SECTOR RESEARCH | Malaysia

Maybank IB Research

February 19, 2014

Property Sector

NEUTRAL (upgraded)

Trading opportunities emerging

- Outlook remains uninspiring but valuations are getting more conducive compared with historicals.
- Short-term trading opportunities could come from the RRIM land awards and MRT 2nd line as well as RTO-themed stocks.
- We upgrade the property (developers) sector to NEUTRAL. Top pick is Glomac (BUY; MYR1.27 TP).

What's New

Key takeaways from our property conference last week suggest that the sector outlook remains uninspiring especially at the increasingly crowded Iskandar Malaysia. However, banks remain supportive of the mortgage market with various new mortgage packages being introduced.

Share prices have declined by 7-18% since we downgraded the sector to UNDERWEIGHT in Oct 2013 and valuations are getting more conducive at 0.5-0.7x P/RNAV (versus historical mean's 0.5-0.8x and global financial crisis level's 0.3-0.6x).

What's Our View

Investors should remain selective amid a generally uninspiring near-term property market outlook. We continue to like developers with large exposure in affordable housing, where demand is still resilient and supported by a young demographic. We also like new hotspots like Batu Kawan (Penang) that cater more to affordable housing and should benefit from the island's skyrocketing property prices and the 2nd Penang Bridge opening on 1 Mar 2014. Meanwhile, we remain cautious on luxury property developments and highly-speculative areas like Iskandar Malaysia.

Investors' interests should return to developers with projects in the Klang Valley on news of government land awards (RRIM land) and construction of the KVMRT 2 line. Interest is also brewing in the RTO space – Eco World Dev (ECW MK; NR) and Malaysia Aica (MAI MK; NR) where share prices have risen +26% and +85% YTD.

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Research coverage

	Rec.	RNAV-based TP (MYR)	Upside (%)
Glomac	BUY	1.27	15.6
Mah Sing	HOLD	2.45	18.7
SP Setia	HOLD	3.38	14.6
Sunway	SELL	2.56	-6.6
UEMS	HOLD	2.10	-2.1

Source: Maybank KE

Valuation basis

	Price @ 18 Feb	RNAV (MYR)	Valuation (P/RNAV) Current	MKE
Glomac	1.10	2.12	0.52	0.60
Mah Sing	2.06	3.09	0.67	0.79
SP Setia	2.95	4.83	0.61	0.70
Sunway	2.74	4.41	0.62	0.58
UEMS	2.14	4.11	0.52	0.51

Source: Maybank KE

Remaining Gross Development Values (GDV) and unbilled sales

Company	Remaining GDV (MYR b)	Unbilled sales (MYR b)	(x) of our FY14 revenue forecast
Glomac	6.6	0.9	1.0
Mah Sing	24.6	4.2	1.9
SP Setia	71.0	9.6	2.5
Sunway	31.4	1.8	1.1
UEM Land	81.2	3.3	1.3

Source: Maybank KE

Property sector (developers) – Peer valuation summary

Stock	Rec	Shr px MYR	Mkt cap MYR m	TP MYR	PER (x) CY13F	PER (x) CY14F	PER (x) CY15F	P/BV (x) CY13F	P/BV (x) CY14F	ROE (%) CY13F	ROE (%) CY14F	Net yield (%) CY14F
UEMS	Hold	2.14	9,710.1	2.10	15.9	20.0	16.3	1.9	1.8	10.4	7.9	1.6
SP Setia	Hold	2.95	7,253.2	3.38	16.0	13.1	10.5	1.3	1.3	7.8	9.6	4.6
Sunway	Sell	2.74	4,722.5	2.56	9.6	11.6	10.5	0.8	0.9	8.6	8.0	1.7
Mah Sing	Hold	2.06	2,912.3	2.45	8.8	7.9	6.5	1.5	1.4	15.8	17.3	5.0
Glomac	Buy	1.10	799.5	1.27	7.5	6.5	5.5	0.9	0.9	12.7	13.2	4.6
Simple avg			**5,079.5**		**11.6**	**11.8**	**9.9**	**1.3**	**1.2**	**11.1**	**11.2**	**3.5**

Source: Maybank KE

Mixed outlook from our property conference

We hosted a property conference last week (10 Feb 2014) and invited experts from different fields of the domestic property sector to give their views. The conference was well-attended by over 120 investors.

The speakers included: 1) Mr Christopher Boyd (executive chairman), Mr Allan Soo (managing director [MD]) and Mr Nabeel Hussain (associate director) from CBRE Malaysia, 2) Mr Shaun Di Gregorio (CEO) from iProperty Group, 3) Ms Tracy Pan (head of mortgages) from Maybank's consumer finance, 4) Mr Elvin Fernandaz (MD) from Khong & Jaafar S/B and 5) Tan Sri Eddy Chen (MD) from MKH Bhd.

The speakers, comprising a banker, developer, researcher, surveyor and property consultants, gave a comprehensive update on the property sector from different angles. The key takeaways are as follows.

Batu Kawan, the new hotspot in the north

The opening of the MYR4.5b Second Penang Bridge (connecting Batu Kawan on the mainland to Batu Maung on the island) on 1 Mar 2014 should spur demand for Batu Kawan (south of Penang mainland) properties due to better accessibility and continued affordability compared to properties on the island itself (eg. Batu Kawan's MYR200-300psf offering vs. Batu Maung's MYR850-1,000 psf). Already, Penang mainland developers like Tambun Indah (TILB MK; NR) and Global Oriental (GOB MK; NR) have received strong demand for their properties since mid-2013.

Rising business and job opportunities will further drive property value in Batu Kawan

The Penang state government and Penang Development Corporation (PDC) have been actively bringing in new investors such as IKEA and University of Hull to develop Batu Kawan over the last few years. These projects will provide the population growth and are re-rating catalysts for the property/ land prices in Batu Kawan. A MYR1b development is also being planned at Batu Kawan known as Penang Designer Village, comprising a premium retail shopping outlet, among others, by Sarawak-based PE Land S/B.

The entry of big players such as Eco World (ECW MK; NR), IJM Land (IJMLD MK; NR) and Mah Sing Group (MSGB MK; HOLD) are a testament of Batu Kawan's booming prospects, in our view. Biggest beneficiary of the boom will be Tambun Indah (TILB MK; NR). Other beneficiaries include Malton (MALT MK; NR) and Global Oriental Bhd (GOB MK; NR).

Declining interest in Iskandar Malaysia

According to iProperty's consumer sentiment survey, there is a slight dip in Singaporean buying interest in Iskandar Malaysia properties post-Budget 2014. We are not surprised by this as the new property cooling measures (higher RPGT and floor price for foreign ownership imposed by the federal government, and higher levy by the Johor state government) are to control excessive property speculative activities.

We remain cautious on the increasingly crowded developments at Iskandar Malaysia, especially in the mixed use and high-rise residential project spaces. Without synchronised planning and control by the authorities, the Iskandar property market could be deluged by massive supply of high-rise mixed development projects, inducing price volatility.

Consumer sentiment remains weak; affordable housing still in trend

Survey on consumer sentiment by iProperty shows that overall sentiment has been generally weak post-Budget 2014 and this is likely to lead to a slowdown in demand over the next six months as many potential buyers are still adopting a wait-and-see approach. Similar to the findings of our survey in July 2013, location and pricing remain as key considerations and most respondents of iProperty's survey are looking for properties priced below MYR500,000/unit. This reinforces our view that affordable housing (especially landed properties) would continue to see strong demand. Beneficiaries include Glomac (GLMC MK; BUY), Matrix Concept (MCH MK; NR), Tambun Indah (TILB MK; NR), Hua Yang (HYB MK; NR) and LBS Bina (LBS MK; NR).

Banks remain supportive; new financing packages introduced

Banks are still very supportive of the mortgage market with various new financing packages being introduced e.g. bridging loan for individuals and renovation financing. Most of the mortgages are still based on 'true value (i.e. SPA price)' and not 'net pricing (net of discounts/rebates/incentives)' of the properties and this will encourage developers to continue to offer attractive marketing incentives to property buyers.

Rising pressure on margins

The seemingly lack of clarity over the implementation of the new property cooling measures under Budget 2014 (transparent selling price and higher floor price for foreigner buyers) continue to create uncertainty in the property space. Also, the industry is facing serious labour shortage and stubbornly high land costs on top of the stricter property measures and increasing competition from the foreign developers.

While developers should be able to pass on the upcoming GST (effective Apr 2015) to buyers of non-residential properties, they may have to absorb some of the GST impact for residential properties that were sold during/before 2013 and remain uncompleted come 1 Apr 2015, given that residential properties are zero rated under the GST structure.

Margins are also likely to compress in the coming period due to more freebies/non-cash incentives (e.g. free electrical appliances) to be provided to attract property buyers. Higher labour cost due to labour shortage will also eat into margins, on top of higher transportation cost after last September's fuel (petrol/diesel) price hike.

Valuations and recommendations

More appealing valuations; trading opportunities emerging

Share price for property stocks under our coverage have declined by 7-18% since we downgraded the sector to UNDERWEIGHT in Oct 2013 and valuations are more attractive now at 0.5-0.7x P/RNAV (versus historical mean's 0.5-0.8x and global financial crisis-level's 0.3-0.6x).

Investors' interests should return to developers with projects in the Klang Valley on news of government land awards (RRIM land) and construction of the KVMRT 2 line. Beneficiaries include government-linked developers i.e. MRCB (MRC MK; NR), SP Setia (SPSB MK; HOLD), IJM Land (IJMLD MK; NR) and UEMS (UEMS MK; HOLD).

Interest is also brewing in the RTO space – Eco World Development Group (ECW MK; NR) and Malaysia Aica (MAI MK; NR), which are said to be releasing their land injection plans by mid/end-1Q14.

Be selective

We are upgrading the property sector to NEUTRAL as we think that most of the negatives have been priced in. Having said that, we do not think that it is time to OVERWEIGHT the sector just yet, as property demand would be uninspiring over the near-term and this could impact medium term earnings delivery by the developers. We also think that the negatives have yet to be fully played out, for us to re-rate the sector further. With share prices down, the sector is, at best, worth a trade at this juncture.

On that note and from a bottom-up approach, our TPs for stocks under our coverage are based on unchanged P/RNAVs of 0.5-0.79x, and there is also no change to our stock calls. We continue to rate Sunway as SELL for its demanding valuation while UEMS, SP Setia and Mah Sing are HOLDs. Our concerns remain on Mah Sing's relatively high foreign shareholding of 23.7% as at end-Jan 2014 and the staff retention risks in SP Setia.

Glomac is our only BUY for the sector. We like Glomac for its undemanding valuations and large exposure to affordable housing, which makes it less vulnerable to policy risk. In addition, most of its land bank is located in the Klang Valley, making it a prime beneficiary of the growing population and infrastructure improvements there.

Developers under our coverage

Stocks	Price (MYR/share)* (a)	RNAV (MYR/share) (b)	P/RNAV Current P/RNAV (x)	P/RNAV Our valuations - P/RNAV (x) (c)	TP (MYR/sh) (b) x (c)	Upside (%)	Rating	Our valuation basis - P/RNAV
Glomac	1.10	2.12	0.52	0.60	1.27	15.6	BUY	We value Glomac at +0.1x higher than its historical P/RNAV mean of 0.5x to reflect its large exposure in the affordable housing segment, which is the current demand trend. In addition, demand for affordable housing is less vulnerable to the latest property cooling measures.
Mah Sing	2.06	3.09	0.67	0.79	2.45	18.7	HOLD	High-end/DIBS-driven projects like M City, Icon City could be affected by the new measures; we value Mah Sing at its historical P/RNAV mean of 0.79x. Mah Sing has relatively high foreign shareholdings of 23.7% as at Jan 2014.
SP Setia	2.95	4.83	0.61	0.70	3.38	14.6	HOLD	No change as we already value SP Setia at a discounted valuation - 0.7x P/RNAV, which is 0.1x below its historical mean of 0.8x.
Sunway	2.74	4.41	0.62	0.58	2.56	-6.6	SELL	Large exposure to the luxury property segment; we value Sunway at its historical P/RNAV mean of 0.58x. As compared to UEMS, Sunway has a more diversified earnings base.
UEM Sunrise	2.14	4.11	0.52	0.51	2.10	-2.1	HOLD	Large exposure in Iskandar Malaysia (one of the foreign investors' hotspots) whilst its Klang Valley projects are mostly high-end products. We value UEM Sunrise at 0.51x P/RNAV (-0.1x below its historical mean).

** as at 18 Feb 2014*
Source: Maybank KE

Photo shots from our property conference on 10 Feb 2014 (Monday)

Mr Shaun Di Gregio, CEO of iProperty Group

Source: Maybank KE

Our property conference was well attended by over 120 investors

Source: Maybank KE

Mr Christopher Boyd and Nabeel Hussain from CBRE

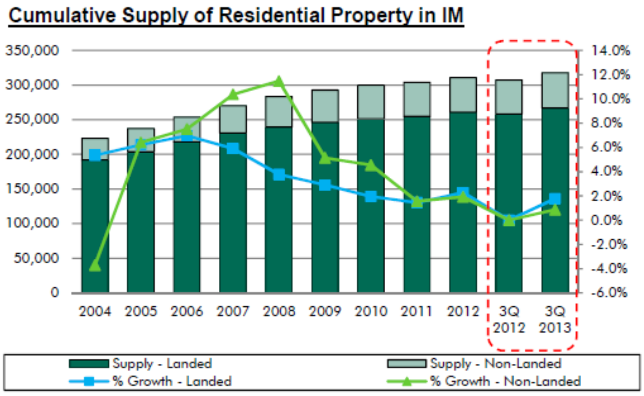
Source: Maybank KE

Another scene at the property conference

Source: Maybank KE

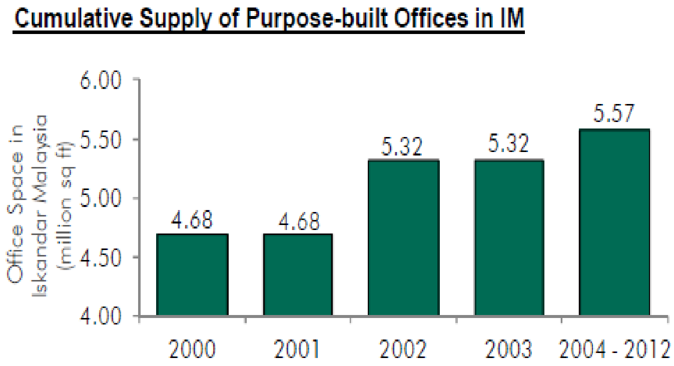
Appendix

Iskandar Malaysia (residential) - supply is expected to improve over the next few years given a high influx of units



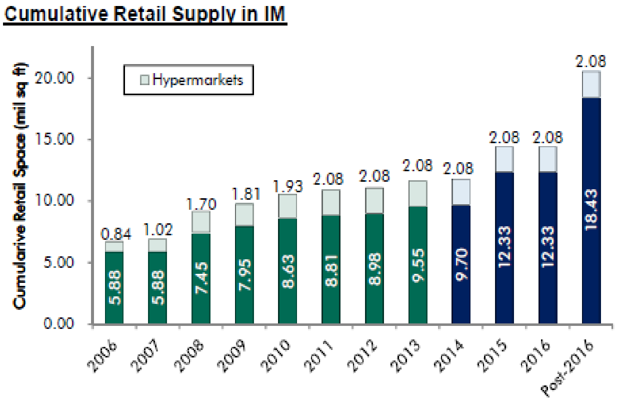
Source: CBRE

Iskandar Malaysia (office) - total supply was 5.6m sq.ft. in 2013 and there was no new supply since 2004



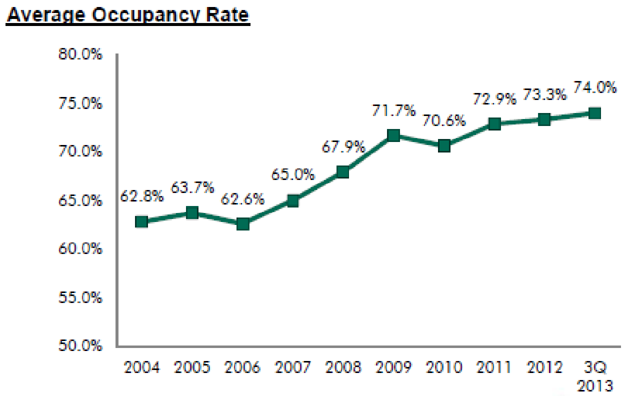
Source: CBRE

Iskandar Malaysia (retail) - supply of retail spaces is on uptrend



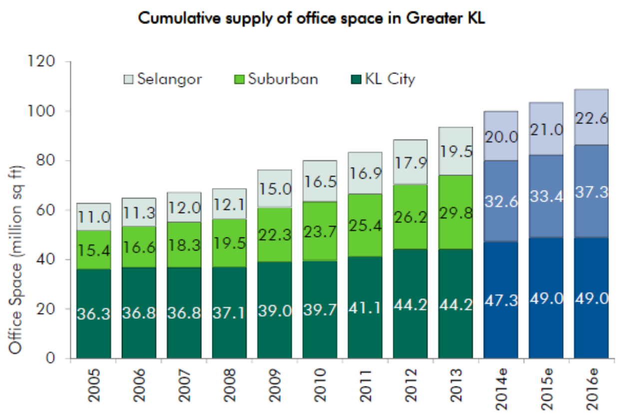
Source: CBRE

Iskandar Malaysia (retail) - average occupancy rate of 74% as at 3Q13



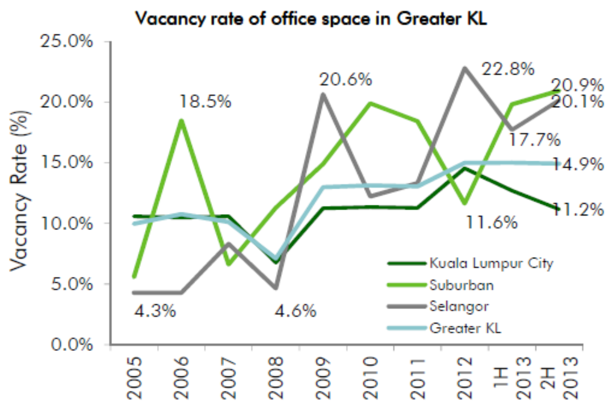
Source: CBRE

Greater KL (office) - additional 15.4m sq.ft. in Greater KL by 2016



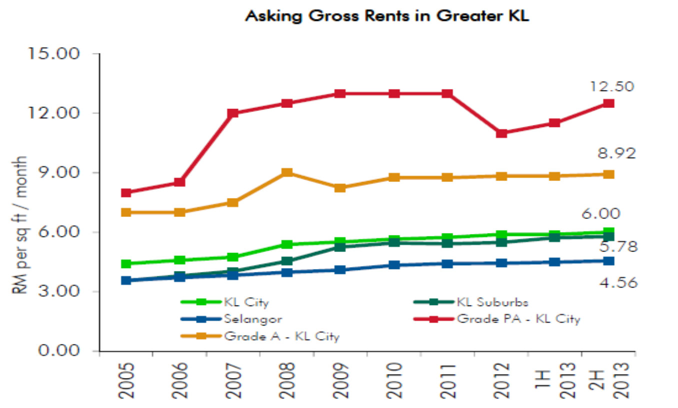
Source: CBRE

Greater KL (office) - average vacancy rate is holding at 14.9%



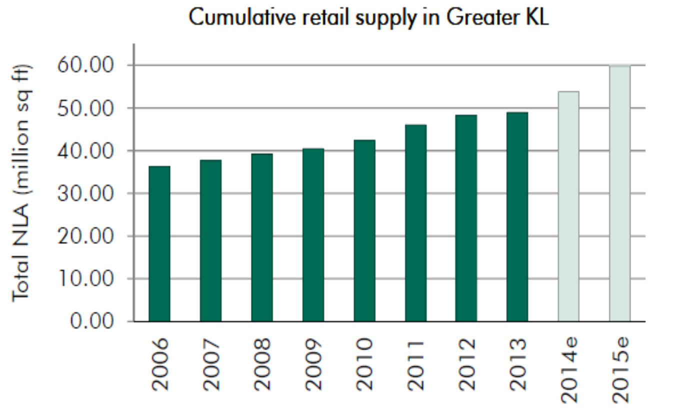
Source: CBRE

Greater KL (office) – asking gross rents are holding well



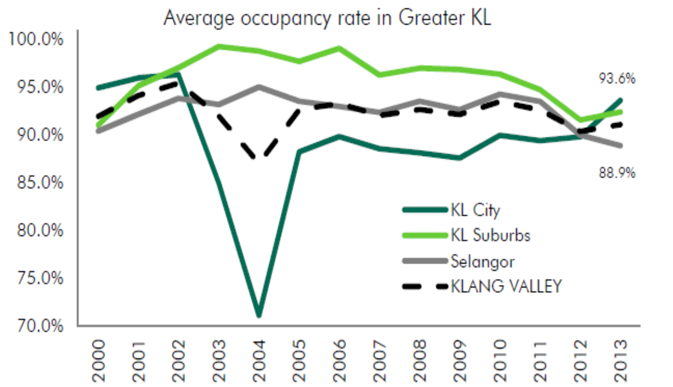
Source: CBRE

Greater KL (retail) – total number of malls by 2015 is expected to be 169 (+17% from 145 malls now)



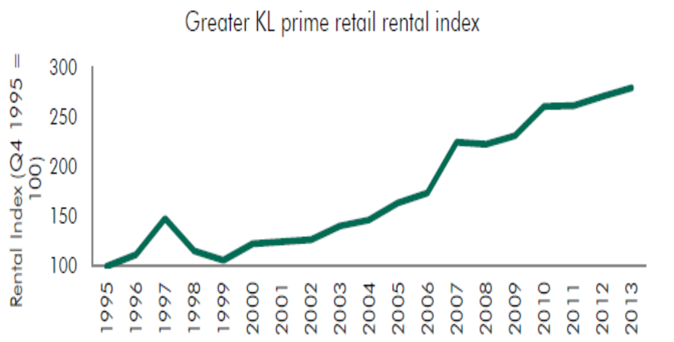
Source: CBRE

Greater KL (retail) – occupancy rates are generally healthy at above 90% with leading centres having waiting lists



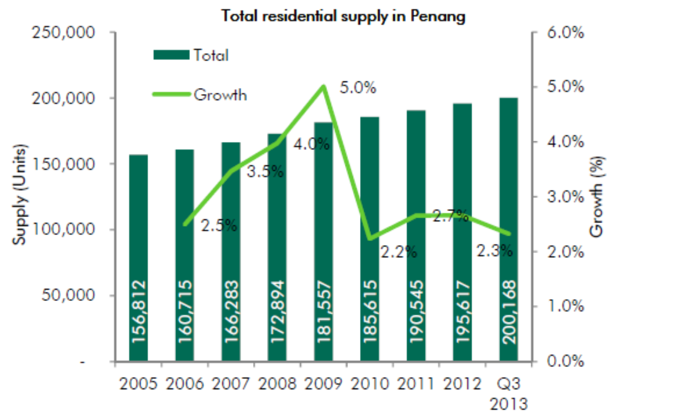
Source: CBRE

Greater KL (retail) – we may see slower rental growth over the next two years on considerable new supply



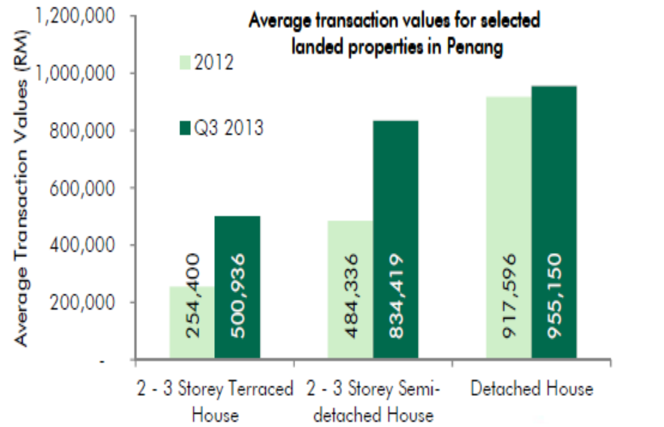
Source: CBRE

Penang (residential) – annual supply growth has seen a decline notably since after 2009



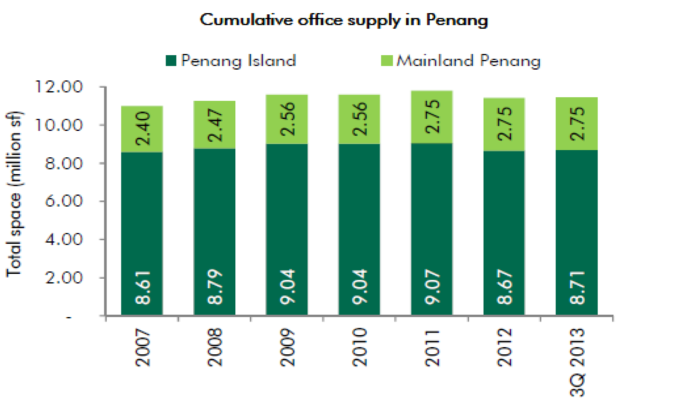
Source: CBRE

Penang (residential) – the significant growth in capital value was due to the decline in property supply



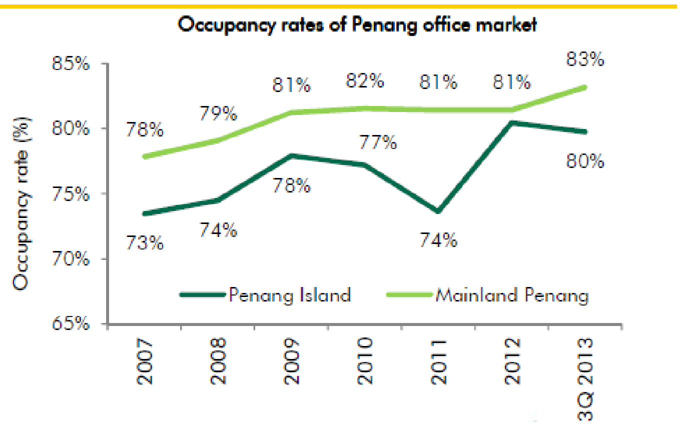
Source: CBRE

Penang (office) – office supply remain largely unchanged in 3Q13



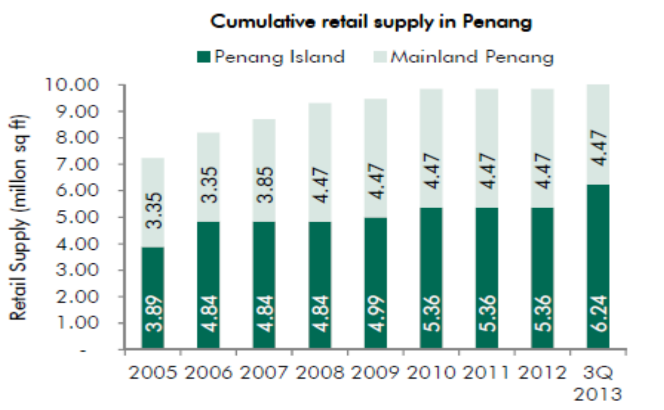
Source: CBRE

Penang (office) – Purpose-built offices in mainland recorded better occupancy thanks to increasingly business / business relocation activities



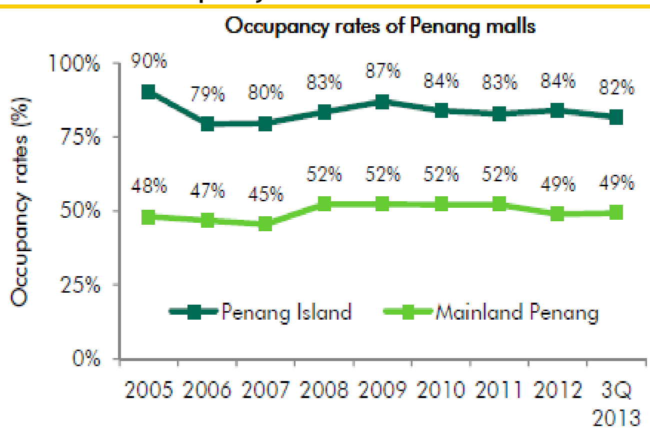
Source: CBRE

Penang (retail) – total retail spaces in Penang are 10.7m sq.ft. as at 3Q13



Source: CBRE

Penang (retail) – the clear disparity in average occupancy rate between the island and mainland is due to the difference in asset quality

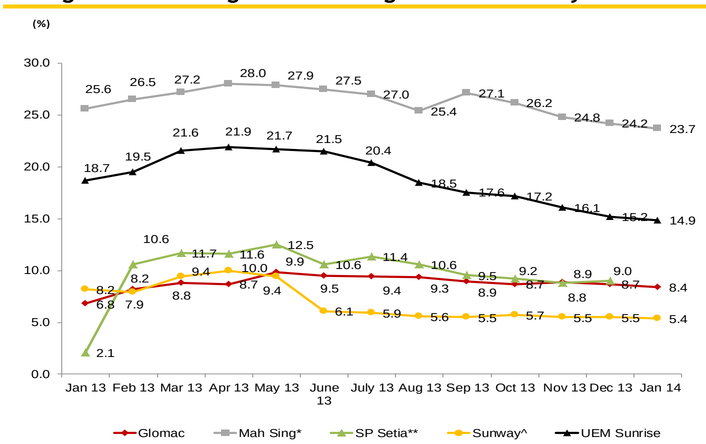


Source: CBRE

KL Property index declined by 4% since 25 Oct 2013

Source: Bloomberg

Foreign shareholdings are trending down since July 2013



Source: Companies

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