Property Developers

When Sentiment Trumps Fundamentals

OVERWEIGHT

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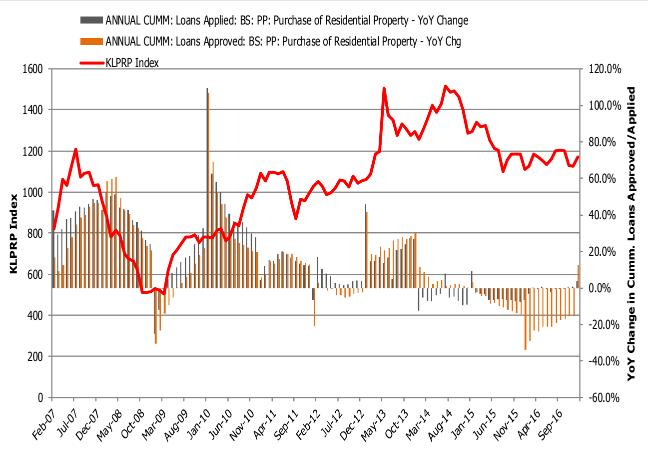
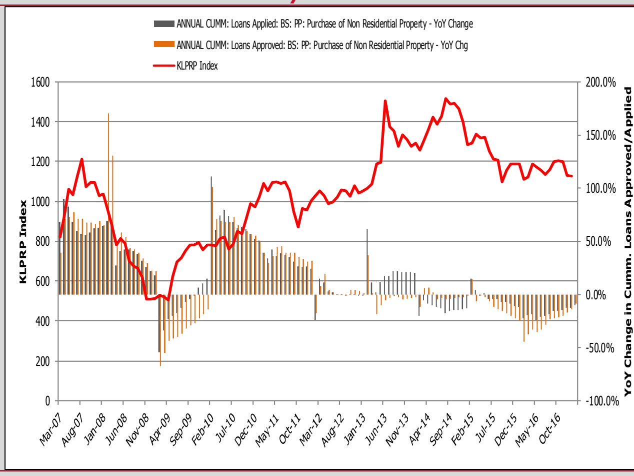
Tactical re-rating to OVERWEIGHT on Developers from our previous NEUTRAL call. There are improvements in residential loan indicators, although this is unlikely to translate into exuberant transactions growth as LDR remains high. Meanwhile, developers continue citing lower conversion of booking to SPA sales on loan approval difficulties. However, as highlighted in our earlier sector report, a bottom has been found as selective developers are showing healthier headline sales while most are looking at flattish trends. However, we expect unexciting earnings trajectory for most developers as unbilled sales, although remains healthy, have weakened to 1.1x. The odds of developers missing their sales targets are less likely this year while it may be possible that some may even exceed their targets after two years of adjustments but confirmation will only be seen in 1H17 figures. Landbanking is likely to remain patchy amongst a few developers (e.g. ECOWLD, SPSETIA, MAHSING, SUNSURIA) while our universe's net gearing remains healthy at 0.27x. The sector is still lacking fundamental earnings catalyst, but one should ride on the broad market sentiment, for now. Sentiment is superseding fundamentals as the sector has yet to see a physical overdrive in sales, particularly since developers' risks have been mainly priced-in while being a laggard over the last two years. YTD, the KLPRP (+10.7%) has outperformed the FBMKLCI (+4.6%) and our studies indicate that this could be driven by better broad market sentiment while beta play property stocks are more sensitive to a well-performing FBMKLCI. Our studies also show that the KLPRP tends to outperform the FBMKLCI every 1-2 years regardless of the physical market and as long as the FBMKLCI is expected to be positive that year which means the KLPRP could do better than the broad market over 2017-18. Hence, we have re-rated our valuations to reflect the sector reacting to a better broad market resulting in more OUTPERFORM calls (UEMS, SUNWAY, MAHSING, IOIPG, SPSETIA, ECOWLD, MATRIX and SUNSURIA). Our TOP PICKS are: (i) IOIPG (OP; TP RM2.30) as a beta play being a big-cap laggard with strong earnings momentum, (ii) SUNSURIA (OP; TP RM1.61) as our alpha play for its sales and earnings normalization resulting in the highest growth amongst our coverage with potential maiden dividends this year. Risk to our tactical play is that property stocks could be easily be sold down in tandem with any heavy profit taking on the market. The sector will require real fundamental re-rating catalysts to continue pushing valuations to higher levels.

Improvements seen in residential loan indicators. While LDR remains at a record high at 89.8%, there are improvements in 1M17 residential loans applied and approved data at +3.4% and +12.5% YoY, respectively. For residential loans applied, this marks the 3rd consecutive month of positive YTD-YoY movements while for residential loans approved data, this is the first positive month of growth in two years, which is very encouraging. We believe this could be largely driven by higher supply of affordable homes in the market from the government (e.g. PR1MA, Rumah Selangor-ku, Rumah WIP) and private sector. However, non-residential loans applied and approved data continued to be weak at -10.5% and -8.9% YoY for 1M17, respectively. In terms of the ratio of property loans applied to approved, 1M17 is still relatively low at 41%, with property loans to total banking system approvals ratio is still lethargic at 34%.

It is noteworthy that our industry survey still indicates that banking liquidity to the sector remains challenging although some industry players have cited that 'quality buyers' are emerging, improving the odds of loans approvals. Given the record-high LDR while our Banking Analyst still expects moderate loans growth of 5-5.5% for 2017E, **the improvements in the property loans indicator may not translate to overly exuberant property transactions, although we are glad to say that a bottom has been found**.

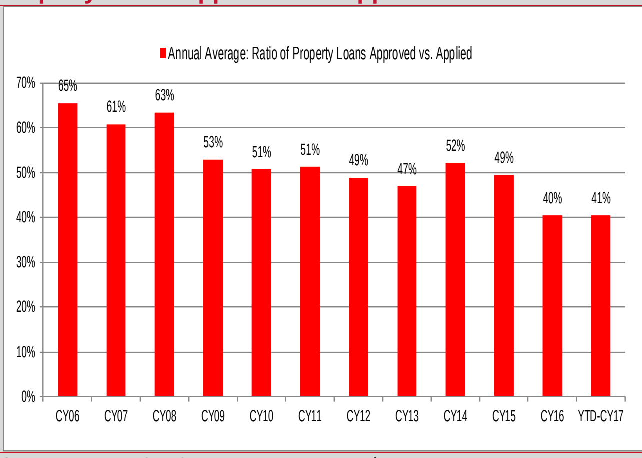
Ytd-YoY Changes in AnnualLoans Applied & Approved (Residential & Non Residential)



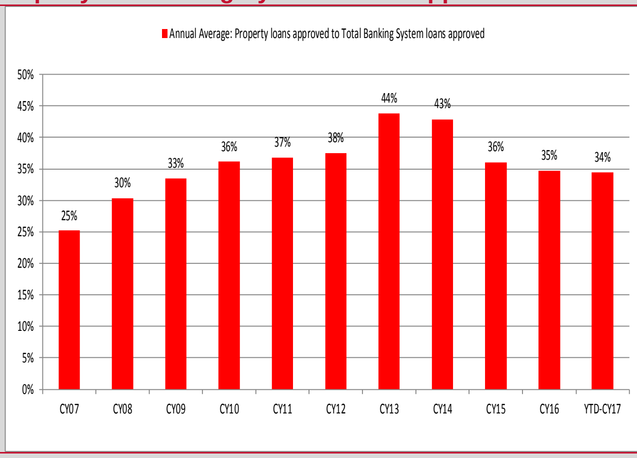


Source: BNM, CEIC, Kenanga Research

Property Loans Approved vs. Applied

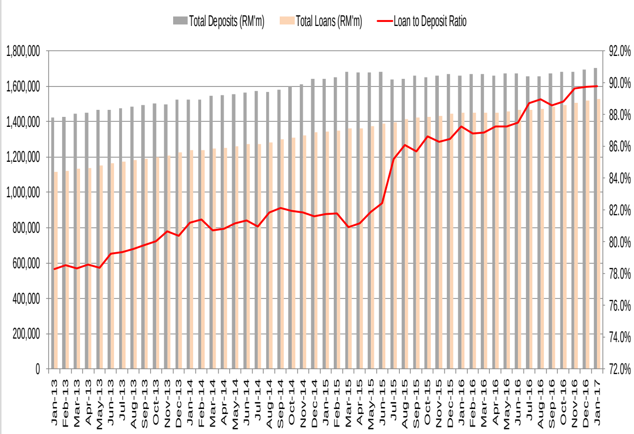


Property vs. Banking System Loans Approved

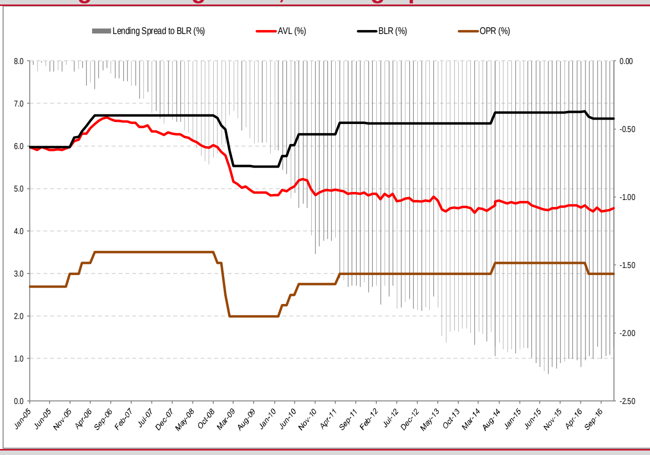


Source: BNM, CEIC, Kenanga Research

Monthly LDR



Average Lending Rates, Lending Spreads



Source: CEIC, BNM, Kenanga Research

Healthier headline sales, **but not across the board**. Overall, sales growth is starting to look healthier as our universe is indicating +5% YoY growth for FY17-18E, thanks largely to SUNSURIA*, ECOWLD and IOIPG, which are showing significant growth while the others are mainly flattish. Without these 3 developers, FY17-18E sales for our universe would be at -5% YoY.

However, earnings likely to be unexciting over 2017-18 for most developers. Our universe earnings growth is meek at +2% YoY for FY17-18E, while it will be at -5%YoY if we excludeIOIPG, ECOWLD* and SUNSURIA* as earnings normalization is still in process. The weaker earnings trajectory over the next two years is a function of 2015-16 soft sales numbers. Meanwhile, our universe's **unbilled sales have weakened slightly to 1.1x** compared to a quarter ago -but as long as unbilled sales remain above 1.0x, the sector's earnings for the next one year should be relatively intact.

** Note that ECOWLD sales growth is largely driven by its associate, EWI, which IPO will take place in early Apr-17 while its earnings have yet to normalize and is only expected to do so in 2019/20. Meanwhile, SUNSURIA is also seeing normalization of sales and earnings with onset of its biggest growth driver, Sunsuria City (refer to IC on 14/2/17).*

Sales growth is not seen across the board as banking liquidity remains a challenge and only developers with lower sales base or the 'right' product positioning are seeing growth while others are likely to see flattish sales trends. We expect overall Malaysia residential sales, the biggest driver of the property market, to see flattish changes (-1% YoY) in transacted values in 2017 i.e. have bottomed. This also means that **the odds of developers missing their sales targets are less likely this year**.

As investors are forward looking, they pay less attention on earnings and turn their attention towards headline sales numbers, which some are seeing growth while others are largely flat. In fact, this year we may see **developers exceeding sales targets,** which will be much welcomed after the lull over 2015-16. At this juncture, it is too early to say which developers will positively surprise and **the critical check-point is if developers can strongly deliver sales in 1H17.** Hence, we make no revisions to our developers' sales assumptions or estimates for now.

Expect landbanking news to remain patchy and developers that are likely to see landbanking news are ECOWLD, SPSETIA, MAHSING and SUNSURIA either by way of outright acquisitions or JVs. Aggressive landbanking will only likely to happen if sales momentum picks up significantly and/or if land prices become more attractive. However, checks with industry players are that land prices continue to hold largely steady with some pocket of opportunities. Currently, our universe's net gearing levels remain healthy at 0.27x (refer to Appendix).

The sector is still lacking catalyst, but one should ride on the broad market sentiment now, particularly on developers with risks that have been mostly priced-in. What will drive the sector into a fundamental overdrive mode is **if there are positive changes in policies (e.g. Budget-2018), continuous improvements in banking sector indicators or loosening of banking sector regulations to the sector; this may result in an upward revision**.

At this juncture, we are unable to provide updated national statistics data (e.g. HPI, demand, supply) as publication of 4Q16 data will likely be in Apr 2016.

Kenanga Sales and Earnings Estimates

Company	Historical Sales (RM'b)	Kenanga Sales Estimates (RM'b)		Historical Earnings (RM'b)	Kenanga Earnings Estimates (RM'b)	
	FY16/17	FY17/18E	FY18/19E	FY16/17	FY17/18E	FY18/19E
CRESNDO*	0.08	0.24	0.22	0.02	0.03	0.03
ECOWLD	4.00	4.80	4.80	0.13	0.11	0.25
HUAYANG	0.34	0.27	0.33	0.11	0.07	0.06
IOIPG*	2.20	2.61	2.61	0.65	0.80	0.80
MAHSING	1.78	1.80	1.80	0.35	0.35	0.34
MATRIX	0.97	1.00	1.00	0.26	0.21	0.24
MRCB*	1.20	0.47	0.56	0.14	0.07	0.08
SPSETIA*	3.82	4.00	4.00	0.81	0.76	0.62
SUNWAY	1.20	1.13	0.92	0.54	0.52	0.54
UEMS*	1.37	1.22	1.23	0.15	0.23	0.16
UOADEV*	1.42	1.42	1.42	0.37	0.38	0.39
SUNSURIA	0.46	0.89	1.10	0.04	0.10	0.16
Total	**18.38**	**18.96**	**18.89**	**3.52**	**3.53**	**3.52**

** Core Earnings*

Note: (i) KSL has been excluded from this data due to lack of sales data by management. (ii) ECOWLD and SUNSURIA earnings growth may distort overall figures due to time taken to normalize earnings. For SUNSURIA, their sales levels have also yet to normalize. (iii) For UEMS, only property sales are used as we exclude land sales.

Source: Kenanga Research

Kenanga Sales and Earnings Estimates YoY Growth

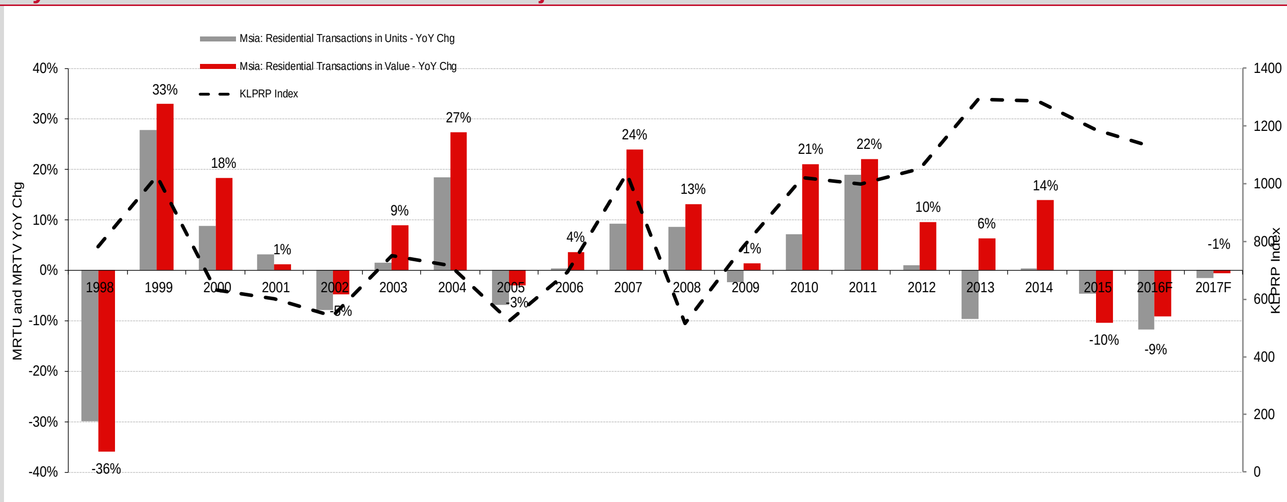
YoY Change	Historical Sales	Kenanga Sales Estimates		Historical Earnings	Kenanga Earnings Estimates	
	FY16/17	FY17/18E	FY18/19E	FY15/16	FY17/18E	FY18/19E
CRESNDO*	-58%	201%	-6%	-59%	57%	20%
ECOWLD	n.a.	20%	0%	194%	-12%	119%
HUAYANG	-27%	-19%	21%	0%	-36%	-12%
IOIPG*	21%	19%	0%	23%	23%	0%
MAHSING	-23%	1%	0%	-3%	-1%	-1%
MATRIX	55%	3%	0%	40%	-18%	14%
MRCB*	n.a.	-61%	20%	-288%	-51%	10%
SPSETIA*	-11%	5%	0%	-12%	-6%	-18%
SUNWAY	-1%	-6%	-18%	-9%	-4%	4%
UEMS*	-42%	-11%	1%	-43%	59%	-31%
UOADEV*	77%	0%	0%	-6%	1%	3%
SUNSURIA	0%	95%	24%	0%	167%	60%
Universe Sales Growth	**4%**	**5%**	**1%**	**5%**	**2%**	**1%**

** Core Earnings*

Note: (i) KSL has been excluded from this data due to lack of sales data by management. (ii) ECOWLD and SUNSURIA earnings growth may distort overall figures due to time taken to normalize earnings. For SUNSURIA, their sales levels have also yet to normalize. (iii) For UEMS, only property sales is used as we exclude land sales.

Source: Kenanga Research

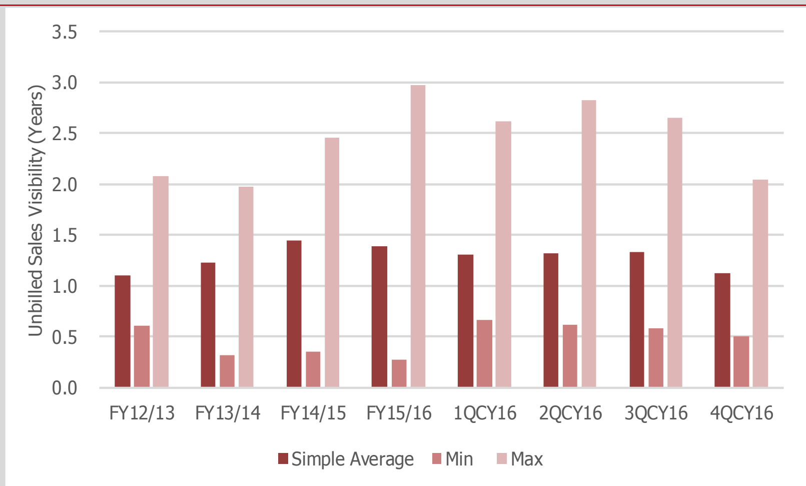
Malaysia Residential Transaction Trends and Projections



Source: CEIC, JPPH/NAPIC, Kenanga Research

Unbilled Sales Visibility

	Based on 3QCY16	
	Unbilled Sales	**Visibility ****
	RM'b	**Years**
UEMS	4.08	2.0
IOIPG*	1.62	0.5
SPSETIA	8.25	2.0
SUNWAY*	1.50	1.1
ECOWLD	4.96	1.7
MAHSING	3.70	1.3
UOADEV	1.46	1.2
MRCB*	1.20	0.9
MATRIX	0.90	1.0
CRESNDO	0.17	0.6
HUAYANG	0.22	0.6
SUNSURIA	0.49	0.7
Total / Average	**28.5**	**1.1**



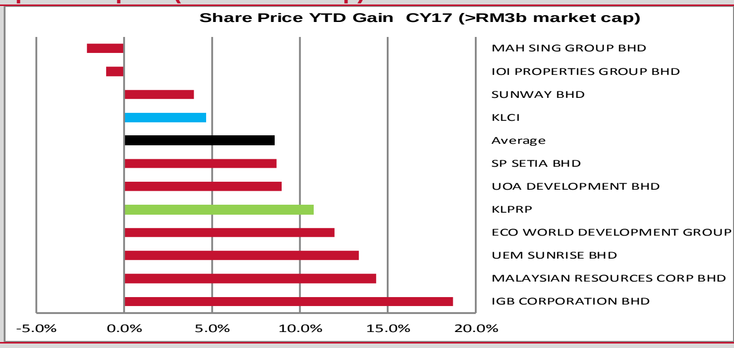
**IOIPG, Sunway, MRCB Revenue is based on their property division only. For UEMS, we are using Unrecognized Revenue due to the different treatment in revenue recognition of their Australia projects.*
*** Unbilled sales visibility based on our average 2-year forecast revenue*
Source: Kenanga Research

So, why are property stocks doing so well this year? The FBMKLCI has done exceedingly well at +4.6% YTD* on the back of better investors' sentiment as the Dow Jones hit new highs while the USD-Ringgit has somewhat stabilized. To our surprise, the KLPRP index (+10.7% YTD)* has outperformed the FBMKLCI despite the absence of major fundamental catalysts in the sector.

Small-mid cap developers have done well at +15.6% YTD while big-cap players (>RM3b market cap) registered growth of +8.5%. We note there are more alpha plays in the small-mid cap spaces like SUNSURIA which earnings are about to reach an inflection point. There are also corporate exercise plays that excited investors like IWCITY (NOT RATED) given their merger with IWH which crown jewel will eventually involve the widely-anticipated Bandar Malaysia, while stocks like MALTON (NOT RATED) gained traction on potential news flows. Big-cap players, which are highly nationalized stocks, are being re-rated mainly on laggard plays as the broad market has done well. **After all, the property sector is typically a high-beta sector,** particularly when the broad market performs well.

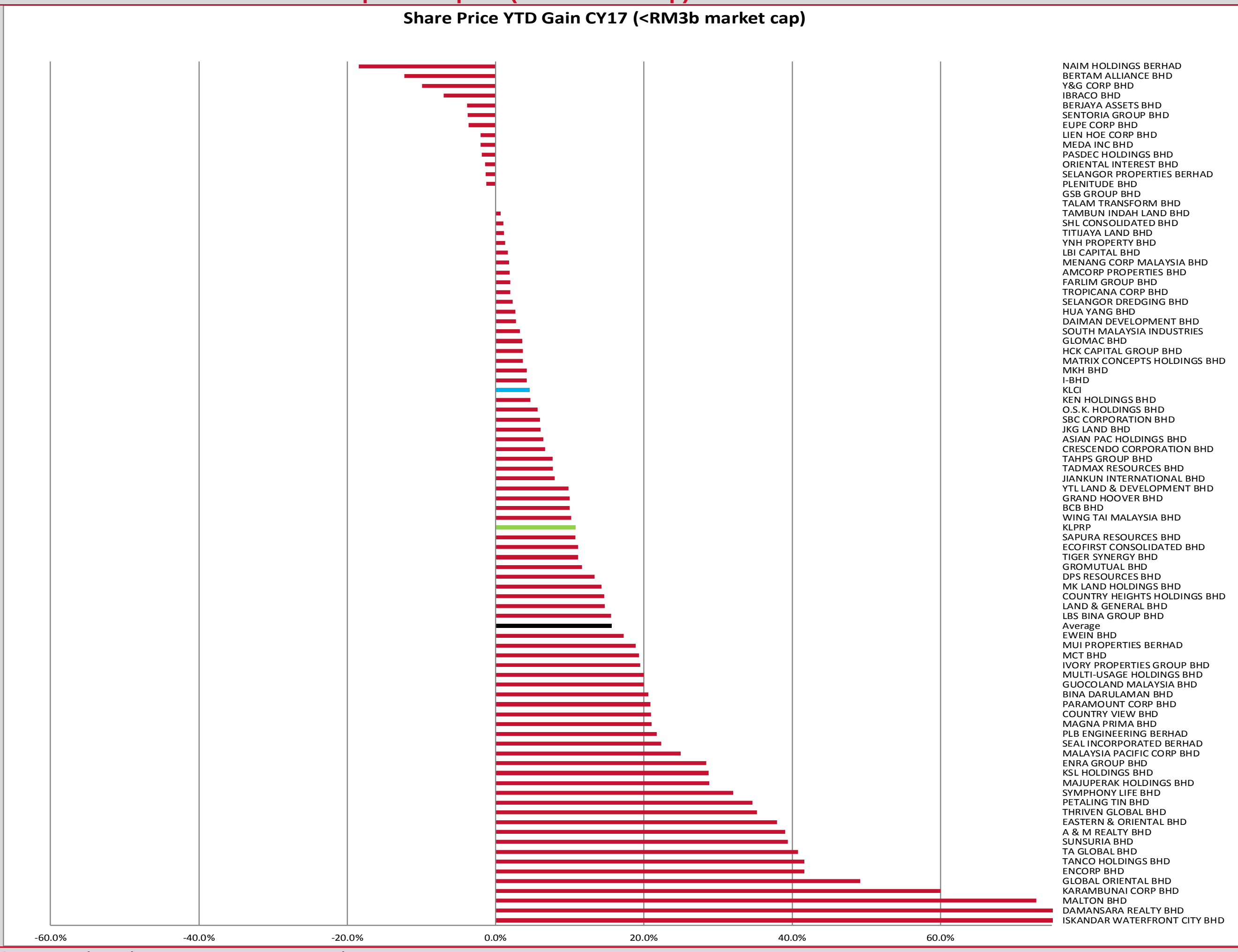
** Note that our price cut-off dates used in this report is at 10/3/17.*

YTD Performance of Big Cap Developers (>RM3b mkt cap)



Source: Bloomberg, Kenanga Research

YTD Performance of Small-mid Cap Developers (<RM3b mkt cap)



Source: Bloomberg, Kenanga Research

Property stocks are more sensitive to a well-performing FBMKLCI. When the FBMKLCI performs positively, the KLPRP typically generates betas of more than 1.0 indicating that investors view the sector as a proxy to the broad market during good times. However, when the FBMKLCI yearly performance is in the red, we note that the KLPRP beta slides to 1.0x or lower, which shows a detachment to the broad market. The main weightage of the KLPRP index (94 members in total) is concentrated on these 10 property counters, which makes up 58% of the KLPRP weight; these stocks are mostly institutionalized counters, which would explain a less severe sell-down if the broad market tumbled into the negative.

When sentiment supersedes fundamentals. As highlighted earlier, we have yet to see property sales go into overdrive and the overall scene remains tricky on challenging banking liquidity. However, it is safe to say the 'coast is clear' as the sector appears to have found a bottom in terms of sales and earnings trajectory. Thus, the property sector maybe a proxy for the broad market, particularly as risks have been mostly priced-in while the sector's share price performances have been lagging for the last two years. Consensus is now targeting the FBMKLCI to return more than 8% over 2017 and we believe more positive revisions of the market will materialize soon. In view of that, **we expect the KLPRP beta will swing above 1.0 which will be positive for stock price performances**.

KLPRP Beta vs. FBMKLCI Performance

	KLPRP Beta	FBMKLCI YoY	KLPRP YoY	KLPRP Premium / (Discount) to FBMKLCI
2007	1.3	32%	49%	18%
2008	1.0	-39%	-50%	-11%
2009	1.3	45%	52%	6%
2010	1.1	19%	31%	11%
2011	1.1	1%	-2%	-3%
2012	1.0	10%	5%	-5%
2013	1.3	11%	23%	12%
2014	1.0	-6%	-1%	5%
2015	0.7	-4%	-8%	-4%
2016	0.8	-3%	-5%	-2%
YTD 2017	0.8	6%	13%	7%

Source: Bloomberg, Kenanga Research

Weight of Top 10 KLPRP Members

		KLPRP Weight (%)
1	IOI Properties Group Bhd	11.6
2	SP SetiaBhd Group	10.2
3	Sunway Bhd	7.0
4	UEM Sunrise Bhd	5.9
5	Eco World Development Group Bhd	4.8
6	UOA Development Bhd	4.3
7	IGB Corp Bhd	4.2
8	Mah Sing Group Bhd	3.8
9	Malaysian Resources Corp Bhd	3.5
10	Eastern & Oriental Bhd	2.7
	Total	**58.0**

Source: Bloomberg, Kenanga Research

The KLPRP "mini cycle" is detaching itself from the physical market. The ability of the KLPRP index to outperform or underperform the FBMKLCI is usually followed with positive or negative growth in the physical market, respectively, typically seen with a one-year lag since 2003. In 2011-13, we saw a departure of this trend where the physical market continued to register positive performance albeit the KLPRP underperforming the broad market.

It appears that the performance of the KLPRP is mostly determined by the FBMKLCI as it seems to disregard the real impact of the physical markets, which could be due to our earlier arguments that this is a traditionally high beta sector and the bulk of the KLPRP are weighted by highly institutionalized stocks.

Even though the physical market is likely to remain flattish in 2017, it appears that the trend of the KLPRP outperforming the FBMKLCI every 1-2 years may likely repeat, supported by a better broad market as highlighted above. Positively, the KLPRP tends to outperform the FBMKLCI for two consecutive years even though the broad market appears to be weak. **If history repeats itself, we can expect the KLPRP to outperform the FBMKLCI over 2017-18** unless there are severe cuts in property stock earnings again.

Cycles Analysis

	FBMKLCI Annual Returns	KLPRP Index Annual Returns	KLPRP Premium/ (Discount) to FBMKLCI = KLPRP Returns - FBMKLCI Returns	YoY Chg: Msia: Residential Transaction Values (RM'm)
	Meaningful returns defined as KLPRP seeing Positive returns and Outperforming the FBMKLCI.			*Meaningful growth defined as 5% or more.*
1994	-23.8%	-24.0%	-0.2%	16%
1995	2.5%	-17.8%	-20.3%	27%
1996	24.4%	20.7%	-3.7%	19%
1997	-52.0%	-70.0%	-18.0%	16%
1998	-1.4%	2.7%	4.1%	-36%
1999	38.6%	31.4%	-7.2%	33%
2000	-16.3%	-38.4%	-22.1%	18%
2001	2.4%	-5.2%	-7.6%	1%
2002	-7.1%	-9.8%	-2.6%	-5%
2003	22.8%	38.8%	15.9%	9%
2004	14.3%	-4.5%	-18.8%	27%
2005	-0.8%	-26.8%	-26.0%	-3%
2006	21.8%	32.2%	10.4%	4%
2007	31.8%	49.3%	17.5%	24%
2008	-39.3%	-50.2%	-10.9%	13%
2009	45.2%	51.6%	6.4%	1%
2010	19.3%	30.6%	11.3%	21%
2011	0.8%	-2.1%	-2.8%	22%
2012	10.3%	5.4%	-4.9%	10%
2013	10.5%	22.7%	12.2%	6%
2014	-5.7%	-0.6%	5.1%	14%
2015	-3.9%	-7.6%	-3.7%	-10%
2016	-3.0%	-5.0%	-2.0%	-9%
YTD 2017E	4.6%	10.7%	6.1%	-1%

**Definition: 2016/17E Property data is based on in-house estimates as 4Q16 data is still not yet available. 2016 FBMKLCI/KLPRP based on actual year-end data. YTD 2017 based on 10/3/17*
Source: Bloomberg, JPPH, Kenanga Research

RECOMMENDATIONS

Tactical re-rating to OVERWEIGHT from NEUTRAL. Due to the improvement in the broad market sentiment and the consensus expectations of the FBMKLCI to churn a decent positive return of more than 8% over 2017, the high-beta property sector may move beyond its fundamental valuations. **Upticks in news flows and speculation on Budget 2018 measures could excite share price further**. Hence, we have decided to re-rate most of our stock coverage valuation levels by +0.25SD from the current applied discount levels. This has resulted in more OUTPERFORM calls in our sector which are mainly big caps like UEMS, SUNWAY and MAHSING while IOIPG, SPSETIA, ECOWLD, MATRIX and SUNSURIA remains as OUTPERFORM. Others are mainly maintained at MARKET PERFORM (except for KSL which is an UNDERPERFORM). (*Refer to table below for changes in CALL/TPs or Appendix for detailed explanation*).

Changes in CALLs/TPs

Developers	New Call	New TP (RM)	Valuation (Discount to PROPERTY RNAV)	Valuation (Discount to SoP)	New FD SoP RNAV (RM)	Quantum of TP revision	Call Action
UEMS	**OP**	**1.45**	-66%	-66%	**4.30**	9%	Upgrade
IOIPG	**OP**	**2.30**	-57%	-57%	**5.31**	3%	Maintain
SPSETIA	**OP**	**3.60**	-37%	-37%	**5.70**	2%	Maintain
SUNWAY	**OP**	**3.41**	-55%	-33%	**5.09**	5%	Upgrade
ECOWLD	**OP**	**1.72**	-51%	-46%	**3.18**	4%	Maintain
MAHSING	**OP**	**1.63**	-48%	-40%	**2.72**	9%	Upgrade
UOADEV	**MP**	**2.56**	-36%	-36%	**4.00**	1%	Maintain
MRCB	**MP**	**1.65**	-50%	-20%	**2.07**	13%	Maintain
KSL	**UP**	**1.30**	-82%	-82%	**7.07**	31%	Maintain
MATRIX	**OP**	**2.65**	-25%	-25%	**3.51**	0%	Maintain
CRESNDO	**MP**	**1.70**	-73%	-73%	**6.32**	1%	Maintain
HUAYANG	**MP**	**1.23**	-57%	-57%	**2.83**	4%	Maintain
SUNSURIA	**OP**	**1.61**	-40%	-36%	**2.52**	7%	Maintain

Note: For further details and explanation, please refer to APPENDIX
Source: Kenanga Research

While we have re-rated valuations for our Johor-based developers (e.g. UEMS, KSL, CRESNDO) in line with our tactical call, Johor remains extremely challenging in terms of demand. Nonetheless, our applied discounts to their RNAV/SOP are still below their respective historical mean levels, which are reasonable considering the challenges in Johor.

Since we are banking on beta plays on an improving broad market performance, suffice to say that laggard plays with strong upsides are preferred amongst our OUTPERFORM calls. Hence, **a choice beta play is IOIPG (OP; TP: RM2.30) as our big-cap TOP PICK** where our FD SoP discount is pegged at only +0.25SD levels. IOIPG's FY17E core earnings will be at record new high and will only be at 11x PER which is at trough valuations while its sales will be buoyed by overseas contributions, which could increase FY17E sales by 19% YoY to RM2.6b. While MAHSING (OP; TP: RM1.63) is also a laggard amongst the big-cap players, we note that its FD SoP discount is already at +1.50SD levels while our TP upside is not as high as IOIPG.

For alpha plays, SUNSURIA (OP; TP: RM1.61) is our TOP PICK. We like the company for its management team, healthy margins, light balance sheet, strong new sales and earnings growth mainly spearheaded by Sunsuria City, which enjoys catalysts such as the ERL station and Xiamen University. Estimating strong FY17-18E sales growth of 94-25% YoY while earnings normalization results in core earnings leaping by 167-60% YoY. We also expect maiden dividends this year given its earnings quantum jump in FY17.

Risks. Given our tactical play, **property stocks could be sold down if there are heavy profit-taking activities on the FBMKLCI**. This may cause retracement back to our pre-tactical valuations. **We reiterate that the sector will require real fundamental re-rating catalysts to continue pushing valuations to higher levels.**

Developers FD RNAV Discounts

	Historical HIGH Discount to FD RNAV/SOP	Historical Average Discount to FD RNAV/SOP	Historical LOW Discount/ Premium to FD RNAV/SOP	1Q17 - Discount as of Cut-off date	Discount of Property RNAV/SOP levels based on New TPs @ 2QCY17 strategy
UEMS	-80.2%	-61.5%	-23.4%	-72.3%	-66%
IOIPG**	-65.5%	-58.4%	-50.9%	-63.7%	-57%
SPSETIA	-48.3%	-40.4%	-15.2%	-40.4%	-37%
SUNWAY**	-49.2%	-36.2%	-15.0%	-38.1%	-33%
MAHSING**	-68.8%	-54.1%	-40.4%	-45.6%	-40%
UOADEV	-60.4%	-44.1%	-32.5%	-36.0%	-36%
ECOWLD* **	-59.3%	-53.8%	-42.6%	-52.8%	-46%
MRCB**	-57.9%	-32.7%	-2.9%	-26.6%	-20%
Average (>RM3b mkt cap)	**-61.2%**	**-47.6%**	**-27.9%**	**-46.9%**	**-42%**
MATRIX	-69.3%	-39.8%	-25.9%	-28.5%	-25%
CRESNDO	-77.1%	-61.2%	-39.0%	-74.7%	-73%
HUAYANG	-61.1%	-42.7%	-22.9%	-59.0%	-57%
KSL	-85.7%	-79.8%	-64.7%	-81.6%	-82%
SUNSURIA* **	-49.2%	-47.2%	-45.2%	-45.2%	-36%
Average (<RM3b mkt cap)	**-68.5%**	**-54.2%**	**-39.6%**	**-57.8%**	**-55%**
Overall Sector Average	**-64.0%**	**-50.2%**	**-32.4%**	**-51.1%**	**-47%**
QoQ Change				**2.1%**	
YoY Change				**2.3%**	

** May not be representative due to limited data ** (i) Implied SOP discount i.e. it does not reflect of Property RNAV discount.*
1QCY17 was calculated based on our price cut-off date of 10/3/17
Source: Kenanga Research

APPENDIX

Recap of 4QCY16 reporting season. We saw more positive earnings surprises; out of 13 developers under coverage, including our newly initiated coverage SUNSURIA, 46% beat expectations (CRESNDO, IOIPG, MRCB, SETIA, SUNWAY, UEMS) while 15% disappointed (HUAYANG, MATRIX). It is a significant improvement from last quarter where only 8% came above expectations while 29% came below. Since most developers tend to propose dividends towards year-end, we note that the above earnings surprises resulted in 31% of developers giving positively surprising dividends (MAHSING, MRCB, SETIA, SUNWAY) while only 15% disappointed (UEMS, HUAYANG).

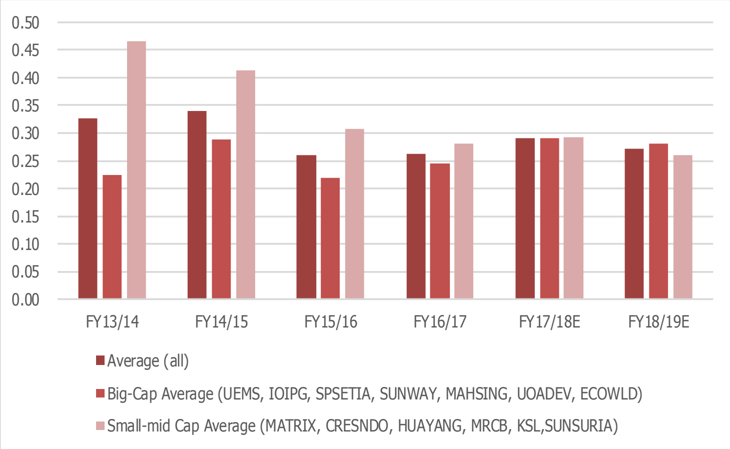
On headlines sales, 38% of developers exceeded expectations (CRESNDO, IOIPG, SETIA, SUNWAY, UEMS) while only 8% disappointed (HUAYANG) which is a slight improvement from last quarter (25% exceeded, 17% behind schedule). However, note that the following developers trimmed their sales targets during 2Q-3Q16 (MAHSING, SETIA, SUNWAY, UEMS) while for developers like MRCB, sales were largely driven by commercial asset sales.

In terms of forward earnings revisions, we cut earnings for 38% of developers (ECOWLD, MAHSING, MATRIX, HUAYANG, SETIA, UOADEV) by 2-47% while 31% (CRESNDO, IOIPG, SUNWAY, UEMS) saw positive adjustments of 5-10%. Note that over 2015-16, most developers observed either flattish to declining headline sales trends and hence, we are now seeing the effects where almost half are seeing declining Ytd-YoY earnings.

Most of our calls were kept unchanged save for UOADEV (downgrade to MP) while UEMS and IOIPG were upgraded to MP and OP, respectively. We have tweaked TPs higher for 31% of developers while 8% saw lower TPs. This is fairly similar to the last quarter.

Net Gearing

Company	FY17/18E	FY18/19E
UEM Sunrise	0.45	0.47
IOI Properties	0.46	0.47
SP Setia	0.25	0.19
Sunway Berhad*	0.44	0.42
Mah Sing Group	(0.12)	(0.12)
UOA Development	(0.11)	(0.12)
Eco World	0.67	0.65
Matrix Concepts	0.06	0.00
Crescendo	0.24	0.23
Hua Yang*	0.49	0.47
MRCB*	0.92	0.85
KSL*	(0.09)	(0.14)
Sunsuria	0.14	0.13
Average (all)	**0.29**	**0.27**
Big-Cap Average	*0.29*	*0.28*
Small-mid Cap Average	*0.29*	*0.26*



Source: Kenanga Research

Fwd PER levels

	Fwd PER at last price at 10 Mar 17	Valuation Levels StdDev	Valuation Levels	Fwd PER* Peak (Since 09)	Fwd PER* Average (Since 09)	Fwd PER Trough (Since 09)
UEMS	23.1	-0.5	Below Average	37.4	25.1	13.4
IOIPG	11.3	-1.0	Trough	26.4	17.8	11.3
SPSETIA	12.7	-1.0	Near Trough	28.6	18.1	10.6
SUNWAY	12.2	1.0	Near Peak	11.4	9.3	7.1
MAHSING	10.0	-1.5	Near Trough	18.0	12.3	9.1
UOADEV	11.0	1.0	Above Average	13.7	9.6	6.5
ECOWLD	17.9	-1.0	Trough	189.8	85.6	17.7
MATRIX	6.0	-1.0	Below Average	7.2	6.5	5.2
CRESNDO	10.9	0.0	Average	31.0	10.6	2.5
HUAYANG	6.6	1.5	Near Peak	7.4	4.6	2.2
MRCB*	47.5	n.m	n.m	2768.6	64.6	-662.7
KSL	7.7	1.0	Above Average	9.9	5.3	2.2
SUNSURIA	11.2	-0.5	Below Average	27.8	16.1	6.8
AVERAGE*	**11.2**			**19.9**	**12.3**	**7.0**
AVERAGE **	**11.7**			**19.1**	**11.9**	**7.0**

** Stocks excluded from the average computation are MRCB due to its corporate restructuring activities and previous loss making years.*
*** For historical Peak, Average and Trough, stocks excluded are MRCB and those whose earnings have yet to normalize due to changes in shareholders of the company (e.g. RTO). However, we have included ECOWLD and SUNSURIA in the Fwd PER average for last price calculations.*
Source: Kenanga Research

Fwd PBV levels

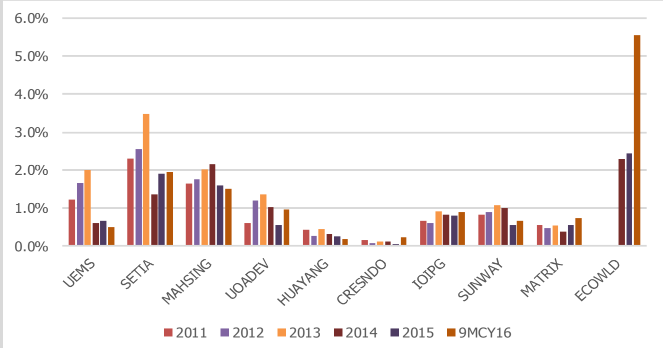
	Fwd PBV at last price at 10 Mar 17	Current PBV StdDev	Valuation Levels	Fwd PBV Peak (Since 09)	Fwd PBV Average (Since 09)	Fwd PBV Trough (Since 09)
UEMS	0.85	-1.0	Near Trough	2.88	1.58	0.62
IOIPG	0.55	-1.0	Trough	1.06	0.73	0.55
SPSETIA	0.98	-1.0	Near Trough	2.47	1.54	0.87
SUNWAY	0.72	-0.5	Below Average	1.08	0.79	0.64
MAHSING	0.97	-1.0	Trough	2.34	1.49	0.93
UOADEV	1.06	-0.5	Below Average	1.69	1.12	0.86
ECOWLD	1.11	-0.5	Trough	8.66	2.31	1.03
MATRIX	1.29	-1.5	Trough	1.97	1.56	1.26
CRESNDO	0.41	-0.5	Below Average	1.03	0.51	0.19
HUAYANG	0.62	-0.5	Below Average	1.59	0.76	0.28
MRCB	1.66	-1.0	Near Trough	5.14	2.77	1.03
KSL	0.49	0.0	Average	1.11	0.54	0.21
SUNSURIA	1.40	2.0	Peak	1.36	1.02	0.85
AVERAGE*	**0.87**			**2.27**	**1.16**	**0.69**
AVERAGE **	**0.87**			**1.72**	**1.06**	**0.64**

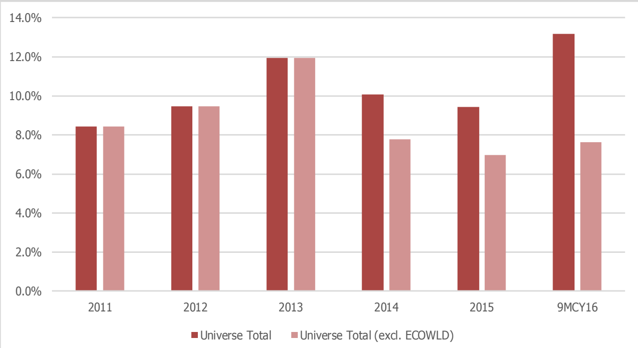
** Stocks excluded from the average computation are MRCB due to its corporate restructuring activities and previous loss making years.*

*** For historical Peak, Average and Trough, stocks excluded are MRCB and those whose earnings have yet to normalize due to changes in shareholders of the company (e.g. RTO). However, we have included ECOWLD and SUNSURIA in the Fwd PER average for last price calculations.*

Source: Kenanga Research

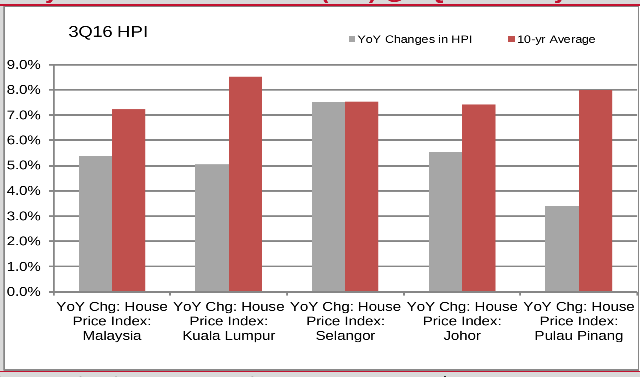
Developers Sales Market Share vs. Malaysia Property Sales

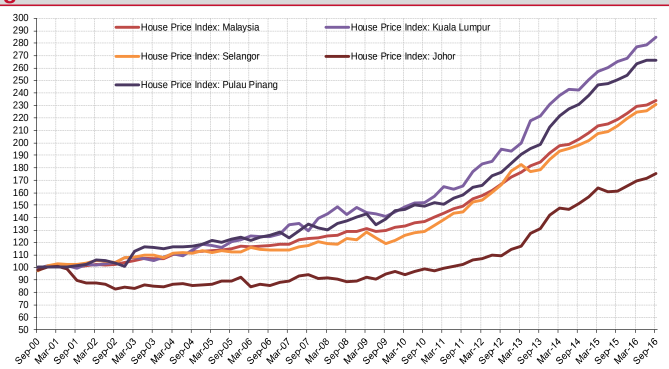




Source: Kenanga Research

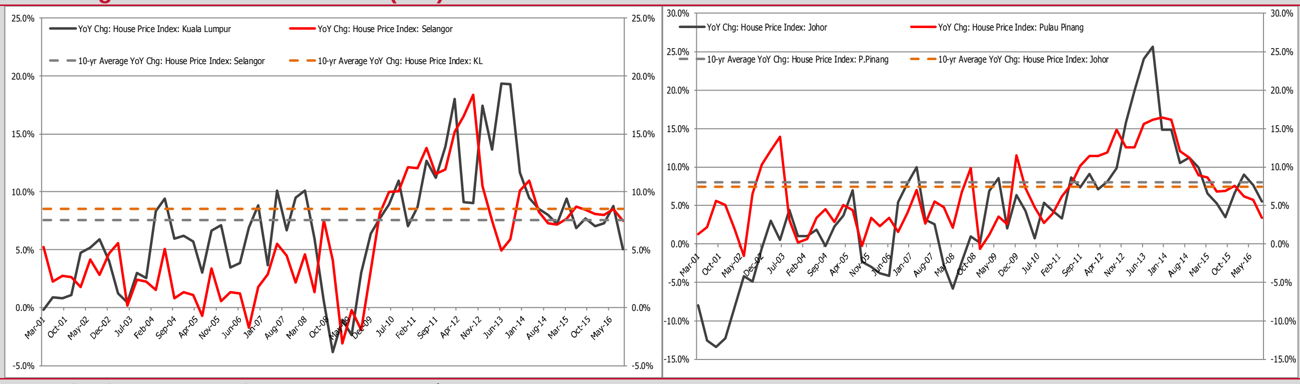
Malaysia: House Price Index (HPI) @ 3Q16 vs. 10-yr average





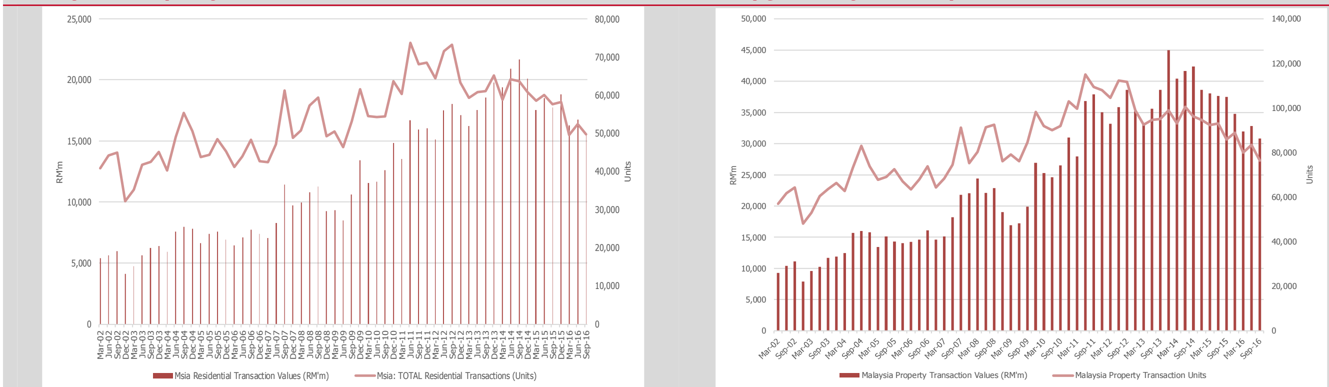
Source: CEIC, BNM, NAPIC, Kenanga Research

YoY Changes in House Price Index (HPI)



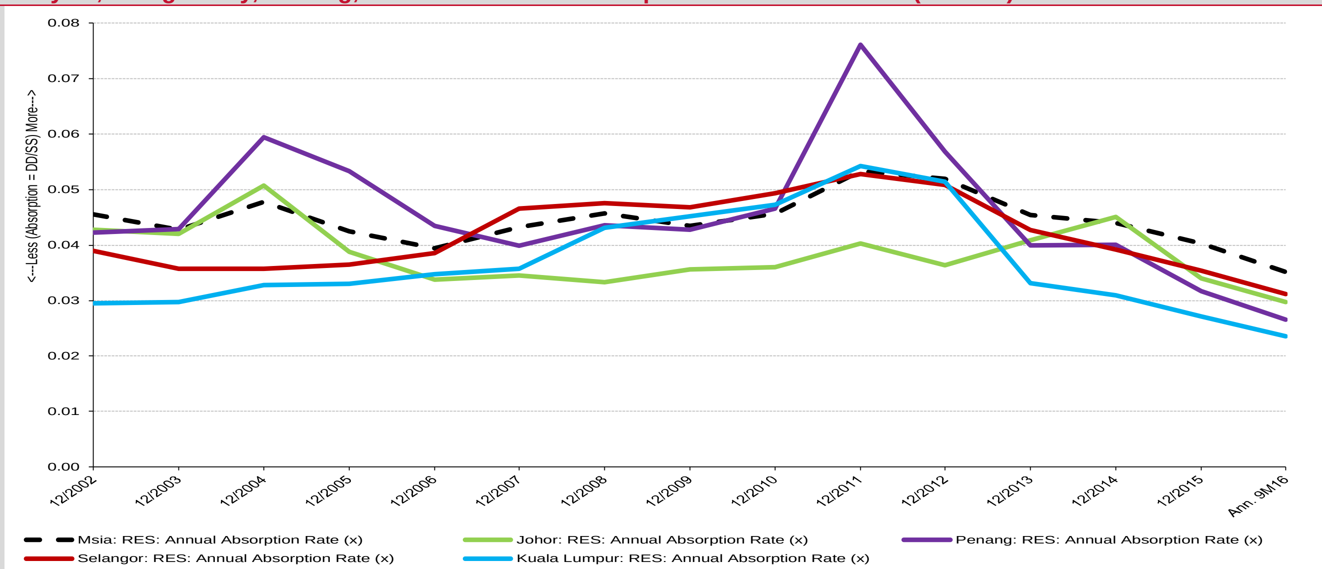
Source: CEIC, BNM, NAPIC, Kenanga Research

Malaysia Property and Residential Transacted Values and Units (Quarterly Trends)



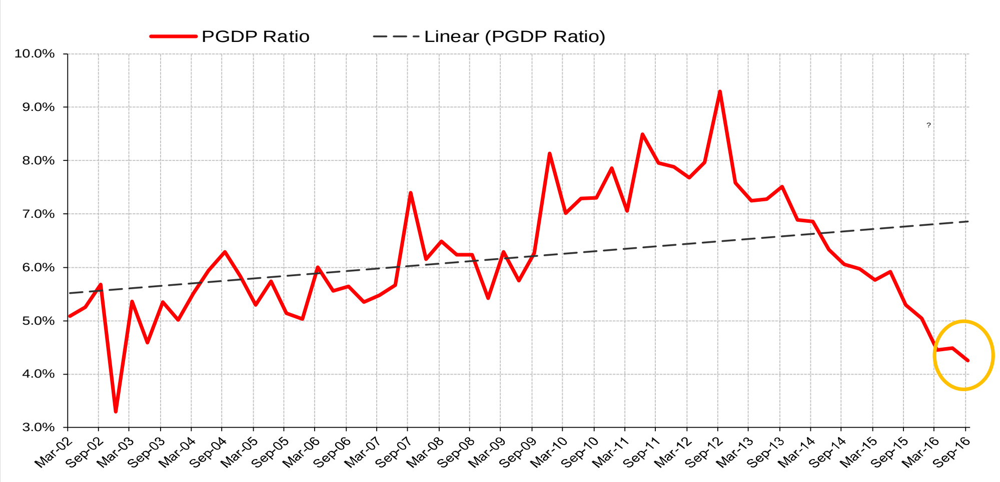
Source: CEIC, JPPH, Kenanga Research

Malaysia, Klang Valley, Penang, Johor Residential Absorption Rates of Total SS (SS / DD)



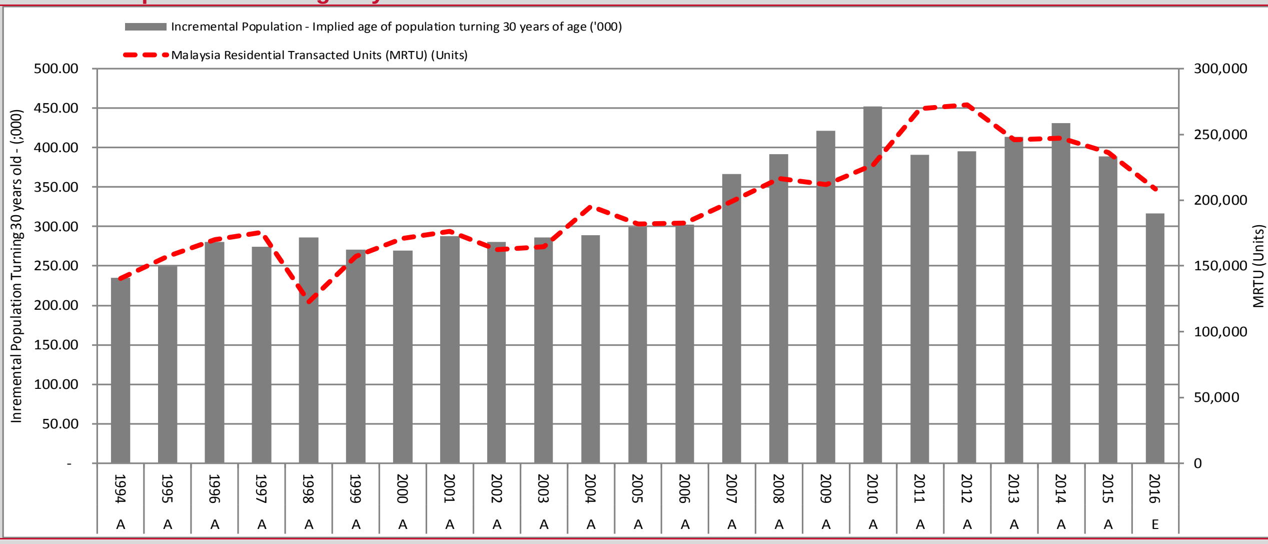
Source: CEIC, JPPH/NAPIC, Kenanga Research

PGDP Ratio: Malaysia Property Transacted Values % of Nominal GDP



Source: CEIC, JPPH/NAPIC, BNM, Kenanga Research

Incremental Population Turning 30 years old



Source: CEIC, JPPH/NAPIC, BNM, Kenanga Research

CALLs/TPs (Part 1 of 2)

Developers	Last Price (RM) @ 10/3/17	New Call	New TP (RM)	Valuation (Discount to PROPERTY RNAV)	Valuation (Discount to SoP)	New FD SoP RNAV (RM)	Quantum of TP revision	Call Action	Previous TP (RM)	Previous Discount to FD SoP RNAV	Previous Discount to SoP	Previous FD SoP RNAV (RM)	Previous Call (RM)
UEMS	1.19	**OP**	**1.45**	-66%	-66%	**4.30**	9%	Upgrade	**1.33**	-69%	-69%	**4.30**	**MP**
IOIPG	1.93	**OP**	**2.30**	-57%	-57%	**5.31**	3%	Maintain	**2.23**	-58%	-58%	**5.31**	**OP**
SPSETIA	3.40	**OP**	**3.60**	-37%	-37%	**5.70**	2%	Maintain	**3.53**	-38%	-38%	**5.70**	**OP**
SUNWAY	3.15	**OP**	**3.41**	-55%	-33%	**5.09**	5%	Upgrade	**3.24**	-61%	-36%	**5.09**	**MP**
ECOWLD	1.50	**OP**	**1.72**	-51%	-46%	**3.18**	4%	Maintain	**1.66**	-53%	-48%	**3.18**	**OP**
MAHSING	1.40	**OP**	**1.63**	-48%	-40%	**2.72**	9%	Upgrade	**1.49**	-54%	-45%	**2.72**	**MP**
UOADEV	2.56	**MP**	**2.56**	-36%	-36%	**4.00**	1%	Maintain	**2.54**	-37%	-37%	**4.00**	**MP**
MRCB	1.52	**MP**	**1.65**	-50%	-20%	**2.07**	13%	Maintain	**1.46**	-72%	-20%	**1.82**	**MP**
KSL	1.30	**UP**	**1.30**	-82%	-82%	**7.07**	31%	Maintain	**0.99**	-86%	-86%	**7.07**	**UP**
MATRIX	2.51	**OP**	**2.65**	-25%	-25%	**3.51**	0%	Maintain	**2.65**	-25%	-25%	**3.51**	**OP**
CRESNDO	1.60	**MP**	**1.70**	-73%	-73%	**6.32**	1%	Maintain	**1.68**	-73%	-73%	**6.32**	**MP**
HUAYANG	1.16	**MP**	**1.23**	-57%	-57%	**2.83**	4%	Maintain	**1.18**	-58%	-58%	**2.83**	**MP**
SUNSURIA	1.38	**OP**	**1.61**	-40%	-36%	**2.52**	7%	Maintain	**1.50**	-45%	-41%	**2.52**	**OP**
			Weighted Average	**-50%**	**-44%**		**5%**		**Weighted Average**	**-54%**	**-46%**		
			Simple Average	**-52%**	**-47%**		**7%**		**Simple Average**	**-56%**	**-49%**		

Source: Kenanga Research

CALLs/TPs (Part 2 of 2)

Developers	Comments
UEMS	Upgrade CALL to OP from MP. Raise TP as we narrow its discount slightly by 0.25SD from current applied levels which is in line with our tactical strategy. Its applied discount is still below its historical average of 62% which is fair considering its large exposure in Johor which is expected to remain challenging. Nonetheless, the company shows great effort in de-gearing its balance sheet which will minimize risks of cash-calls.
IOIPG	Maintain CALL but with a slightly higher TP. We narrow our applied discount slightly by 0.25SD from current applied levels which is in line with our tactical play. We think the slightly higher than mean level discount is justified as its overseas contributions has enable healthy sales levels while core earnings are expected to make new highs this year which should re-rate its overall valuations. It is noteworthy that the stock is laggard amongst the big-cap developers.
SPSETIA	Maintain CALL but raise TP slightly. We narrow our applied discount slightly by 0.25SD from current applied levels, in line with our tactical strategy. The above historical mean levels is justified as while earnings are expected to be volatile given timing of its overseas contributions, we note that the company is regaining its footing in the industry given strong FY16 sales performance and a higher trajectory for FY17. Yields are also attractive at these levels (5.5%).
SUNWAY	Upgrade to OP from MP and raise TP. Its SoP discount is narrowed slightly by 0.25SD from current applied levels in line with our tactical play. Considering its more moderate sales target, we believe they have a chance of exceeding their targets this year. Nonetheless, we have kept our assumptions unchanged for now pending 1H17 sales confirmations.
ECOWLD	Maintain CALL but raise TP slightly. Since we do not have sufficient historical SoP discount data on ECOWLD, we are using the big-cap developer's standard deviation as a gauge; thus, we narrow its SoP discount slightly by 0.25SD in line with our tactical play. The stock should continue to benefit from more landbanking news while riding on more positive news flow from its soon to be listed associate, EWI.
MAHSING	Upgrade to OP from MP with a higher TP. We narrow its SoP discount slightly by 0.25SD from current applied levels in line with our tactical play. Since the group has yet to do landbanking and has recently proposed another perpetual bond issuance, we believe landbanking news flow is likely in the near-term.
UOADEV	No change to CALL but marginally higher TP. Our applied discount level is narrowed by 0.25SD from current applied levels in line with our tactical play. At our applied discount levels the stock is at slightly above the +1.0SD levels to its historical mean, which we think is fair given its pure exposure to KL and its products are easily saleable given the more affordable housing price tags and also largely located near transit orientated plays, coupled with its net cash position and attractive yields of 5.9%. However, that the stock was the best performer amongst the big-cap developers in 2016 and thus, investors may see less favourable risk-reward returns on the stock this time around.
MRCB	Maintain CALL but raise TP. In line with our tactical play, we have narrowed its property RNAV discount from 72% to 50% (closed to big-cap players) which is close to the historical big-cap average levels. We also raise its construction PER from 7x to 8x. Both of these adjustments resulted in higher SoP while holding company discount is maintained at 20%. We believe the applied property RNAV discount is fair considering that its property sales are largely dependent on disposals which is becoming more frequent given its efforts to de-gear its balance sheet to more manageable levels.
KSL	Maintain CALL but raise TP. Our applied discount is narrowed slightly by 0.25SD from current applied levels in line with our tactical play. Its applied discount is now at -0.5SD to its historical mean, which is fair for Johor-based developers. The company has discontinued dividends after implementing its dividend policy a few years back and thus, we view this as a concern. As a result, we believe our current applied discount is at fair levels.
MATRIX	Maintain CALL and TP. Our applied discount is at its historical low levels. The developer is seen to be a defensive one which is largely in the affordable housing space, offering yields of 5.5%.
CRESNDO	Maintain CALL but raise TP. In line with our tactical play, we narrow its discount factor by slightly less than 0.25SD. Its applied discount is now closer to -0.5SD to its historical mean levels. The stock is expected to see a sharp recovery in sales given the roll out of its affordable township products in Johor. Nonetheless, as a small-mid cap developer, its Fwd. PERs are almost on par with some of the big-cap developers which means that earnings levels needs to be raised further before further re-ratings takes place.
HUAYANG	Maintain CALL but raise TP. We narrowed its discount factor by 0.25SD from current applied levels in line with our tactical play. However, the applied discount levels remains close to historical peak levels due to our concerns of its ability to meet sales targets given its sensitive segment exposure to buyers that have lower loan approval rates while its earnings are expected to de-rate over the next two years backed by unexciting sales trajectory. For small-mid cap developers, its yields are one of the least compelling while no growth is in sight to compensate for the lack of yields.
SUNSURIA	Maintain CALL but raise TP. As we have just initiated coverage on SUNSURIA, we do not have sufficient historical data to derive the standard deviation of its discount to SoP movements. Hence, we have opted to use the small-mid cap sector standard deviation as a benchmark. Hence, we narrow our SoP discount by 0.50SD (using the small-mid cap standard deviation) from current levels in line with our tactical play - but we opt to use a more aggressive assumption as the stock is expected to continue re-rating as sales and earnings normalization will take place over 2017-19 considering its current low sales and earnings base.

Source: Kenanga Research

Peer Comparison

NAME	Price (10/3/17)	Mkt Cap	PER (x)			Est. NDiv. Yld.	Hist. ROE	Fwd ROE	P/BV	Net Profit (RMm)			FY16/17 NP Growth	FY17/18 NP Growth	Target Price	Rating
	(RM)	(RMm)	FY16/17	FY17/18	FY18/19	(%)	(%)	(%)	(x)	FY16/17	FY17/18	FY18/19	(%)	(%)	(RM)	
DEVELOPERS UNDER COVERAGE																
IOI PROPERTIES GROUP BHD*	1.93	9,060	14.0	11.3	11.3	3.8%	4.1%	4.2%	0.56	648.5	800.2	803.6	23.4%	0.4%	2.30	OUTPERFORM
SP SETIA BHD*	3.40	9,702	12.0	12.7	15.6	5.5%	9.7%	8.0%	1.17	808.0	761.3	620.6	-5.8%	-18.5%	3.60	OUTPERFORM
UEM SUNRISE BHD*	1.19	5,400	36.7	23.1	33.5	0.0%	2.2%	3.4%	0.84	147.3	233.5	161.3	58.5%	-30.9%	1.45	OUTPERFORM
SUNWAY BHD	3.15	6,381	11.8	12.2	11.8	3.3%	7.3%	6.7%	0.72	541.6	521.7	542.6	-3.7%	4.0%	3.41	OUTPERFORM
MAH SING GROUP BHD^	1.40	3,373	9.7	10.0	10.3	4.6%	10.1%	10.0%	0.97	346.8	338.9	327.5	-2.3%	-3.4%	1.63	OUTPERFORM
ECO WORLD DEVELOPMENT GROUP BHD	1.50	4,417	34.2	38.9	17.7	0.0%	3.7%	4.4%	1.17	129.3	113.5	248.9	-12.2%	119.3%	1.72	OUTPERFORM
UOA DEVELOPMENT BHD*	2.56	4,176	11.2	11.0	10.7	5.9%	19.4%	9.8%	1.06	373.9	379.2	391.4	1.4%	3.2%	2.56	MARKET PERFORM
MALAYSIAN RESOURCES CORP BHD	1.52	3,264	13.4	47.5	43.1	0.2%	8.6%	2.4%	1.66	244.1	68.8	75.7	-72%	10.0%	1.65	MARKET PERFORM
KSL HOLDINGS BHD	1.30	1,338	6.5	7.7	7.6	0.0%	8.8%	6.9%	0.49	204.6	173.7	177.1	-15.1%	2.0%	1.30	UNDERPERFORM
MATRIX CONCEPTS HOLDINGS BHD	2.51	1,437	5.6	6.8	6.0	5.5%	31.8%	22.7%	1.47	255.2	210.0	239.0	-17.7%	13.8%	2.65	OUTPERFORM
SUNSURIA BERHAD	1.38	1,102	30.0	11.2	7.0	2.2%	6.9%	13.3%	1.39	36.7	98.0	157.0	167.2%	60.1%	1.61	OUTPERFORM
CRESCENDO CORPORATION BHD*	1.60	364	20.4	13.0	10.9	3.1%	2.2%	3.3%	0.42	17.8	28.0	33.5	57.2%	19.6%	1.70	MARKET PERFORM
HUA YANG BHD	1.16	408	3.7	5.8	6.6	1.7%	21.9%	12.2%	0.67	110.1	70.3	61.7	-36.2%	-12.3%	1.23	MARKET PERFORM
CONSENSUS NUMBERS																
IGB CORPORATION BHD	2.86	3,818	12.8	12.4	15.9	3.1%	6.7%	6.4%	0.77	298.0	307.0	240.3	3.0%	-21.7%	4.80	BUY
GLOMAC BHD	0.72	521	6.4	12.9	7.6	5.1%	14.2%	6.0%	0.52	80.9	40.5	68.7	-50.0%	69.6%	0.75	SELL
PARAMOUNT CORP BHD	1.68	711	9.5	8.8	8.4	5.4%	8.2%	8.3%	0.73	75.0	80.4	84.6	7.1%	5.3%	2.24	BUY
TAMBUN INDAH LAND BHD	1.40	600	5.3	6.2	6.2	6.0%	22.9%	16.6%	1.00	112.2	96.4	96.8	-14.1%	0.4%	1.63	BUY

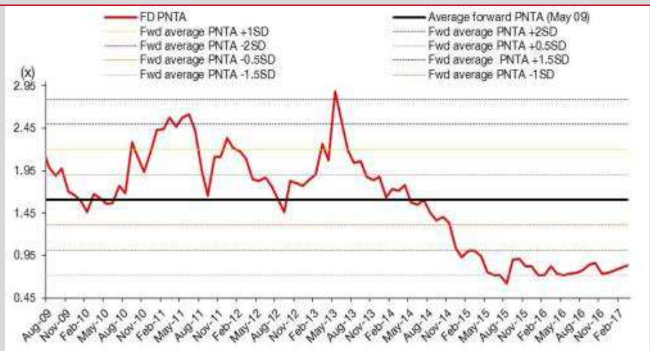
** Core NP and Core PER*

^ Last price and TP is Ex-rights and Ex-Bonus.

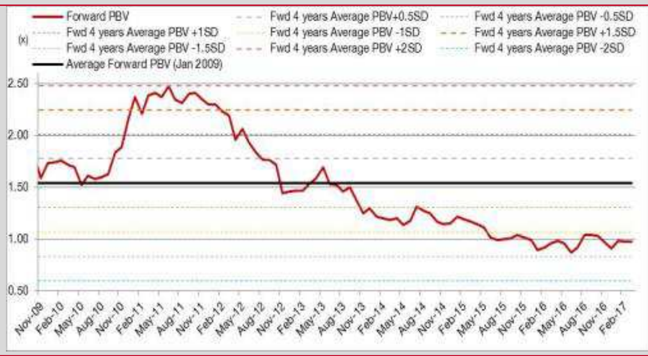
Source: Kenanga Research

DEVELOPERS FWD PBV

Fwd PBV: UEM Sunrise

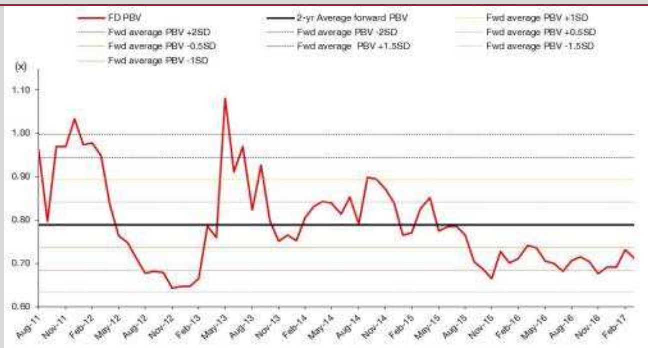


Fwd PBV: SP Setia

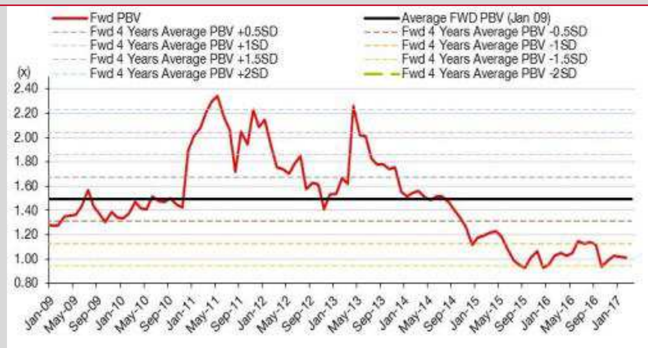


Source: Kenanga Research

Fwd PBV: Sunway Bhd

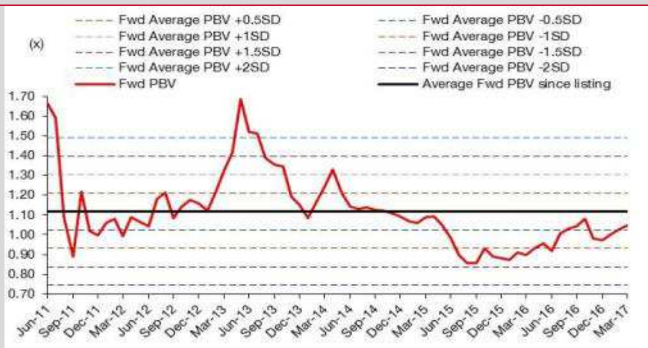


Fwd PBV: Mah Sing

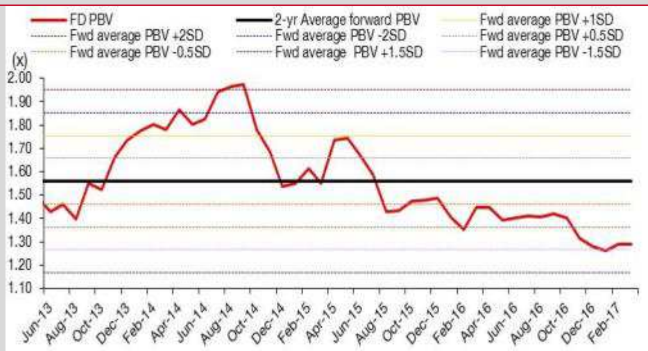


Source: Kenanga Research

Fwd PBV: UOA Development

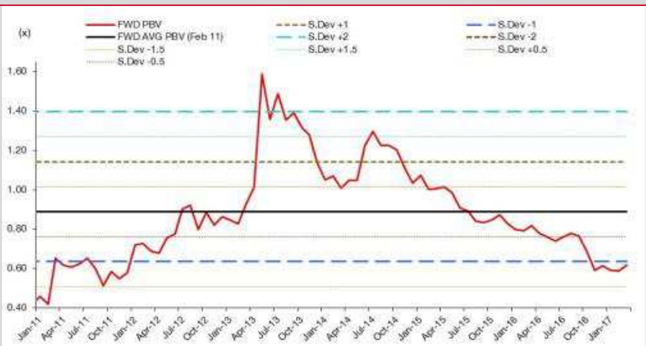


Fwd PBV: Matrix Concepts



Source: Kenanga Research

Fwd PBV: Hua Yang



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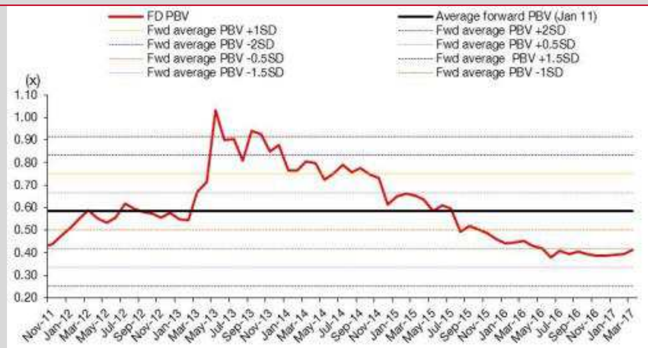
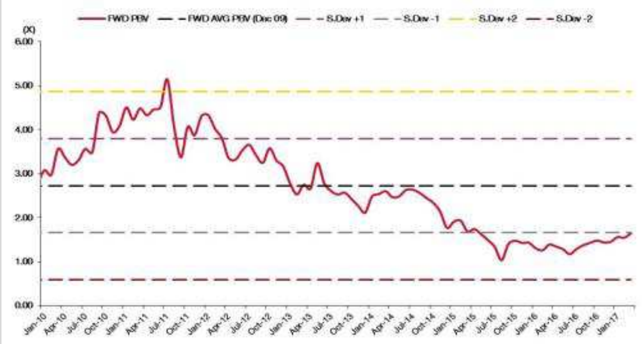
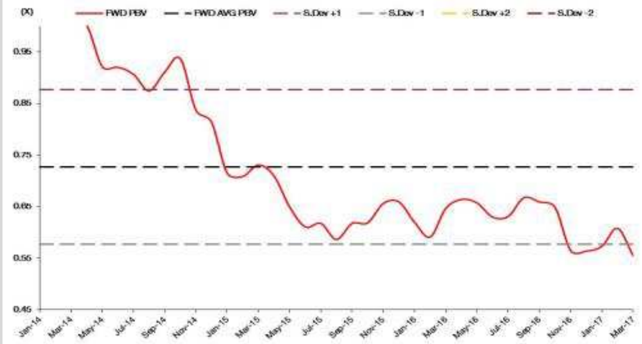


Source: Kenanga Research

Fwd PBV: MRCB

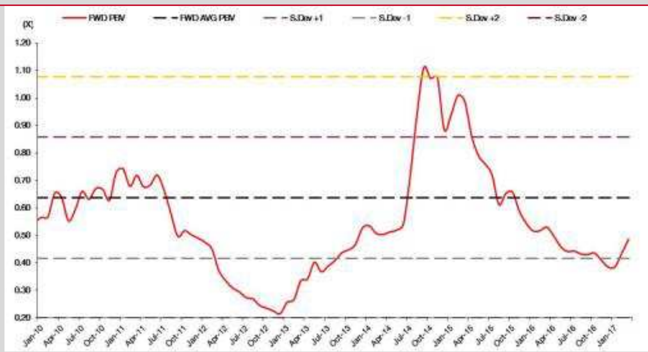


Fwd PBV: IOI Properties

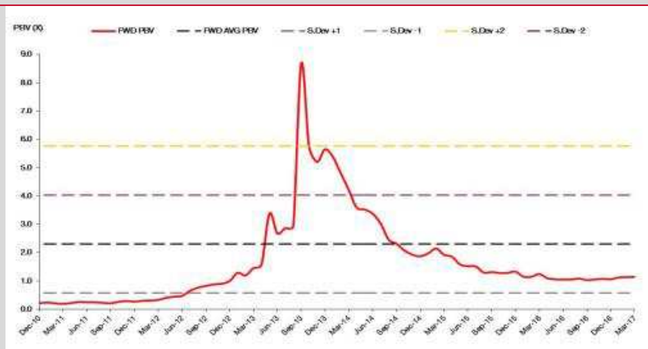


Source: Kenanga Research

Fwd PBV: KSL

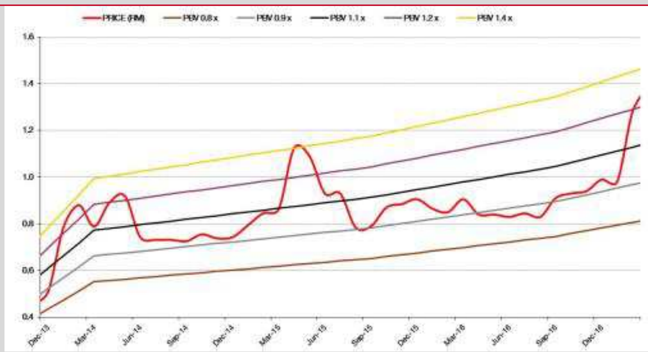


Fwd PBV: Eco World



Source: Kenanga Research

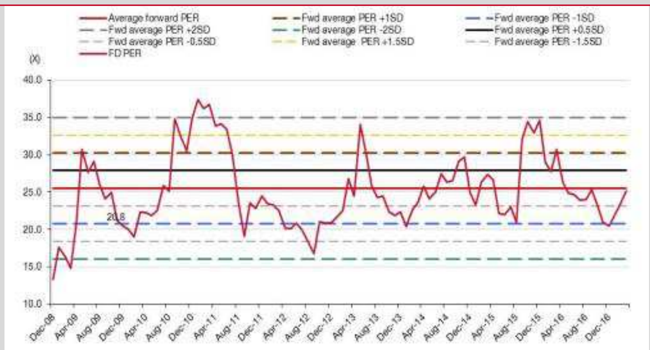
Fwd PBV: SUNSURIA



Source: Kenanga Research

DEVELOPERS FWD PER

Fwd Core PER: UEM Sunrise

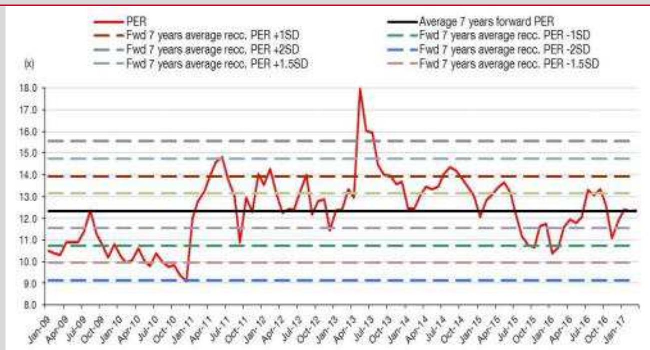


Fwd Core PER: SP Setia

Source: Kenanga Research

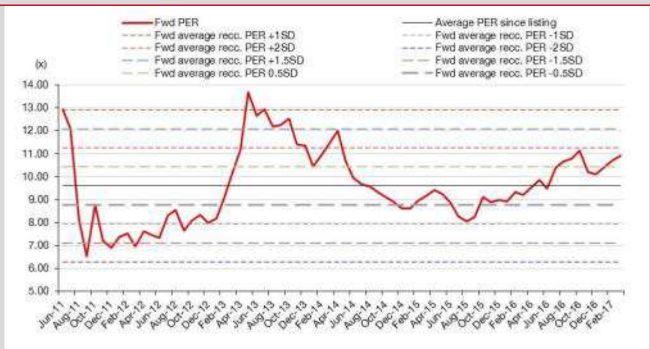
Fwd PER: Sunway Bhd

Fwd PER: Mah Sing

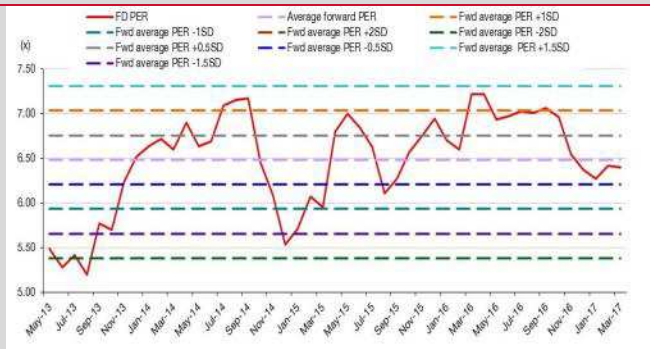


Source: Kenanga Research

Fwd Core PER: UOA Development



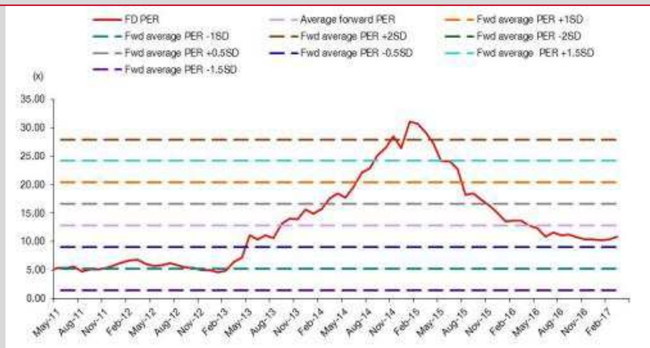
Fwd PER: Matrix Concepts



Source: Kenanga Research

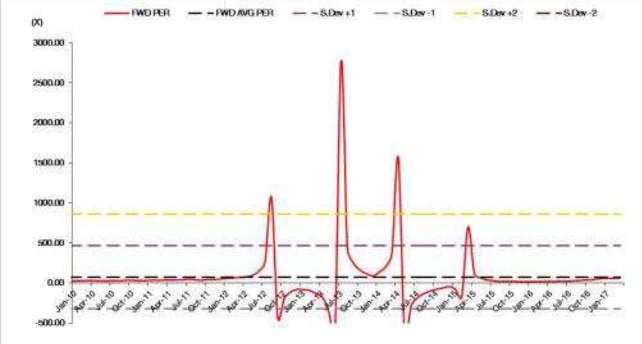
Fwd PER: Hua Yang

Fwd Core PER: Crescendo

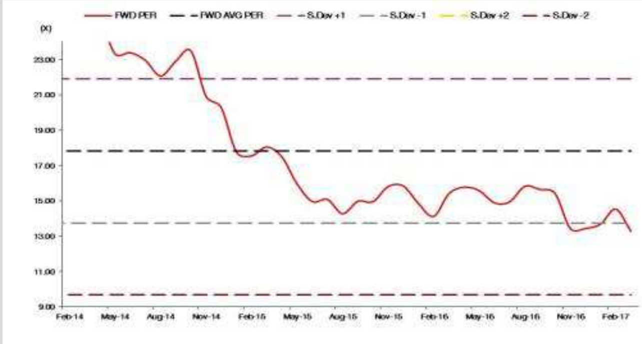


Source: Kenanga Research

Fwd PER: MRCB



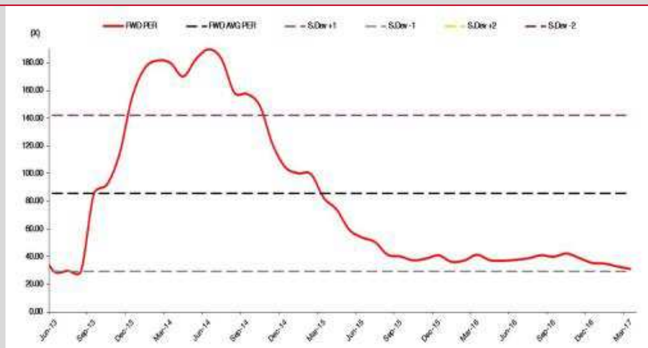
Fwd Core PER: IOI Properties



Source: Kenanga Research

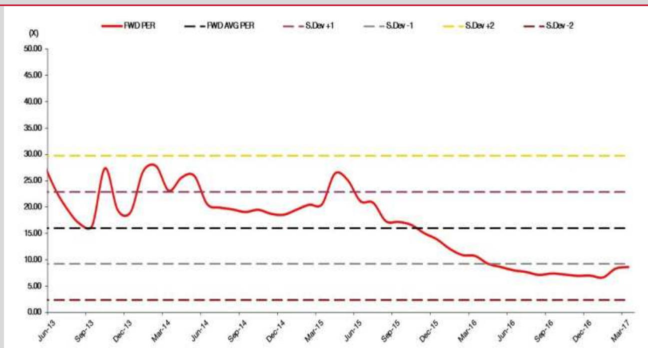
FwdCore PER: KSL

Fwd PER: Eco World



Source: Kenanga Research

FwdCore PER: SUNSURIA



Source: Kenanga Research

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	:A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
MARKET PERFORM	:A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERPERFORM	:A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

OVERWEIGHT	:A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
NEUTRAL	:A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERWEIGHT	:A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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