

Property (NEUTRAL ↔)

INDUSTRY INSIGHT

September 18, 2017

Bottoming up
Highlights

- **1H results broadly in-line...** with half of our stock coverage (4 out of 8) came in within expectations (3 below; 1 above). Although reported earnings were hardly exciting, stronger 2H earnings have been guided by most companies.
- **Achievable sales target...** 1HCY17 recorded sales are on course to meet CY17 target (flat yoy) given expectation of a stronger 2H. Notably, there has been no downward revision of sales target by companies under our coverage. In CY16, a few downward revisions of sales target were made due to soft sentiment.
- **More landbanking exercises...** are expected going forward. YTD, Sunway and Mah Sing are among the more aggressive parties with five and four lands acquisitions respectively. Matrix continued to expand its landbanks in Negeri Sembilan while Ibraco has recently announced a land deal in Klang Valley. Besides, SP Setia successfully tendered for a land in Singapore back in April.
- **Rebound in leading loan indicator...** YTD, monthly loan applications and approvals for residential properties were up 16.8% and 18.2% yoy, bucking the declining trend in 2016. This indicates buyers' interest has improved despite the low approval rate due to stringent bank lending policy.
- **...supported by a stronger economy.** The improving economic environment should lend support to a gradual recovery in the property sector. In this regard, we can expect a return of interest in the sector given a rising appetite on domestic growth upcycle theme.
- **Sector valuation at -1SD below average...** where it is currently trading at 48% discount to RNAV and 0.96x P/B. Valuation is still relatively cheap and we expect the discount to narrow when the property sector begins to gain more interest amid signs of bottoming-up.

Rating
NEUTRAL (↔)

- We maintain **NEUTRAL** stance on the sector due to absence of near-term catalyst despite bottoming signs. However, with the improving market conditions led by favourable economic indicators, we can expect a mild recovery of interest in the property sector.

Top picks

- **Sunway (BUY, TP: RM5.16):** A re-rating catalyst given its diversified income stream and declassification from property sector. We continue to advocate it as a deep value stock with mature investment properties and the underappreciated trading and healthcare segments, which are undergoing massive expansions. Potential higher dividend of >3% is another investment merit.
- **SP Setia (BUY, TP: RM4.00):** We remain positive on the imminent synergistic acquisition of I&P Group given its attractive price and RNAV accretive as well as boosting of overall landbank to 9.5k acres (3rd largest). Consistent dividend yield of 5% is also a positive point.

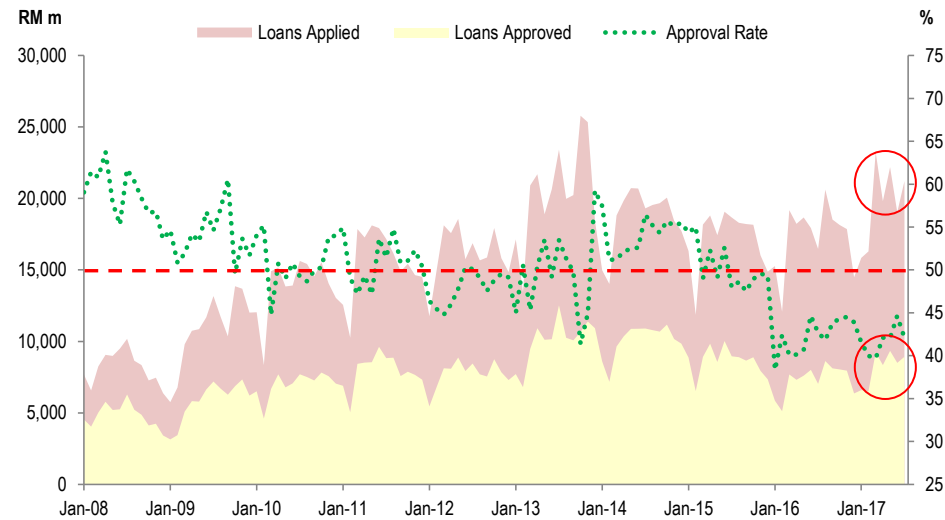
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Sunway Share Price

SP Setia Share Price


Figure #1 Sales Target Trend

Company	Sales Target (RM m)					
	FY14A	FY15A	FY16T	FY16A	FY17T	1H17A
IOI PROPERTIES*	1,967	1,729	2,215	2,900	2,300	-
SP SETIA	4,623	4,320	3,500	3,800	4,000	2,100
SUNWAY	1,300	912	900	923	900	339
UEM SUNRISE	2,443	2,357	1,000	1,370	1,200	392
MAH SING	3,430	2,300	1,800	1,780	1,800	819
MATRIX CONCEPTS*	630	806	1,000	1,000	1,100	295 (1Q)
TAMBUN	429	263	243	229	180	83
IBRACO	NA	NA	NA	160	350	229
Total	14,822	12,686	12,000	10,658	11,830	4,257

Source: Company, HLIB; * odd financial year end

Figure #2 Loan Applied, Approved and Approval Rate

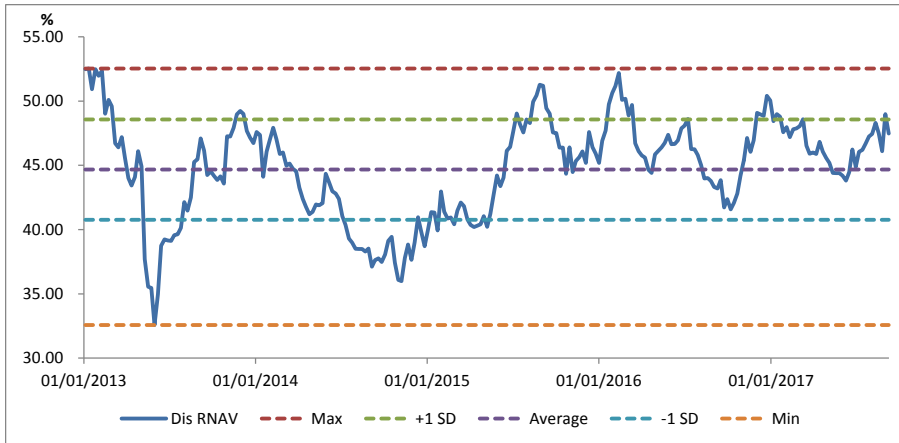
Source: BNM, HLIB

Figure #3 Peer Comparison

Company	Current Px	Recomm	TP	Upside	Mkt Cap (m)	Discount to RNAV	P/E (x)		P/B (x)		Dividend Yield	
							CY17	CY18	CY17	CY18	CY17	CY18
IOI PROPERTIES	2.01	Buy	2.54	26%	11,067.4	(48.5)	10.9	10.8	0.6	0.5	3.0	3.0
SP SETIA BHD	3.55	Buy	4.00	13%	10,601.5	(37.8)	13.3	9.8	1.1	1.1	4.8	5.1
SUNWAY BHD	4.57	Buy	5.14	12%	9,503.9		16.1	14.9	1.2	1.1	3.1	3.3
UEM SUNRISE BHD	1.21	Hold	1.18	-2%	5,490.3	(58.8)	24.7	22.4	0.8	0.8	0.8	0.8
MAH SING GROUP	1.52	Hold	1.57	3%	3,675.1	(36.9)	9.9	8.4	1.0	1.0	4.0	5.3
MATRIX CONCEPTS	2.79	Buy	2.98	7%	1,645.8	(25.0)	7.5	5.6	1.4	1.2	5.3	7.1
TAMBUN	1.17	Hold	1.39	19%	507.0	(49.8)	6.3	5.5	1.4	1.5	6.0	6.4
IBRACO BHD	0.88	Buy	1.00	14%	436.8	(40.9)	14.9	7.4	1.4	1.5	4.0	4.0
ECO WORLD DEVELO	1.59	NR			4,681.5	(30.9)	35.9	18.6	1.1	1.0	-	-
Average						(41.1)	15.5	11.5	1.1	1.1	3.5	3.9

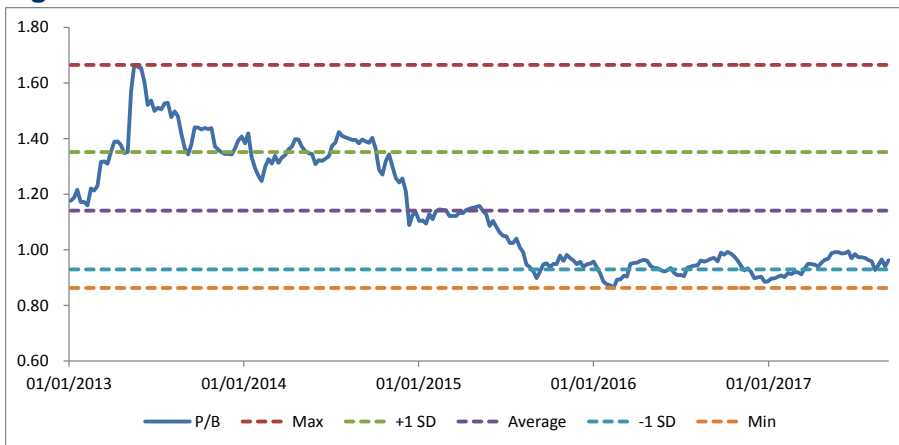
Source: HLIB

Figure #4 Sector RNAV Band (selective big caps)



Source: Companies, HLIB

Figure #5 Sector PB Band



Source: Companies, HLIB

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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
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