

05 October 2016 | Sector Update

PROPERTY**Maintain NEUTRAL****2Q16 property transaction value improved slightly****KEY HIGHLIGHTS**

- **Property developers' result in 2QCY16 was unexciting**
- **Slight recovery of property transaction value in 2Q2016**
- **But Approved Loan for Purchase of Property is still lower on-year**
- **Consumer Sentiment Index has improved slightly**
- **Maintain NEUTRAL on the sector with UOADEV (BUY; TP: RM2.68) as top pick**

Property developers' result in 2Q2016 was unexciting. Out of the nine property developers under our coverage, only 22% or two of the stocks under our coverage (IOIPG and UOADEV) reported earnings which were above expectations. The outperformance is mainly due to faster than expected progress billing and margin. UOADEV achieved good margin due to lumpy contribution from Desa Green Serviced Apartments which were completed during the quarter. Moreover, 44% or four stocks underperformed (SPSETIA, SUNWAY, UEMS and GLOMAC) mainly due to lower than expected margin while 33% or three stocks (ECOWLD, MAHSING and E&O) reported earnings which matched expectation.

Slight recovery of property transaction value in 2Q2016. According to the latest Property Market Report released by National Property Information Centre (NAPIC), Malaysia property market transaction value has improved by 3.6%qoq to RM32.0b in the 2Q2016. The increase in transaction value is consistent with the rise in transaction volume by 4.4%qoq to 83,517 units. For residential market, house price range from RM500k to RM1.0m registered the highest growth of 13.6% followed by RM400k to RM500k (10.0%) and above RM1.0m (9.6%). We are positive on the quarterly increase as buyers may have returned to purchase property. Having said that, the 1H16 property market transaction value is still lower than in 1H15 by 15.6%.

But Approved Loan for Purchase of Property is still lower on-year. The latest Bank Negara statistics show that "Approved Loan for Purchase of Property" in July 2016 decreased 13%yoy to RM10.5b, a continuous decline for eighteen straight months since Feb 2015. On a monthly basis, approved loan in July was 6% lower. The decline in approved loan was mainly due to lower applied loan amount. On a cumulative basis, total approved loan for 7M2016 is at RM67.5b (-22%yoy).

Consumer Sentiment Index has improved slightly. The latest publication from Malaysian Institute of Economic Research (MIER) shows that 2Q2016 Consumer Sentiment Index (CSI) has recovered to 78.5 from 1Q2016's 72.9 and all-time low of 63.8 in 4Q2015. Nonetheless, MIER mentioned that CSI is still below the threshold level of optimism. We gather that while household incomes are fairly stable, worries over higher prices are growing. We believe that the data suggest some return of interest among property buyers but buyers are likely to remain price sensitive.


Maintain NEUTRAL with UOADEV (BUY; TP: RM2.68) as our top pick. We like UOADEV due to three reasons: i) its FY16 sales should make a strong comeback in FY16 due to low base in FY15, ii) its superior dividend yield of 5.8% (highest among property developers), and iii) its sturdy balance sheet with net cash position of RM670m or 44sen/share. 

Table 1: Summary of Property Developer quarterly result

No	Stock	Period Under Review	No Of Quarters	Cumulative Qtr CNI (RM m)	CNI % of our estimate	Against Expectation	Comment
1	E&O	3MFY17	1	14.5	16%	Within	Earnings in 2Q/3Q should be lifted by profit recognition of its Princes House project in UK.
2	MAHSING	6MFY16	2	208.9	53%	Within	
3	SUNWAY	6MFY16	2	237.4	40%	Below	Weaker than expected earnings from property investment and construction division in 2QFY16.
4	UEMS	6MFY16	2	57.2	22%	Below	Lower than expected margin possibly due to the additional rebates and discounts and more affordable product offerings by the Company.
5	UOADEV	6MFY16	2	220.3	63%	Above	Better margin achieved and lumpy contribution from Desa Green Serviced Apartments which were completed during the quarter.
6	SPSETIA	6MFY16	2	202.3	28%	Below	Lower than expected margin.
7	GLOMAC	3MFY17	1	3.5	5%	Below	Lower than expected margin.
8	ECOWLD	9MFY16	3	100.0	80%	Within	
9	IOIPG	FY16	4	812.6	122%	Above	Faster than expected progress billing.

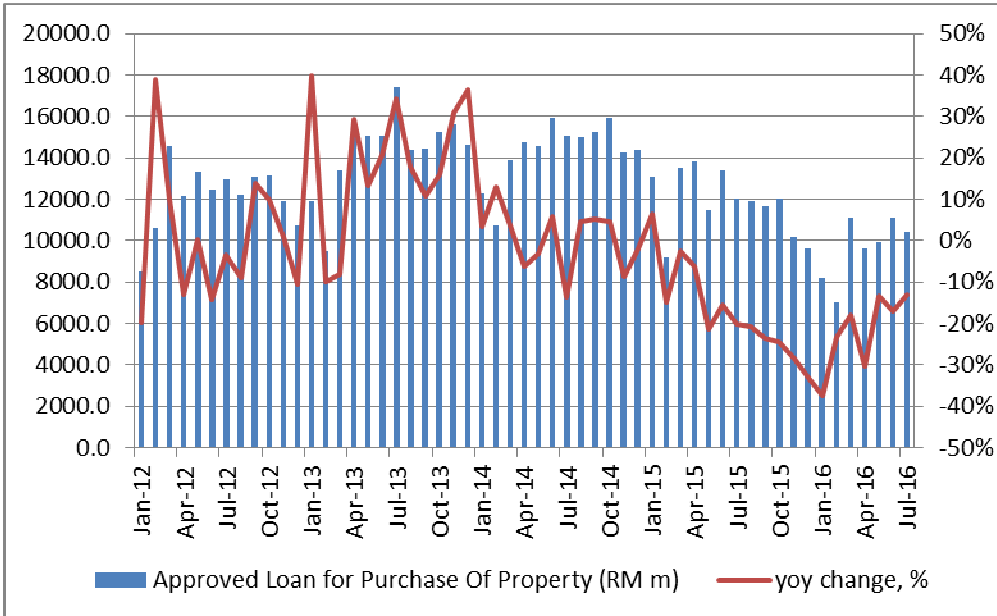
Source: Respective Company, MIDF Research

Table 2: Property Sales Data

Quarter	Transaction Value (RM m)	Transaction Volume, unit
1Q15	38,956	93,490
2Q15	37,616	92,917
3Q15	37,513	85,889
4Q15	35,813	89,809
1Q16	31,721	80,011
2Q16	32,878	83,517
Change, yoy (2Q16 vs 2Q15)	-12.6%	-10.1%
Change, qoq	3.6%	4.4%
1H15	76,572	186,407
1H16	64,599	163,528
Change, yoy (1H16 vs 1H15)	-15.6%	-12.3%

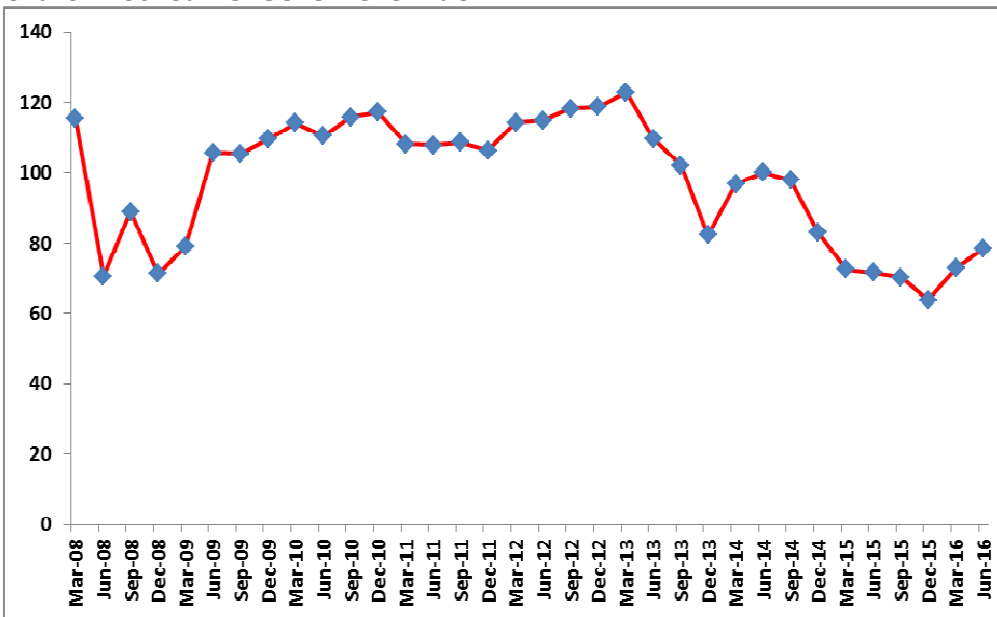
Source: NAPIC, MIDF Research

Chart 1: Total Loans Approved To Purchase Properties has declined yoy



Source: Bank Negara, MIDF Research Compilation

Chart 2: Consumer Sentiment Index



Source: Malaysian Institute of Economic Research, MIDF Research

Table 3: Peers Comparison

Stock	FYE	Rec.	Price @ 4-Oct	Tgt Price (RM)	Core EPS (sen)		Core PE (sen)		Net Dvd Yield	
					16/17	17/18	16/17	17/18	16/17	17/18
E&O	Mar	NEUTRAL	1.68	1.60	7.83	9.92	21.5	16.9	1.5	1.8
MAHSING	Dec	NEUTRAL	1.66	1.68	16.29	17.30	10.2	9.6	3.6	3.9
SUNWAY	Dec	NEUTRAL	3.09	3.07	29.93	32.56	10.3	9.5	3.6	3.6
UEMS	Dec	NEUTRAL	1.22	1.03	2.63	3.74	46.3	32.6	0.6	0.9
UOADEV	Dec	BUY	2.48	2.68	26.76	28.30	9.3	8.8	6.0	6.0
GLOMAC	Apr	NEUTRAL	0.775	0.77	10.51	8.39	7.4	9.2	4.6	3.6
SPSETIA	Dec	NEUTRAL	3.49	3.38	25.02	27.09	13.9	12.9	4.8	5.2
ECOWLD	Oct	BUY	1.30	1.68	4.97	7.73	26.2	16.8	0.0	0.0
IOIPG	June	NEUTRAL	2.51	2.65	18.97	19.34	13.2	13.0	3.2	3.2

Source: MIDF Research Estimate

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.