Exemption of existing physical branch limit in FCSFZ for locally incorporated Foreign Banks (LIFB)
Forest City Mainland	- Smart Logistics
	- Investment tax allowance of 100% for five years
	- Industrial building allowance of 10%
	- Special deduction on relocation expenses up to RM500,000.
	- 10 years withholding tax exemption for services
Other Incentives for Above Industries	- 50% stamp duty exemption on transfer of property and mortgage financing
	- Foreign exchange flexibility
	- No limit on offshore borrowing for entities operating in FCSFZ
	- No limit on investment in foreign currency for entities operating in FCSFZ
For Individuals	
Forest City Island 1	- RPGT for non-Malaysian citizen/non-PR – same as Malaysian citizen, 0% after five years
	- 50% stamp duty exemption on transfer of property and mortgage financing
Island 1 and Mainland	- Returning expert: 15% tax rate for five years
	- Knowledge workers: 15% flat tax rate
Other Incentives in Forest City	
Duty-Free Island	- The first duty-free island in Malaysia that can be directly accessed by land traffic
Exclusive Malaysia Digital Status	- Applicable companies will enjoy incentives such as income tax exemption for up to 10 years
Special Category for MM2H	- Foreign nationals can apply to the MM2H programme starting from just RM500,000

Source: Various media

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ESSENTIALS

• **NAPIC data showed an encouraging trend driven by commercial and development land & other transactions.** Based on latest National Property Information Centre (NAPIC) data, the property market saw strong growth in 1H24, with 198,906 transactions worth RM105.65b (+8% in volume yoy, +23.8% in value yoy). In terms of volume, all subsegments showed single-digit volume growth with the exception of commercial and development land & others: residential (+6.1%), commercial (+22.4%), industrial (+2.3%), agricultural (+6.5%), and development land & others (+12.1%). In value terms, all subsegments recorded double-digit growth, again with commercial and development land & others having the highest growth: residential (+10.4%), commercial (+41.5%), industrial (+23.4%), agricultural (+37.8%), and development land & others (+59.3%).

• **KL and Johor led the growth of property transactions.** In terms of key states, Kuala Lumpur region (KL) saw volume growth of 23%, followed by Johor (+9%) and Perak (+9%). In value terms, KL saw 73% growth in transaction value followed by Johor (+44%) and Selangor (+24%).

• **The residential property market contributed the largest share to overall activity, making up 61.3% of transaction volume and 46.8% of the total market value.** Residential transactions reached 121,964, valued at RM49.43b (+6.1% in volume, +10.4% in value). Selangor led the market, accounting for 22.3% of total residential transactions, with 27,174 transactions valued at RM15.15b. Johor followed closely, contributing 15.3% of the total residential transactions, with 18,648 transactions valued at RM9.02b. These two states are highly sought after due to their strategic locations, robust infrastructure, and economic activities, particularly Selangor's proximity to the nation's capital and Johor's position as a gateway to Singapore. Terraced houses, particularly in urban and suburban areas, continued to dominate residential transactions, accounting for 43.0% of total sales in 1H24. Affordable homes priced <RM300,000 dominated, comprising over half of all residential transactions.

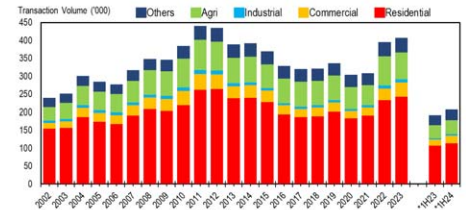
• **Serviced apartments under the commercial property subsegment gaining traction.** Commercial property transactions saw the strongest growth, with a 22.4% increase in volume and a 41.5% rise in value, totalling RM23.71b. This was fuelled by robust demand in states like KL, Selangor, and Johor. Serviced apartments, in particular, performed well, contributing significantly to commercial property activity, with a 47.4% increase in transaction volume, accompanied by a 68.5% rise in value. Serviced apartment units are particularly attractive in high-demand areas like KL and Johor, which together accounted for almost 70% of all serviced apartment transactions.

• **House Price Index recorded modest growth led by Kedah and Johor.** Preliminary data for 1H24 showed that the House Price Index (HPI) reached 218.7pt, reflecting a moderate annual growth of 0.9%. While all states recorded modest growth between 0.1% and 4.6%, KL experienced a decline of 0.8%. Kedah led with the highest growth at 4.6%, followed by Johor at 3.3%. By property type, terrace houses saw growth of 1.1%, whereas high-rise dropped by 0.7%. Regionally, high-rise unit prices in KL and Hulu Langat (Selangor) decreased by 3.5-5.3%, while positive growth was seen in Johor (2%), Pulau Pinang (1.4%), Negeri Sembilan (3.6%), Melaka (7.4%), and Sabah (0.5%).

• **Overhang continued declining.** In 1H24, Malaysia recorded 22,642 unsold completed residential units, valued at RM14.24b, a decrease of 14% in volume and 22% in value yoy (qoq wise saw a 6% drop in volume and 14% fall in value). Meanwhile, the overhang of serviced apartments totalled 21,158 units, worth RM17.47b, reflecting a decrease of 6.0% in volume and 9% in value yoy (qoq wise saw a 3% decline in volume and 4% tumble in value). Johor residential market also showed a continued decline in the level of overhang with 3,219 unsold completed units worth RM2.8b (volume: -32% yoy, -11% qoq; value: -30% yoy, -9% qoq). Johor's unsold completed service apartments stood at 12,618 units with value of RM10.83b (volume: -6% yoy, -3% qoq; value: -8% yoy, -4% qoq).

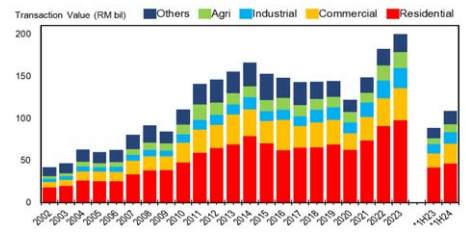
• **The expected news flow in the near term, including Invest Malaysia 2024 on 26 Sep 24 and Budget 2025 on 18 Oct 24, is likely to reignite trading interest in Johor property stocks.** For example, Johor stocks like Iskandar Waterfront City and UEM Sunrise, which hold the largest landbank in Iskandar Malaysia among property companies, recently saw share price increases of 13% and 7%, respectively, within a two-day period following the announcement of the Forest City financial zone incentives. Additionally, news that the Sultan of Johor (the current Agong) is seeking investments from a Chinese state-owned company, including discussions on the High-Speed Rail during his recent visit to China, has also contributed to this positive momentum.

PROPERTY TRANSACTION VOLUME BY TYPE



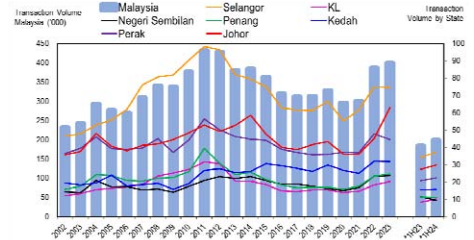
Source: NAPIC, CEIC

PROPERTY TRANSACTION VALUE BY TYPE



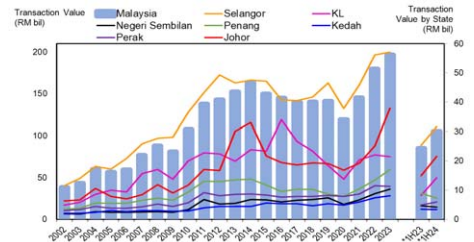
Source: NAPIC, CEIC

PROPERTY TRANSACTION VOLUME BY STATE



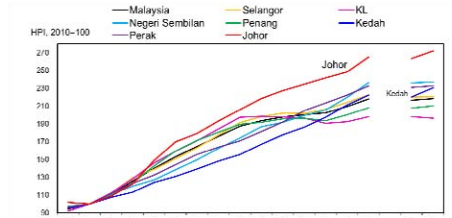
Source: NAPIC, CEIC

PROPERTY TRANSACTION VALUE BY STATE



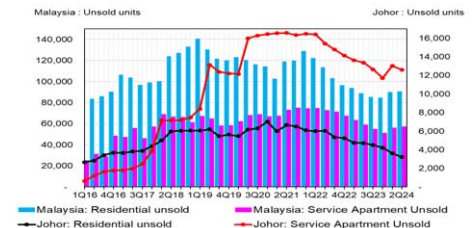
Source: NAPIC, CEIC

HOUSE PRICE INDEX (HPI)



Source: NAPIC, CEIC

MALAYSIA AND JOHOR OVERHANG TREND



Source: NAPIC, CEIC

PEER COMPARISON

Company	Tickers	Rec	Price 23 Sep 24 (RM)	Target Price (RM)	Market Cap (RMm)	RNAV (RM)	Discount to RNAV	P/B FY24F (x)	P/B FY25F (x)	PE FY24F (x)	PE FY25F (x)	Div Yield FY24F (%)	ROE FY24F (%)	Revenue FY24F (RMm)	Net Profit FY24F (RMm)	Net Profit growth FY24F	Net Profit Margin FY24F
*EcoWorld	ECW MK	BUY	1.81	2.10	5,337	3.52	-49%	1.1	1.1	17.1	15.3	3.7	6.5	2,414	312	14	13
Mah Sing	MSGB MK	BUY	1.75	2.29	4,455	3.73	-53%	1.1	1.1	17.8	16.0	2.5	6.2	2,850	239	10	8
*Matrix	MCH MK	HOLD	2.00	1.92	2,503	2.96	-32%	1.2	1.1	10.1	9.8	4.7	11.1	1,410	248	6	18
SP Setia	SPSB MK	HOLD	1.36	1.64	6,608	3.29	-59%	0.4	0.4	12.5	24.8	1.1	4.3	6,407	647	93	10
Sunway	SWB MK	HOLD	4.19	4.06	23,961	4.20	0%	1.7	1.7	29.5	28.9	1.5	5.9	6,375	844	21	13
UEMS	UEMS MK	SELL	1.05	0.86	5,311	2.16	-51%	1.0	1.0	63.9	57.7	0.7	1.2	1,516	83	13	5
*IOIPG	IOIPG MK	BUY	2.16	3.00	11,893	5.43	-60%	0.5	0.5	16.4	12.3	2.3	2.6	3,641	726	14	20
Lagenda	LAGENDA MK	BUY	1.39	2.32	1,147	3.31	-58%	0.9	0.8	5.7	4.6	5.0	16.3	1,015	204	33	20

Source: Respective companies, Bloomberg, UOB Kay Hian; * Different FYE

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