

11 May 2017 | Sector Update

## PROPERTY

*Demand driven recovery*

***Upgrade to POSITIVE  
(previously NEUTRAL)***

### KEY HIGHLIGHTS

- **Property developers' sales are poised to grow in 2017 after three consecutive months of yoy increase in approved loan**
- **Property transaction value has shown trend reversal in 4Q2016**
- **Consumer Sentiment Index has improved in 1Q2017**
- **House Price Index growth is stable at 5.6% in 4Q2016**
- **Upgrade the sector to POSITIVE with SPSETIA (BUY; TP: RM4.03) as our top pick**
- **But we downgrade UOADEV to NEUTRAL due to limited upside**


**Property sales are poised to grow in 2017 after three consecutive months of yoy increase in approved loan.** Based on Bank Negara Malaysia Monthly Statistical Bulletin for March 2017, approved loan for the purchase of property (ALPP) has increased 3% yoy to RM11.43b. The increase is mainly driven by the 20% increase in loan application which implies that demand has improved significantly. Note that the ALPP numbers has shown third consecutive months of positive growth yoy and hence we believe that the uptrend of better sales for developers has just been confirmed. For the 1Q2017, approved loan grew by 9% to RM28.62b. On a monthly basis, ALPP surged 35%mom due to 40% increase in loan application. In our view, the higher approved loan disbursed into the market is a good leading indicator that property transactions value have increased and hence property developers sales should naturally improve.

**Property transaction value has shown trend reversal in 4Q2016.** According to the latest Property Market Report released by National Property Information Centre (NAPIC), Malaysia property market transaction value has improved 60%qoq and 38%yoy to RM49.6b in the 4Q2016. By segment, the highest growth in transaction value is seen for "Commercial" property with price range above RM1.0m. We believe that the data reflects demand recovery among consumers due to stable Ringgit and employment outlook.

**Consumer Sentiment Index has improved in 1Q2017.** The latest publication from Malaysian Institute of Economic Research (MIER) shows that 1Q2017 Consumer Sentiment Index (CSI) has improved to 76.6 from 4Q2016's 69.8 and 1Q2016's 72.9. We gather that consumers are generally more optimistic and have indicated their cautiously ambitious spending plans. We believe that the data suggest that the demand outlook for property among the potential buyers has improved and this should translate to better sales in 2017.

**House Price Index growth is stable at 5.6% in 4Q2016.** HPI growth remains positive as it grew by 5.6%yoy to 243.3 in 4QCY2016 although it is lower than the 5-year average growth of 9.1%. There is also some decline qoq but we think that this should be temporary as Malaysian economy has picked up. Among the key states, the highest yoy growth was recorded in Selangor (+8.2%yoy to 244.5). This is followed by Johor's +7.7%yoy, Kuala Lumpur's +5.3%yoy and Penang's +0.7%yoy. We believe that the outlook for property price growth is better in Greater KL (Selangor and KL) due to the support from urbanization factor.

**Upgrade the sector to POSITIVE with SPSETIA (BUY; TP: RM4.03) as our top pick.** We have recently upgraded SPSETIA to BUY due to i) our belief that it will gain FBMKLCI status in 3 years' time, ii) positive newsflow surrounding the I&P deal and iii) good dividend yield of 5.0%. **Other BUY calls are ECOWLD (BUY; TP: RM1.80) and E&O (BUY; TP: RM2.68).** We like ECOWLD for its excellent sales achievement and strong branding. As for E&O, we are positive on the long-term prospect of E&O following the entry of KWAP as strategic investor of STP2A. The entry of KWAP as a strategic investor helps to unlock the value of STP2 project and further ensure the execution of STP2A which is an all-important project to E&O.

**Downgrade UOADEV to NEUTRAL with unchanged TP of RM2.75 due to limited upside.** UOADEV share price has risen by 14% since our upgrade on 24-Nov-2016. Given limited upside to our target price, we downgrade recommendation to Neutral from Buy. Nevertheless, fundamentals of UOA Development remain intact with decent property sales and healthy balance sheet with net cash position. Dividend yield remains attractive at 5.5%. 

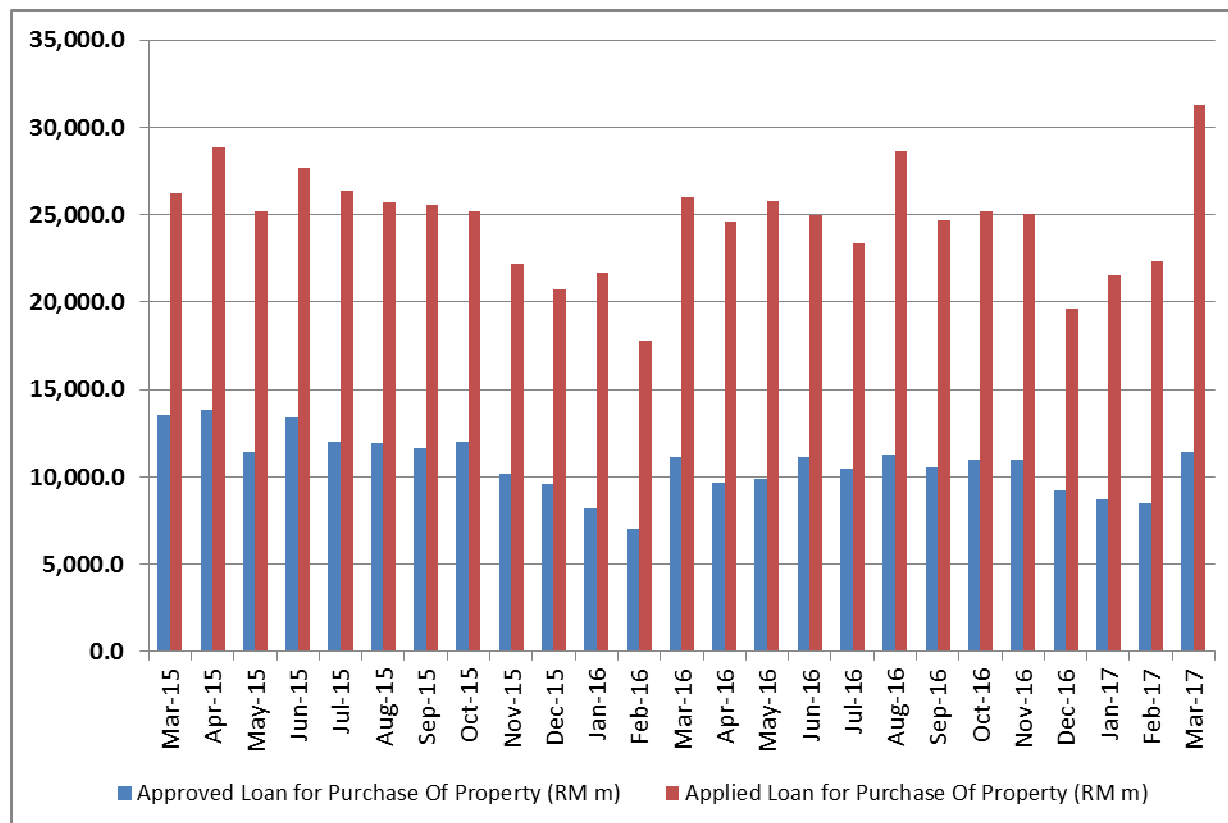
**Table 1: Peers Comparison**

Stock	FYE	Rec.	Price @ 9-May	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	BUY	1.83	2.68	5.09	8.28	35.9	22.1	1.1	1.8
MAHSING	Dec	NEUTRAL	1.54	1.57	15.67	16.54	9.8	9.3	3.8	4.0
SUNWAY	Dec	NEUTRAL	3.62	3.27	26.95	29.28	13.4	12.4	3.4	3.7
UEMS	Dec	NEUTRAL	1.27	1.04	5.30	4.39	24.0	28.9	0.8	1.0
UOADEV	Dec	NEUTRAL	2.72	2.75	27.03	29.72	10.1	9.2	5.5	5.5
GLOMAC	Apr	NEUTRAL	0.695	0.75	2.93	5.41	23.7	12.8	4.3	4.3
SPSETIA	Dec	BUY	3.69	4.03	27.55	28.59	13.4	12.9	5.0	5.1
ECOWLD	Oct	BUY	1.51	1.80	3.06	8.72	49.4	17.3	0.0	0.0
IOIPG	Jun	NEUTRAL	2.10	2.34	18.97	15.46	11.1	13.6	3.8	3.0

Source: MIDF Research Estimate

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**Chart 1: Applied and approved loan for the purchase of property**



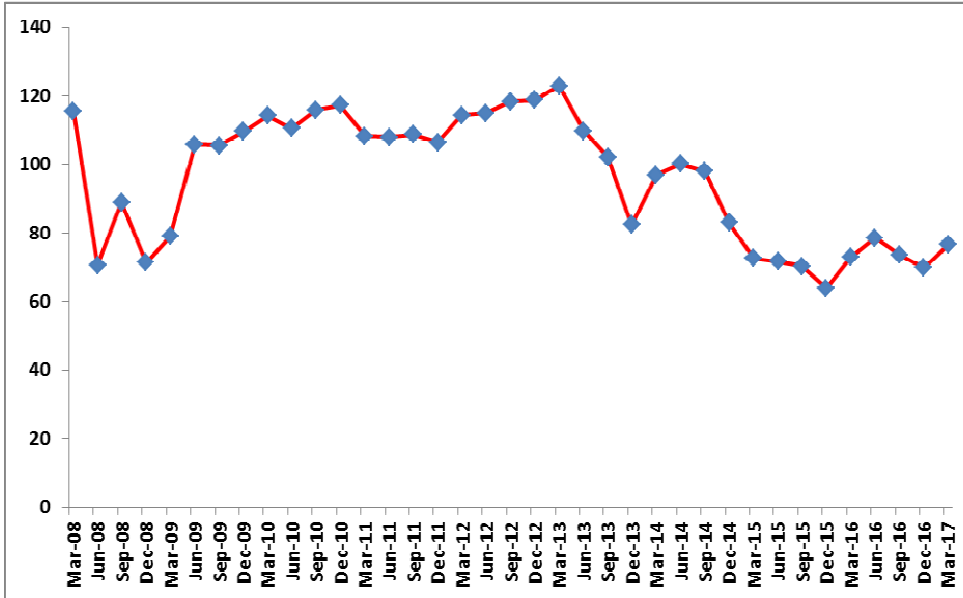
Source: Bank Negara, MIDF Research Compilation

**Table 2: Property Transaction Value and Volume**

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	31,982	80,008
2Q16	32,900	83,516
3Q16	30,968	76,392
4Q16	49,558	80,509
<b>Change, yoy (4Q16 vs 4Q15)</b>	<b>38.4%</b>	<b>-10.4%</b>
<b>Change, qoq (4Q16 vs 3Q16)</b>	<b>60.0%</b>	<b>5.4%</b>
<b>Year 2015</b>	<b>149,898</b>	<b>362,105</b>
<b>Year 2016</b>	<b>145,408</b>	<b>320,425</b>
<b>Change, yoy (2016 vs 2015)</b>	<b>-3.0%</b>	<b>-11.5%</b>
<b>Change, yoy (4Q16 vs 4Q15)</b>	<b>38.4%</b>	<b>-10.4%</b>

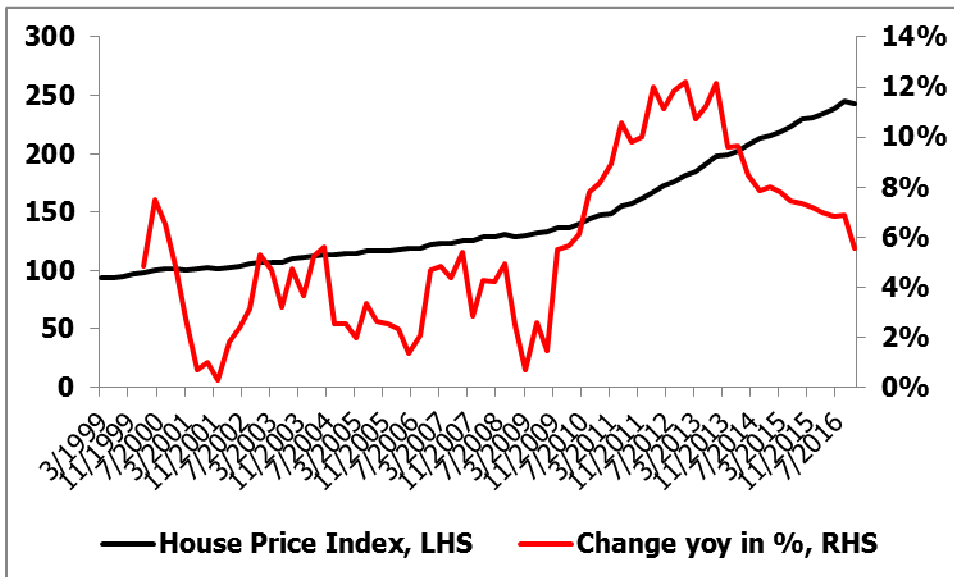
Source: NAPIC, MIDF Research Compilation

**Chart 2: Consumer Sentiment Index has improved**



Source: Bank Negara, MIDF Research Compilation

**Chart 3: Malaysia House Price Index**



Source: NAPIC, MIDF Research Compilation

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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.