

Bandar Malaysia Revival: Review of Facts

Background

On 19 April 2019, the Government announced the revival of Bandar Malaysia, a project that was cancelled in May 2017. The controversial project was revived based on boosting the nation's economy which has been suffering from a string of negative development.

The Prime Minister's office issued a statement specifically that "The project will include the construction of a People's Park, 10,000 units of affordable homes, Bumiputra participation throughout the project, and priority for the use of local content in the construction process,"

Structure of Bandar Malaysia

Bandar Malaysia is one of the several large-scale catalytic developments in the Greater KL development. It is based on the former Sg. Besi Airport used by the Royal Malaysian Airforce.

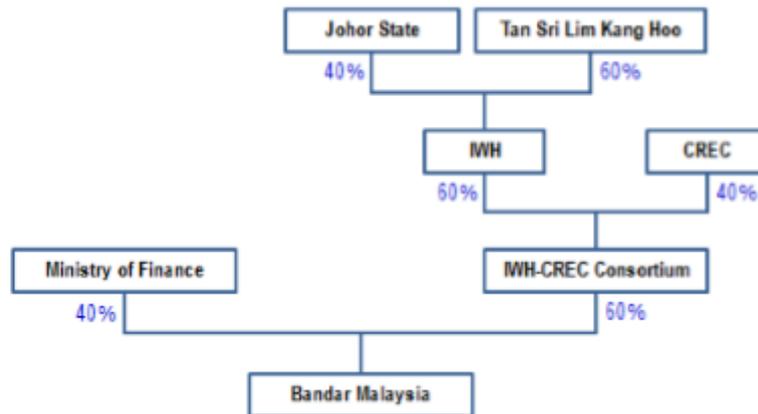
Development	Master Developer	Acres	Gross Development Value (RM Billion)
Tun Razak Exchange	MoF via TRX City	70	40
Warisan Merdeka	PNB	19	5
Bukit Bintang City Centre	Eco World (40%), UDA (40%), EPF (20%)	19	9
Bandar Malaysia	IWH-CREC (60%), MoF (40%)	486	160
Kwasa Damansara	EPF via Kwasa Land	2,620	50
Cyberjaya City Centre	MRCB (70%), MoF via Cyberview (30%)	141	11
Total		3,355	275

Source: Media sources, development websites

The redevelopment covers 16 adjacent land plots totalling 486 acres located along Jln Sg Besi and 7km from KL city centre.

Initially, 1MDB was supposed to be the master developer for Bandar Malaysia. However, following 1MDB's restructuring plan, an agreement was inked in Dec 2015 to sell the land to an SPV comprising MoF (40%) and IWH-CREC Consortium (60%). The consortium is in turn, 60% held by Iskandar Waterfront Holdings (IWH) and 40% by construction giant, China Railway Engineering Corp (CREC). To dwell further, the shareholders of IWH are state-owned Kumpulan Prasarana Rakyat Johor (40%) and Credence Resources (60%). The latter is a vehicle wholly owned by Tan Sri Lim Kang Hoo who also owns several listed entities such as Iskandar Waterfront City and Ekovest.

Shareholding structure of Bandar Malaysia



Source: 1MDB

However in a controversial development the project's main developer position was stripped from IWH-CREC citing the deal has lapsed on the ground that the buyers failed to meet the payment obligations specifically RM1.93 billion ringgit as proof of funding.

Following this, rumours spread that this is a scheme so that China's Dalian group can come in and generate a greater return. This move ultimately failed 3 months later as Dalian group at the time faced a China government crackdown on foreign investments and exposure in addition to stricter capital controls.

Subsequently, the Bandar Malaysia project were not returned to IWH-CREC but was open for international tender conducted by the Ministry of Finance of which 6 international companies from Japan, Australia and Middle East. However, the conclusion of the tender was not made known.

Now under the new Pakatan Government, the project is to be revived and the master developer position again return to IWH-CREC. IWH-CREC is expected to pay RM500 million in advance in addition to the original deposit of RM741 million within 60 days from the announcement. In addition, IWH-CREC is to buy 60% of the underlying land while the balance 40% would continue to be owned by the Government.

Original Aspect of Bandar Malaysia

Land valuation. IWH-CREC's 60% stake in Bandar Malaysia was acquired at a consideration of RM7.4bn or RM5.3bn if liabilities (Sukuk and RMAF base relocation cost) are assumed. Using the former number (i.e. free of encumbrances), this effectively values the entire Bandar Malaysia land at RM12.4bn or RM583 psf.

High Speed Rail connectivity. In July 2016, the governments of Malaysia and Singapore inked a Memorandum of Understanding (MoU) for a 350km High Speed Rail (HSR) that would link both countries with end-to-end travel time of

90 minutes. There will be a total of 8 stops at Singapore, Iskandar Puteri, Batu Pahat, Muar, Ayer Keroh, Seremban, Putrajaya and KL. For the KL stop, Bandar Malaysia has been designated as the terminus for the HSR. Construction of the HSR is expected to start in 2018 and scheduled for completion by 2026.

This project was suspended by the new Government following 14th General Election citing reason for cost savings and reviews of mega infrastructure of previous Government. 9 April 2019, MyHSR Corp Sdn Bhd announced that they are seeking a Technical Advisory Consultant to review the technical aspects of revised project after revision by the new Government sparking signs that the project may due to be revived.

Major transport hub. In the previous plan to turn Bandar Malaysia into a major transport hub, the development will be connected via the ongoing MRT2 with 2 stations, 1 of which will serve as an interchange with the HSR. Although still at the study stage, the proposed MRT3 circle line is said to connect Bandar Malaysia. Apart from that, Bandar Malaysia will also be connected via the existing KTM and ERL lines. In June 2016, MRCB, signed a MoU with IWH-CREC to collaborate for the development of Bandar Malaysia’s integrated transport terminal. Some 11-12% (55-60 acres) of Bandar Malaysia’s land has been earmarked for the integrated transport terminal.

Tax incentives granted. The previous Government has granted several tax incentives to the master developer and considered several proposals for other investors as listed below. The list of incentives maybe be offered on the table again to attract foreign direct investment in addition to the project strategic location and integrated public transport infrastructure including the revival of KL-Singapore High-Speed-Rail project.

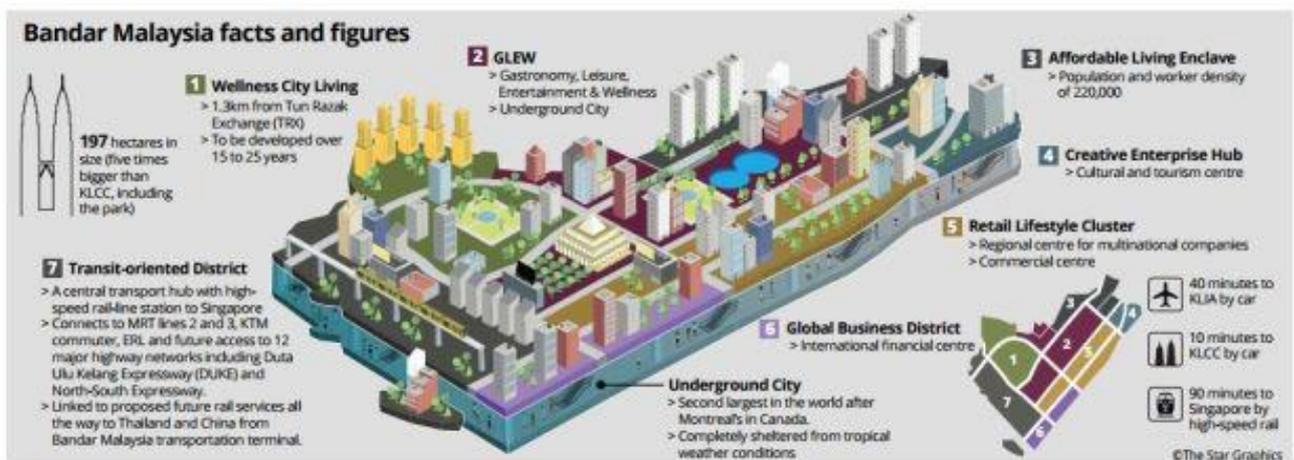
Confirmed Incentives (For master developer and subsidiaries)	Previously Proposed Incentives For Other Investors
Income tax exemption for 10 years	Tax incentives for top high-ranked global companies and financial institutions
Exemption from stamp duty for 8 years	Industrial building allowance
Exemption from Real Property Gains Tax for 8 years	Accelerated capital allowance
Exemption from withholding tax for eight years	Deduction of rental payments
Exemption from import duty on selected construction materials which are currently not being manufactured in Malaysia	Stamp duty exemption for services
	Agreement or pre-packaged incentives for other investors and tourism operators

Source: The Edge

Largest underground city. While there are no conclusive figure, media reports have cited Bandar Malaysia's GDV to range between RM150-200bn over a development horizon of 20-25 years and average gross plot ratio of 4.05x. There will be 7 districts which are:

- (i) Wellness City for residential with a 40 acre green lung,
- (ii) GLEW – Gastronomy, Leisure, Entertainment and Wellness,
- (iii) an affordable living enclave with 5k homes,
- (iv) Creative Hub for cultural and tourism,
- (v) Retail Lifestyle Centre,
- (vi) Global Business District which will be the international finance centre and
- (vii) Transport Hub.

What differentiates Bandar Malaysia is that, beneath all these districts lies an underground city that will be completely sheltered from tropical weather conditions. Modelled after Montreal, Canada's underground city, Bandar Malaysia's version will be the largest in the world upon completion. A sunken plaza will be the centre of this underground city, with pedestrian walkways beneath to link up the various districts. In terms of committed investments, CREC will be spending RM8bn to set up its regional office in Bandar Malaysia.



Funding established. In June 2016, the master developer JV set up the Bandar Malaysia Fund and signed a MoU with several foreign and local banks to provide funding for the development. The foreign banks involved are Bank of China, ICBC and HSBC while the local participants include CIMB, Maybank, RHB and Affin.

Analysis

- The revival of Bandar Malaysia project is announced without much details but seeing that its gross development value has dropped from RM160 billion to RM140 billion it would seem that there could be some changes but the significant aspect of the project is expected to be unchanged.

- In the current economic context, the revival of Bandar Malaysia project has already caused a significant stimulation in the local construction industry, specifically KL Construction Index had jumped and stand 31% higher year to date. Assuming that 50% of the gross development value is spent on construction cost alone it would mean RM70 to RM80 billion of potential jobs to the local market in addition to local content requirements.
- However a few points stand out substantially;
 - The first is return of the project to IWC-CREC without mentioning the final outcome of the international tender project.
 - The second is the proof of fund required of IWC-CRER has substantially dropped from RM1.93 billion to RM1.24 billion without clarification from the Government.
 - The third is that the project would be seeing China companies participation in the local industry and owning land for development following the Government requirement for the IWC-CRER to purchase 60% of the underlying land which amounts to 291.6 acres.

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