

08 July 2016 | Sector Update

PROPERTY**Maintain NEUTRAL****First sign of property demand recovery****KEY HIGHLIGHTS**

- **Property developers' result in 1QCY16 was mixed**
- **Property transaction value declined in 1QCY16 but affordable properties decline at less severe rate**
- **First sign of property demand recovery in May-2016 but still too early to confirm its sustainability**
- **Consumer Sentiment Index has improved slightly**
- **Maintain NEUTRAL on the sector with UOADEV (BUY; TP: RM2.54) as top pick**

Property developers' result in 1QCY16 was mixed. Out of the eight property developers under our coverage, 25% or two of the stocks under our coverage (UEMS and E&O) reported earnings which were below expectations. UEMS experienced slower-than-expected work progress for Arcoris and Aurora Melbourne Central. PBT margin has also been affected as interest cost increased by 68%yoy to RM21.3m due to higher debts. As for E&O, its weaker results were due to lower-than-expected progress billing of property projects and higher expenses. Only GLOMAC managed to beat our estimate due to higher than expected billings as the Reflection Residences project has entered its final stages. Overall, 1QCY16 earnings were mixed with two underperforming expectations and one exceeding expectation.

Property transaction value declined in 1QCY16 but affordable properties decline at less severe rate.

According to the latest preliminary Property Market Report released by National Property Information Centre (NAPIC), Malaysia property market transaction value declined by -18%yoy to RM32.0b in the 1Q2016. The negative growth in transaction value is consistent with the decline of -14% in transaction volume to 80,029 units in 1Q2016. Further analysis of the data suggests market preference towards affordable house at below RM500k. As it is, transaction value for properties below RM500k declined -11%yoy as compared to -23% decline for properties worth RM500k-RM1.0m and -20% decline for properties worth RM1.0m and above.

First sign of property demand recovery? Property demand (as measured by "Applied Loan for Purchase of Property" by Bank Negara) increased for the first time in 16 months after increasing +2%yoy to RM25.79b in May 2016. It has also improved +5%mom. This is a small positive surprise to us as it could signal recovery in loan demand if the trend persists. Cumulative 5M2016 applied loan is still 6% lower yoy against 5M2015 due to weak performance in the first 4 months (4M2016 down 8%yoy). Having said that, "Approved Loan for Purchase of Property" is still lower by -13%yoy to RM9.91b suggesting that tighter lending environment has more than offset the slight recovery in demand. We will continue to monitor the increase in demand to see whether it is a sustained change in trend.

Consumer Sentiment Index has improved slightly. The latest publication from Malaysian Institute of Economic Research (MIER) shows that 1QCY2016 Consumer Sentiment Index (CSI) has recovered to 72.9 from all-time low of 63.8 in 4Q2015. Having said that, MIER mentioned that CSI is still below the threshold level of confidence and job outlook clouds expected incomes among consumers. 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: RM2.54) as our top pick. We like UOADEV due to three reasons: i) its FY16 sales should grow 88%yoy to RM1.50b supported by launches from United Point Kepong and Desa Sentul II, ii) its superior dividend yield of 6.5% (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	FY16	4	19.9	60%	Below	FY16 Core Net Income (CNI) of RM19.9m was below expectations accounting for 60% of our estimate. This is due to lower-than-expected progress billing of property projects and higher expenses.
2	MAHSING	3MFY16	1	102.9	26%	Within	
3	SUNWAY	3MFY16	1	104.5	19%	Within	
4	UEMS	3MFY16	1	2.3	1%	Below	Project billing is lower due to slower than expected work progress for Arcoris and Aurora Melbourne Central. PBT margin has also been affected as interest cost increased by 68%yoy to RM21.3m due to higher debts.
5	UOADEV	3MFY16	1	97.3	28%	Within	
6	SPSETIA	3MFY16	1	98.2	14%	Within	Deemed as within expectation. Revenue recognition is expected to accelerate in the 4th quarter as lumpy recognition from Parque Melbourne and Battersea Phase One starts in Dec-2016
7	GLOMAC	FY16	4	101.9	123%	Above	Higher than expected billings as Reflection Residences project has entered final stages.
8	ECOWLD	3MFY16	1	20.7	17%	Within	Earnings recognition to be stronger in the remaining of the financial year from its key projects such as Eco Majestic, Eco Sanctuary and Eco Sky.

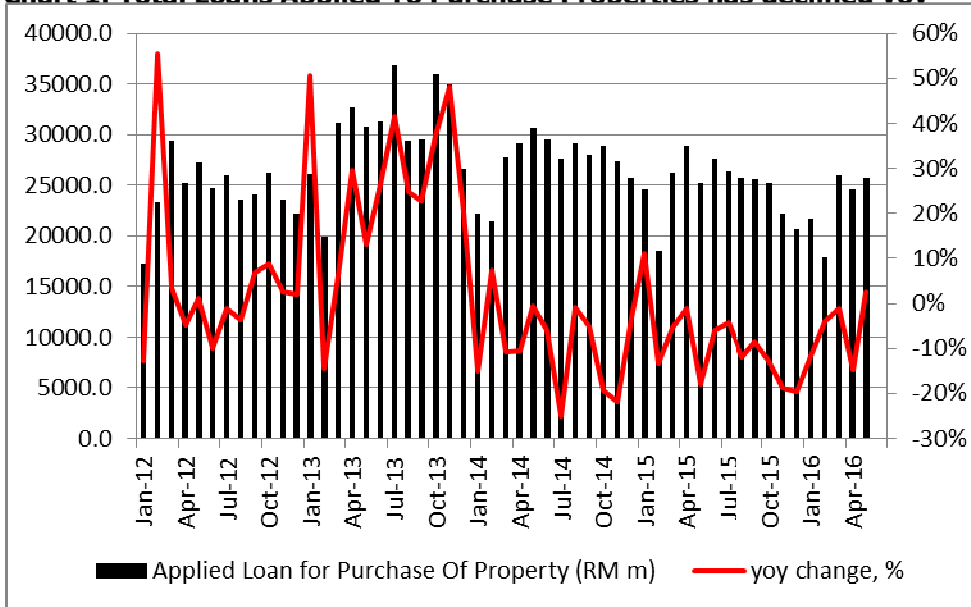
Source: Respective Company, MIDF Research

Table 2: Preliminary Property Sales Data

Quarter	Transaction Value (RM m)	Transaction Volume, unit
1Q15	38,956	93,490
4Q15	35,813	89,809
1Q16	31,993	80,029
Change, yoy	-17.9%	-14.4%
Change, qoq	-10.7%	-10.9%

Source: NAPIC, MIDF Research

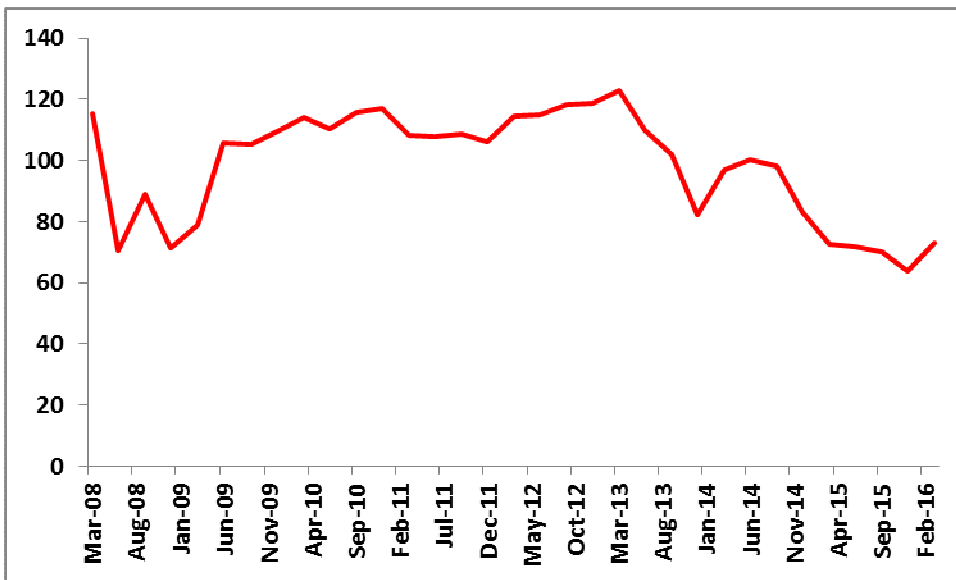
Chart 1: Total Loans Applied To Purchase Properties has declined yoy



Applied Loan for May-16 increased 2%yoy to RM25.79b

Source: Bank Negara, MIDF Research Compilation

Chart 2: Consumer Sentiment Index



Consumer Sentiment Index has recovered slightly

Source: Malaysian Institute of Economic Research, MIDF Research

Table 4: Peers Comparison

Stock	FYE	Rec.	Price @ 5-July	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	1.70	1.60	7.83	9.92	21.7	17.1	1.5	1.8
MAHSING	Dec	NEUTRAL	1.46	1.57	16.29	17.30	9.0	8.4	4.1	4.4
SUNWAY	Dec	NEUTRAL	2.99	3.20	34.00	35.95	8.8	8.3	4.0	4.0
UEMS	Dec	NEUTRAL	1.03	1.05	4.48	4.77	23.0	21.6	2.5	2.8
UOADEV	Dec	BUY	2.17	2.54	22.90	27.70	9.5	7.8	6.5	6.9
GLOMAC	Apr	NEUTRAL	0.78	0.79	10.51	8.39	7.4	9.3	5.0	4.7
SPSETIA	Dec	BUY	2.87	3.65	27.18	29.97	10.6	9.6	6.4	7.0
ECOWLD	Oct	BUY	1.23	1.68	4.97	7.73	24.8	15.9	0.0	0.0

Source: MIDF Research Estimate

Alan Lim, CFA
alan.lim@midf.com.my
03-21738464

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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.