

# PROPERTY

**Maintain POSITIVE**

**Affordable housing developers to benefit from Budget 2018**

## KEY HIGHLIGHTS

- Extension of “step-up” end financing scheme to private property developers
- RM2.2b allocation for affordable housing measures
- Tax exemption on rental income from residential properties
- Maintain Positive on the sector with BUY call on SP Setia, IOIPG, E&O, and Magna Prima

**Extension of “step-up” end financing scheme to private property developers.** In Budget 2018 announcement last Friday, government announced that “step-up” end financing scheme will be extended to private property developers to encourage more affordable property projects. The “step-up” end financing scheme was implemented in 1st January 2017 for PR1MA program with the aim of making financing easier to buyers with total loan up to 90%-100%. Under “step-up” end financing scheme, home buyers pay interest only for the first five years while on subsequent years pay interest and principal, hence making a significant reduction in monthly home loan instalments for the first five years and increase to higher amount for the consecutive years. The scheme is expected to lead to lower loan rejection rate and provides opportunity for homebuyers to get a higher loan. While the criteria for affordable property projects to qualify for the “step-up” end financing scheme is yet to be determined, it is generally positive to the property market as the scheme will help to address the issue of home buyers in securing home loan.

**Figure 1: “Step-up” end financing scheme under PR1MA**

### Skim Pembiayaan Fleksibel ( SPEF ) PR1MA Estimated Loan Eligibility and Monthly Repayment

Assumption	Conventional Loan	SPEF	SPEF	
			Scenario 1	Scenario 2
Tenure	35 years	35 years	Stepped-Up Financing	Stepped-Up Financing + EPF Account 2
Interest rate	4.45%	4.75%		
Debt Service Ratio (DSR)	60%	70%		
Nett Disposable Income (NDI)	RM1,300	RM1,000		
Other loans	RM750	RM750		
			• Pay interest for first 5 years • Pay principal + interest from year 6 onwards	• Pay interest for first 5 years • Pay principal + interest from year 6 onwards
<b>Monthly Income</b>	<b>Conventional Loan</b>			
2,500	95,000 P+i = 448		116,700 Y1-5 i = 448 Y6 p+i = 666	162,100 Y1-5 i = 626 Y6 p+i = 925
3,000	187,000 P+i = 880		228,600 Y1-5 i = 880 Y6 p+i = 1,305	283,200 Y1-5 i = 1,096 Y6 p+i = 1,615
3,500	257,000 P+i = 1,211		305,900 Y1-5 i = 1,211 Y6 p+i = 1,744	369,600 Y1-5 i = 1,463 Y6 p+i = 2,108
4,000	347,000 P+i = 1,618		408,700 Y1-5 i = 1,618 Y6 p+i = 2,331	Max 440,000 Y1-5 i = 1,906 Y6 p+i = 2,509

Source: PR1MA website

**RM2.2b allocation for affordable housing measures.** Government has outlined seven measures with total of RM2.2b allocation for affordable housing measures. (Please refer to Figure 2 for affordable housing measures outlined in Budget 2018). The long list of measures to address the issue of first home buyers' affordability is largely expected as government has been looking into the issue of affordable housing. Notably, we view the reintroduction of "MyDeposit" scheme positively as it will help more young Malaysians to own home by assisting down payments.

**Figure 2: Affordable Housing Measures**

Affordable Housing Measures in Budget 2018
<ul style="list-style-type: none"><li>• To build 17,300 houses under People's Housing Programme</li><li>• Syarikat Perumahan Negara Berhad (SPNB) will build 3,000 houses under program of People's Friendly Home</li><li>• To build 210,000 houses with prices below RM250k under Perumahan Rakyat 1Malaysia (PR1MA). RM1.5b is allocated for a period of two years.</li><li>• 25k units of houses will be completed in 2018 under 1Malaysia Civil Servants Housing Programme (PPA1M). Meanwhile, 128k units houses under the program are at various stages of construction.</li><li>• 600 units of houses to be built under the scheme "My Beautiful New Homes" for group of B40 in Terengganu, Pahang, Malacca, Johor, Sabah, Sarawak and Orang Asli settlements.</li><li>• Reintroduce "MyDeposit" scheme for 2,000 units of houses to assist down payments as well as MyHomes programme to enable developers to provide more affordable homes.</li><li>• A sum of RM200m is allocated for maintenance and refurbishment of houses, including the 1Malaysia Maintenance Fund.</li></ul>

*Source: Budget 2018 Speech, MIDF Research*


**Tax exemption on rental income from residential properties.** Government announced 50% tax exemption on rental income received by resident individuals not exceeding RM2,000 per month. The tax exemption is effective from the year of assessment of 2018 to 2020. We view the rental income tax exemption to be neutral to slight positive to property market as it should encourage more property investment in residential homes.

**Maintain Positive on property sector.** Post Budget 2018 announcement, we are maintaining our Positive view on the sector as we view that property market is on marginal recovery. Property developers with affordable home projects such as Mah Sing and UOA Development are the key beneficiaries of the measures outlined in Budget 2018 as they are expected to benefit from the extension of "step-up" end financing scheme to private property developers. Meanwhile, no change to RPGT and no reintroduction of DIBS is neutral to the sector as a whole.

**We have BUY call for SP Setia, IOIPG, E&O, and Magna Prima.** We like SPSETIA (BUY; TP: RM4.13) for: i) its plan to achieve FBMKLCI status is now fast track to 2018 (from 2020), ii) attractive price for I&P deal and iii) good dividend yield.

**We like IOIPG (BUY; TP: RM2.41)** due to improving prospect for its property development in Singapore following rises of Singapore's private home prices for the first time in four years in 3Q2017. Besides, we also expect establishment of JV with Hongkong Land for the development of Central Boulevard site to remove overhang and improve balance sheet of IOIPG.

**For E&O (BUY; TP: RM2.37)**, its long-term prospect remains positive with KWAP entered as strategic investor of STP2A. Reclamation works is on-track and first launch of project on STP2A is expected to be in 2019. E&O is also looking to further improve its balance sheet by disposing non-core assets with the latest asset disposal being Lone Pine Hotel in Penang. Its latest net gearing declined to 0.59x in June 2017 from 0.72x in March 2017.

**For Magna Prima (BUY; TP: RM1.59)**, we are turning positive on its sales outlook following a visit to The View Residence sales gallery. We are expecting new property sales to improve in FY17 and this should underpin its earnings in FY18. Another potential catalyst for Magna Prima is the value unlocking of its land in Jalan Ampang. 

**Table 1: Peers Comparison**

Stock	FYE	Rec.	Price @ 27-Oct-2017	Tgt Price (RM)	Core EPS (sen)		Core PE (sen)		Net DPS		Net Dvd Yield	
					FY17F	FY18F	FY17F	FY18F	FY17F	FY18F	FY17F	FY18F
E&O	Mar	BUY	1.51	2.37	2.64	6.44	57.2	23.4	2.00	2.54	1.3	1.7
MAHSING	Dec	NEUTRAL	1.56	1.59	15.67	16.54	10.0	9.4	5.80	6.12	3.7	3.9
SUNWAY	Dec	NEUTRAL	1.69	1.84	11.45	12.44	14.8	13.6	5.27	5.72	3.1	3.4
UEMS	Dec	NEUTRAL	1.19	1.24	5.30	4.39	22.5	27.1	1.04	1.23	0.9	1.0
UOADEV	Dec	NEUTRAL	2.43	2.80	26.67	29.11	9.1	8.3	15.00	15.00	6.2	6.2
MAGNA	Dec	BUY	1.34	1.59	2.16	5.12	62.0	26.2	0.65	2.05	0.5	1.5
SPSETIA	Dec	BUY	3.30	4.13	27.55	27.01	12.0	12.2	18.59	19.00	5.6	5.8
ECOWLD	Oct	NEUTRAL	1.55	1.70	3.84	6.83	40.4	22.7	0.00	0.00	0.0	0.0
IOIPG	Jun	BUY	1.99	2.41	20.91	15.83	9.5	12.6	6.00	6.02	3.0	3.0

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.