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Maybank

Johor-Singapore Special Economic Zone

Singapore winners

A partnership bigger than the sum-of-its-parts?

The JS-SEZ announced at the Singapore-Malaysia leaders retreat has significant potential to deliver value creation for both sides. While details on incentives and execution is still limited, conceptually it has the ability to leverage Singapore's global finance and logistics centre capabilities with Johor's access to competitive land, labour and energy to deliver a differentiated proposition - especially for supply chains looking for alternatives to North Asia amidst the US-China Trade War. Banks, Gaming, Industrials, Tech, Telecom are likely to benefit the most in Singapore. Top stocks: AEM, CICT, FRKN, GENS, MLT, OCBC, SCI, ST, TMG, UMS, UOB, VMS.

Strong G2G commitment to facilitate doing business

Singapore and Malaysia have set a target of attracting 100 projects in 10-years. The JS-SEZ lists aerospace, electrical & electronics, chemicals, medical devices, pharma as priority sectors together with support for a wide selection of sectors from digital economy, to manufacturing. Malaysia plans to set up a fund to support infrastructure, while Singapore plans to design funding support and twinning operations to facilitate corporates and MNCs to expand into the JS-SEZ. This is to be further enhanced by technology enabled people movements and enhanced visas. Further tax incentives for new investments and income taxes are also envisaged.

Four major themes to support equities

JS-SEZ objectives are focused on enhancing cross-border connectivity, facilitating easier people movement and strengthening business ecosystems. We think these should catalyse equites in Singapore anchored under four themes: (a) lowering operating costs and reducing labour shortages; (b) stimulating North - South supply chain shifts; (c) fast-tracking Net Zero transition and (d) expanding infrastructure and property investments. In our view, the JS-SEZ could create a regionally differentiated value proposition by its combination of capital access, infrastructure and policy stability.

Banks, Gaming, Industrials, Tech, Telecom winners

Regionally integrated operations and entrenched positioning in Malaysia should enable the Banks to participate across multiple verticals, especially as supply chains shift to the JS-SEZ. Johor's position as a data centre hub could be further reinforced with the JS-SEZ and likely could be a key attractor of cornerstone investments. Telecoms should benefit from this data centre theme in partnership with Malaysian counterparts. Plus expect cross border connectivity infrastructure demand to grow. Increasing demand for green energy and strengthening renewable energy cooperation should benefit Industrials. Supportive tax incentives and access to competitive land and labour could enhance Tech Manufacturing capacity and competitiveness. Developers and REITs could have more options to participate in infrastructure development in Johor, but may experience business leakages to Malaysia in the near term. This should recalibrate over time as higher value added demand fills the gap. Easier border crossings to Singapore could support mass market gaming demand.

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Fig 1: Potential JS-SEZ beneficiaries

Stock	M.Cap USDm	Rec	Price LCY	TP LCY	Upside %
AEM Holdings	372	Sell	1.62	1.10	(32.1)
CICT	10,647	Buy	1.99	2.30	15.6
Frencken	369	Buy	1.18	1.50	27.1
Genting SG	6,871	Buy	0.78	1.01	30.3
Mapletree Log.	4,857	Buy	1.31	1.60	22.1
OCBC	55,572	Buy	16.79	17.89	6.6
Sembcorp Industries	7,231	Buy	5.54	6.20	11.9
Singtel	37,288	Buy	3.08	3.65	18.5
Thomson Medical	911	Buy	0.05	0.06	27.7
UMS Hldgs	578	Hold	1.05	1.03	(1.9)
UOB	45,482	Buy	36.80	38.75	5.3
Venture	2,788	Hold	13.09	12.60	(3.7)

Source: Factset, Maybank IBG Research

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Differentiated value proposition of the JS-SEZ

Fig 2: Value proposition of JS-SEZ

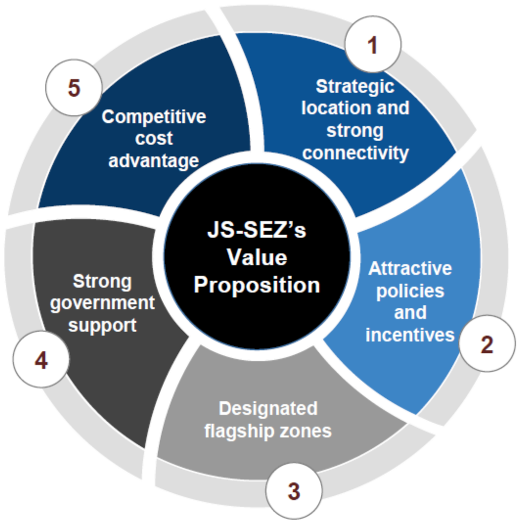
The distinctive value proposition of the JS-SEZ offers a wide range of opportunities

Competitive cost of doing business due to affordability in areas such as:

- Real estate
- Labour costs
- Favourable tax regime

Strong government support and commitment:

- Malaysia Government to establish **fund** for purposes of **infrastructure support**
- Singapore Government to design **funding support** to facilitate **Singapore companies' expansion** in JS-SEZ and the **potential twinning operations** of Multi-National Companies in Singapore and JS-SEZ
- Invest Malaysia Facilitation Centre – Johor (**IMFC-J**) to act as **one-stop centre** in facilitating investments, including expediting approvals and streamlining processes



- **Technology-enhanced** movement of people and goods for increased clearance capacity, automated immigration lanes and paperless clearance for goods
- **Enhanced passes** (Malaysia's existing visas to be enhanced e.g DE Rantau Nomad Pass)
- Strategic hub with excellent **regional and global connectivity**, where goods manufactured in JS-SEZ can be exported through either Singapore or Johor

Pro-business policies and incentives, such as tax breaks, grants, and streamlined regulations

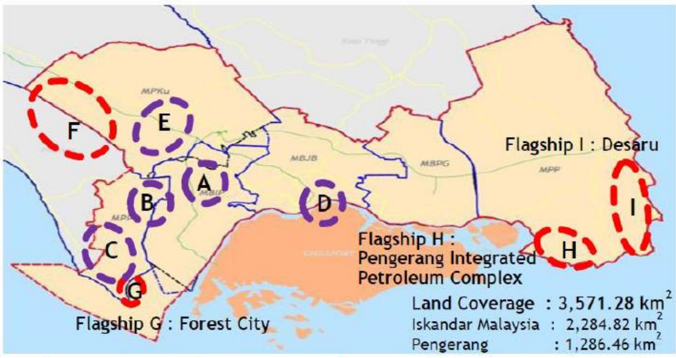
- **Special corporate tax rate** to companies that undertake new investments in high growth and high value-added activities within JS-SEZ
- **Special personal income tax rate** to be announced at later date by MOF

- The JS-SEZ will encompass Iskandar Development Region and Pengerang, including industrial parks located within the region, especially the **designated flagship areas** with **prioritised sectors**

Source: JS-SEZ

Fig 3: JS-SEZ map and flagship zones

Flagship Zone incentives for sectors in JS-SEZ



3 New Proposals for Flagship Zone Areas

1. **Flagship G** - Forest City
2. **Flagship H** - Pengerang Integrated Petroleum Complex (PIPC) - *Incentive Packages under PIPC-JPDC*
3. **Flagship I** - Desaru

***New priority sectors**

- Aerospace
- Electrical & electronics
- Chemical
- Medical devices
- Pharmaceuticals

	Flagship A: JB City Centre	Flagship B: Iskandar Puteri	Flagship C: Tg. Pelepas - Tg Bin	Flagship D: Pasir Gudang	Flagship E: Senai - Skudai	Flagship F: Sedenak	Flagship G: Forest City	Flagship H: PIPC	Flagship I: Desaru
Sector(s)	• Business Services • Digital Economy • Health	• Manufacturing • Business Services • Digital Economy • Education • Health • Tourism	• Manufacturing • Energy • Logistics	• Manufacturing • Energy • Logistics	• Manufacturing • Digital Economy • Education • Logistics • Tourism	• Manufacturing • Business Services • Digital Economy • Education • Energy • Food Security • Health • Logistics • Tourism	• Financial Services *Note : Special Financial Zone (SFZ)*	• Manufacturing • Energy • Logistics	• Education • Food Security • Health • Tourism

Source: JS-SEZ

Sector winners

Fig 4: Sector Winners

Sector	Impact	Comments	Key Beneficieries	Analyst
Banks & Financials	POSITIVE	Singapore banks have been investing in regionally integrating their wholesale and retail banking over the past 5-6 years. This has enabled them to capture and facilitate supply chain shifts from North Asia to ASEAN. A targeted, government-to-government integration of Johor and Singapore to improve ease of doing business, labour and capital flows could provide opportunities for the banks to leverage on their integrated platforms. Twinning programs for MNCs together with Singapore government funding for SMEs to expand in the SEZ should drive higher credit demand as well as NoII in the form of advisory, transaction banking and cash management. Easing cost pressures from SME customers taking advantage of lower land and labour costs should ease NPL risks going forward. Separately, increased cross-border spending should be supportive of credit card fees for retail banking. At the operational level, this may support lower cost-to-income ratios as back office functions could be shifted to service centres in Johor taking advantage of relatively lower labour and rental costs.	OCBC and UOB given well entrenched Malaysian and ASEAN footprint	Thilan Wickramasinghe thilanw@maybank.com
Gaming	POSITIVE	Malaysians account for 20-30% of Singaporean total gross gaming revenue (GGR). Historically, infrastructure improvements traditionally favour mass market gamblers. As a result, we expect the SEZ to have a positive impact on mass market gambler's visitation, especially if Causeway decongestion is eased. The mass market is especially important as it yields much higher EBITDA margins of 40-50% (VIP market: 10-20%). Separately, post-Covid, we estimate that the average salary per employee at both IRs has risen by 20-30% compared to pre-Covid times as labour has been harder to come by. Lower boarder friction may somewhat ease labour pressure.	Genting Singapore	Samuel Yin Shao Yang samuel.y@maybank-ib.com
Healthcare	NEUTRAL	Positive for TMG. Targeted for completion in 2030, its Thomson Iskandar Medical Hub project in Johor (which will house a 500-bed tertiary hospital and 400 medical suites) may benefit from the set-up of the JS-SEZ. TMG also owns about 9.23ha freehold waterfront land plot in JB's City Centre, with a proposed long-term plan to build an integrated healthcare city. Other catalysts include the potential monetisation and/or revaluation of its prime assets in JB given the rise in property values in the area. Slight negative for RFMD and QNM. With the completion of Rapid Transit System Link in 2026 and passport-free clearance, there could be some adverse effect on their Singapore operations as patients can easily cross over to JB in search of lower costs for their healthcare needs	TMG given its exposure to the Thomson Iskandar Medical Hub	Eric Ong ericong@maybank.com
Industrials	POSITIVE	The JS-SEZ intends to offer competitive cost of doing business by making input costs such real estate, labour and taxes more favourable. It will focus on industrialization so as to remain relevant in the 4th Industrial Revolution, driven by digitalization, Internet of Things and high speed exchange of data. Further, the announcement mentions alignment of the SEZ with Malaysia's national investment aspirations including driving the sustainability agenda towards Net Zero and reducing ESG risk. Further, there are plans for tax incentives for green technology among host of incentives for investors. We believe the cheaper physical infrastructure, better digital and physical connectivity and emphasis on green investments should benefit the industrial sector and Singapore's energy transition. Downside risk may stem from hollowing out of established clusters and erosion of acquired technical and business acumen that has been gathered over the decades.	Sembcorp Industries - SCI is likely to benefit from Singapore-Malaysia renewable energy co-operation and growing Asean grid connectivity. Revenue opportunities are likely in clean energy generation, distribution and power trading. Risks stem from policy back tracking and execution pitfalls.	Krishna Guha krishna.guha@maybank.com

Source: Company data, Maybank IBG Research

Fig 4: Sector Winners (Cont'd)

Sector	Impact	Comments	Key Beneficieries	Analyst
Property	NEUTRAL	We view the establishment of fund to support infrastructure and identification of one-stop investment centre as a step in the right direction. That said, details are still being worked out on other policies, incentives, corporate/personal tax rates, etc. between Johor/Malaysia and Singapore. These details and subsequent execution will further lay out the road ahead. We expect Singapore developers to be able to participate in development projects across various subsectors. Quasi-backing from various government entities involved can also lower the project risks. The industrial tenants can benefit from lower cost of operations and industrial landlords can develop build-to-suit projects to support such shifts. Hospitality may see higher corporate travel as businesses draw up plans to establish sister operations across the causeway. Similarly, new-to-the-region corporates may be drawn by the promised lower cost of operation. They may set up initial offices in Singapore before expanding in the SEZ leading to office demand. We expect retail sector to benefit from more higher value added activities which in turn should support higher wages and potentially more Malaysians visiting Singapore. That said, we will be mindful of the fact that the SEZ envisages broad swathe of activities with 100% foreign ownership across sectors including advanced manufacturing (aerospace, medical devices, electronics and pharma) as well as financial services, digital economy, health and logistics. As such, we will be mindful of leakages of businesses across the sub-sectors. This may eventually sort itself out through re-calibration/re-positioning of existing and future supply and higher economic growth from higher value-added operations in the longer term.	CICT SP - The REIT has mix of CBD offices and well-located prime and sub-urban malls. The diversified portfolio should be able to benefit from increased demand for business set-ups as well as capture the higher value retail spent. Downside risk may stem from undue geographical diversification. MLT SP - While we do expect lower value logistics operations and potentially, some of the logistics linked to chemical industries, to shift out, we expect MLT to benefit from increased economic growth and more trade throughput in the region by the virtue of its assets located near existing and upcoming ports in Singapore. Further, its diversified network can help to link the supply chains of existing and new MNCs.	Krishna Guha krishna.guha@maybank.com
Technology Manufacturing	POSITIVE	Singapore listed players in the manufacturing space could enjoy higher tax benefits if there were to set up factories or production facilities in the SEZ. They would also be able to access talent at a lower cost point as compared to hiring in Singapore. Lastly, manufacturers in the life sciences , aerospace and electronics space are key priority sectors for the SEZ. We assume these could potentially enjoy higher tax benefits or priorities.	AEM, Frencken, UMS, Venture given existing manufacturing facilities in Malaysia and the potential to add capacity	Jarick Seet jarick.seet @maybank.com
Telecom/ Data Centres	POSITIVE	We see Johor's position as a data centre hub to be reinforced with the SEZ formation. Demand for data centre remains strong especially one which can host AI centric workloads as reflected in increasing capex of large cloud providers (Microsoft to spend USD80bn on AI centric data centres in FY25). Running an AI centric data centre needs more skilled talent which we see will be facilitated by a more efficient talent movement across the border. That said, we see Johor government getting selective in approving data centre builds requiring sustainability, jobs creation and utilization/client sign-ups as the key criteria's. This suggest Johor may see an increasing proportion of more sophisticated and efficient data centres. Despite selective project approvals, we don't see Dollar value of investments slowing as sophisticated data centres will have 30-40% higher bill of material. While a more balanced approach is taken on water and electricity consumption by data centres, we note that Johor still is very favourably placed on electricity (Malaysia reserve margins at ~40%) and water (Johor water reserve margins at >10%) resources besides new water treatment plants (500MLD plants under construction) can comfortably support new demand.	Singtel in partnership with TM is building a 200MW AI ready DC in Johor. Singtel to also benefits from higher terrestrial (connecting Singapore-Johor) and submarine cable infrastructure demand	Hussaini Saifee hussaini.saifee@maybank.com

Source: Company data, Maybank IBG Research

Stocks mentioned

Fig 5: Stocks mentioned

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Genting SG	GENS SP	6,871	Buy	0.78	1.01	30.3
Mapletree Log.	MLT SP	4,857	Buy	1.31	1.60	22.1
OCBC	OCBC SP	55,572	Buy	16.79	17.89	6.6
Q&M Dental	QNM SP	198	Hold	0.28	0.31	10.7
Raffles Med	RFMD SP	1,154	Hold	0.84	1.10	31.7
Sembcorp Industries	SCI SP	7,231	Buy	5.54	6.20	11.9
Singtel	ST SP	37,288	Buy	3.08	3.65	18.5
Telekom Malaysia	T MK	490	Buy	6.59	7.50	13.8
Thomson Medical	TMG SP	911	Buy	0.05	0.06	27.7
UMS Holdings	UMSH SP	578	Hold	1.05	1.03	(1.9)
UOB	UOB SP	45,482	Buy	36.80	38.75	5.3
Venture	VMS SP	2,788	Hold	13.09	12.60	(3.7)

Source: Factset, Maybank IBG Research

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