

PROPERTY

Upgrade to POSITIVE

(Previously NEUTRAL)

Gradual recovery for property sector in 2H2020

KEY INVESTMENT HIGHLIGHTS

- **New property sales outlook to be supported by PENJANA incentives**
- **Rising work-from-home (WFH) may drive higher demand for bigger homes**
- **Loan demand to recover in 2H2020**
- **Easing property overhang issue**
- **Aggressive OPR cuts improve homebuyers' purchasing power**
- **Property counters are trading below historical price-to-book ratio**
- **Upgrade Property sector to POSITIVE from NEUTRAL**

New property sales outlook to be supported by PENJANA incentives.

Property developers recorded dismal earnings and weak property sales in 1QCY due to Movement Control Order (MCO). Nevertheless, we expect new property sales outlook to improve gradually in 2HCY20 due to incentives in Short Term Economic Recovery Plan (PENJANA). The incentives include (i) reintroduction of Home Ownership Campaign (HOC) for residential properties from RM300,000 to RM2.5m from 1st June 2020 to 31st December 2021, (ii) uplift the 70% margin of financing limit for the third housing loan onwards for properties valued at RM600k and above during the HOC period, and (iii) RPGT exemption from 1 June 2020 to 31 December 2021 for three residential properties per individual. We expect the incentives to stimulate buying interest and support new property sales.

Rising work-from-home (WFH) may drive higher demand for bigger homes.

Workplace culture changed as Covid-19 pandemic has led to nationwide employees working from home (WFH) during MCO. The new remote work culture is expected to be the new normal going forward. This may play a role in future homebuyers' decision making as homebuyers may upgrade house for bigger spaces and better lifestyle in accommodating to the new WFH culture. For instance, employees whom are renting room may consider buying property for bigger working space while small families might upgrade to bigger houses. In a nutshell, we think WFH culture may support demand for owner-occupied property especially properties in affordable to mid-range.

Loan demand to recover in 2H2020. According to loan statistic released by Bank Negara Malaysia, total applied loan for purchase of property improved sequentially by 52.9%mom to RM13.1b in May 2020 after plunging by 64.8%mom in April 2020. Note that total applied loan recorded steep decline in April due to the disruption to business activity following the commencement of MCO. Nevertheless, total applied loan in May was lower by 61.8%yoy while cumulative total applied loan in 5MCY20 was lower by 33.6%yoy, indicating buying interest was subdued. Looking ahead, we expect buying interest to recover in 2HCY20 due to incentives introduced in PENJANA.

COMPANY IN FOCUS

Mah Sing Group Berhad

Maintain **BUY** | Unchanged Target price: RM0.82
Price @ 27th July 2020: RM0.685

- Mah Sing maintained its new sales target of RM1.6b as new sales are expected to catch up in 2HFY20.
- Mah Sing is trading at 58% discount to its latest NTA of RM1.44 per share.
- Upcoming dividend of 3.35sen (ex-date: 15 September 2020) translates into yield of 4.9%.

Share price chart



S P Setia Berhad

Maintain **BUY** | Unchanged Target price: RM1.42
Price @ 27th July 2020: RM0.78

- Progress billing to pick up in 2HFY20 as construction works resume.
- New launches concentrates on the mid-range landed units to cater for the demand of owner-occupiers.
- S P Setia is trading at a steep discount of 77% to its NTA of RM3.51 per share.

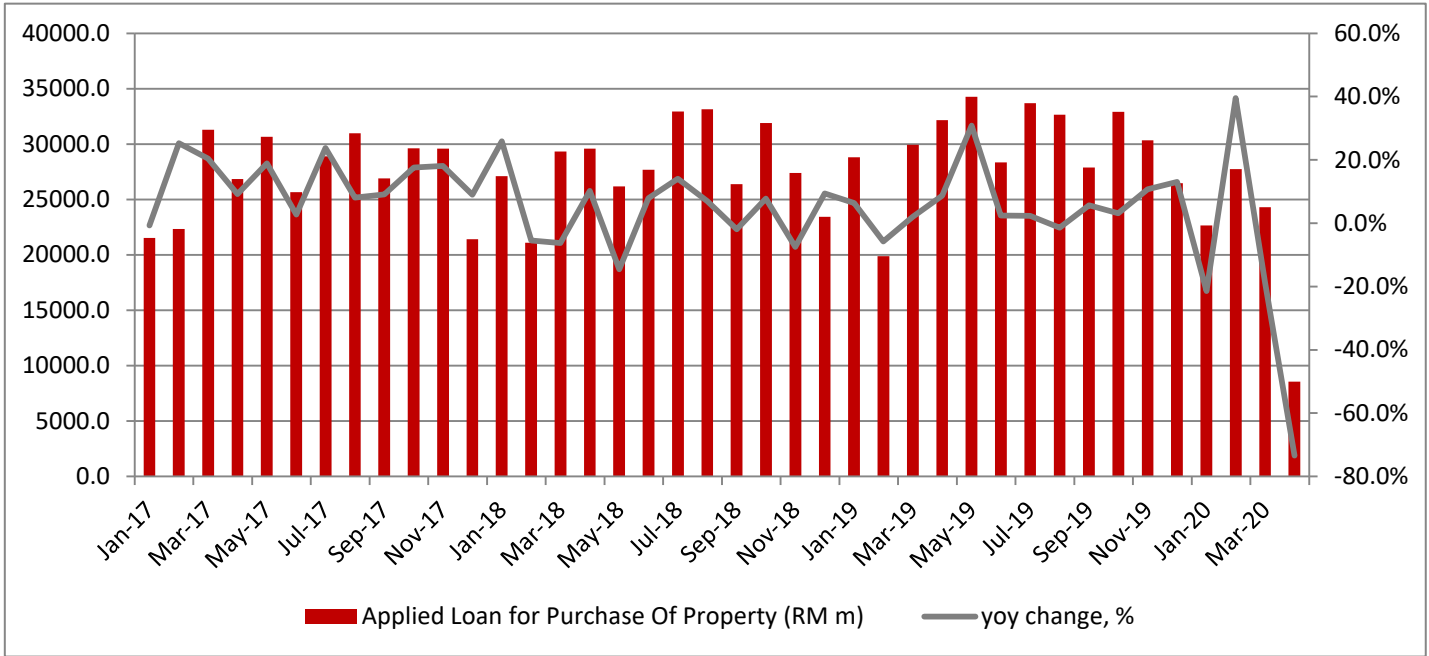
Share price chart



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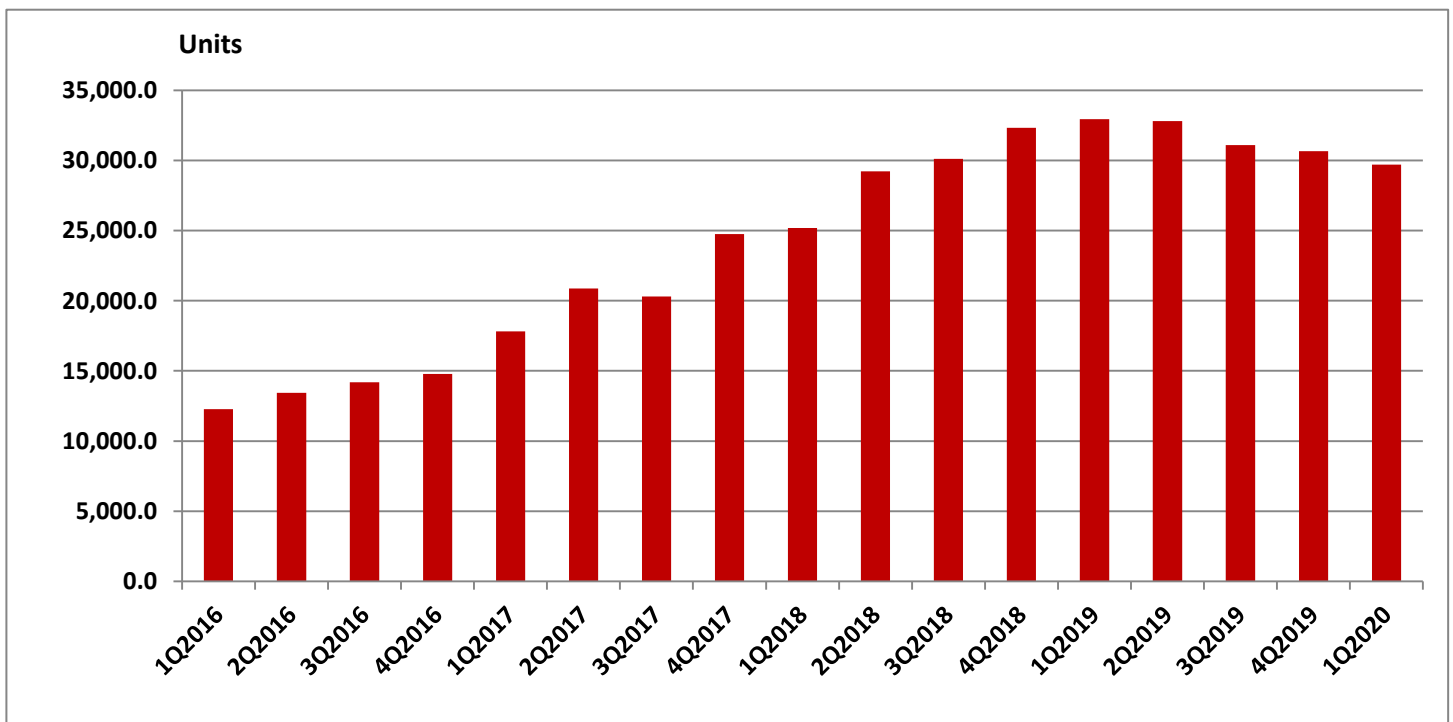
Figure 1: Applied loan for purchase of property



Source: Bank Negara Malaysia, MIDF Research

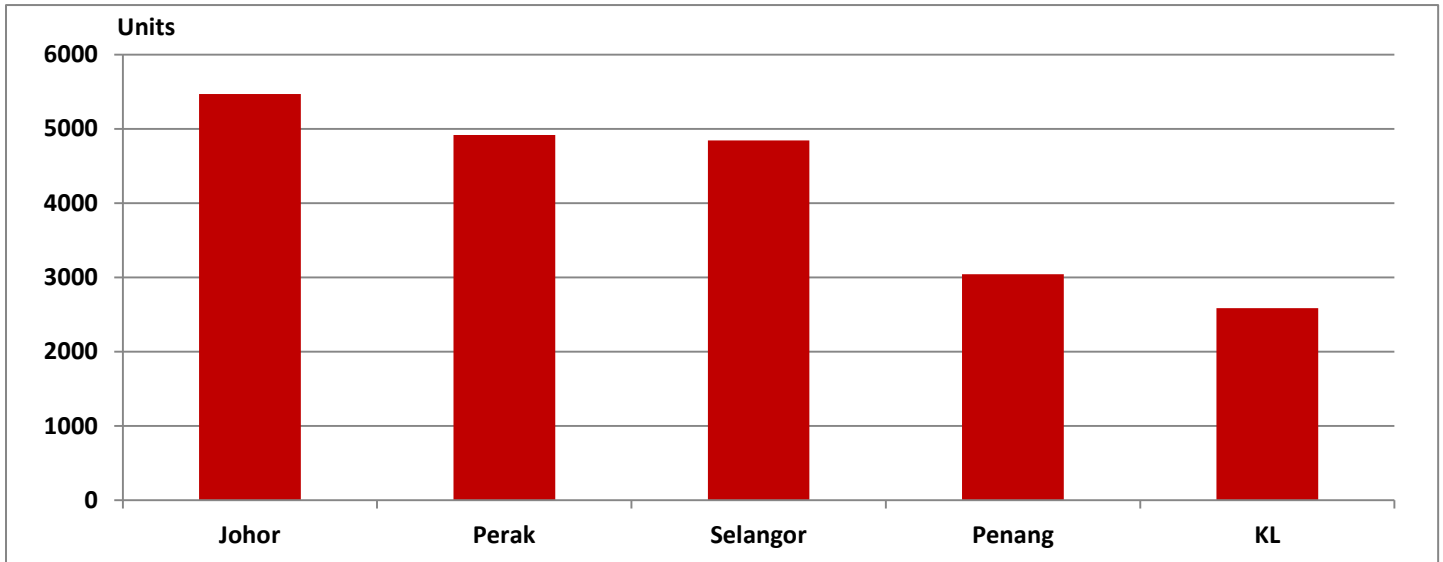
Easing property overhang issue. According to data released by National Property Information Centre (NAPIC), unsold completed residential units in Malaysia eased for four consecutive quarters in 1Q2020 since 2Q2019. Latest data as of 1Q2020 saw that unsold completed residential units eased by 3.2%qoq and 9.8%yoy to 29,698units. Johor has the highest number of residential overhangs with 5,468 units, followed by Perak (4,919 units) and Selangor (4,844 units). We think that the decline in property inventory were largely due to HOC in 2019 and aggressive efforts of property developers to clear their inventory whereby developers offered discount and attractive package to attract property buyers. Going forward, we reckon property inventory to continue decline in 2020 due to reintroduction of HOC.

Figure 2: Unsold completed units



Source: NAPIC, MIDF Research

Figure 3: Top 5 states with residential overhang (as of 1Q2020)

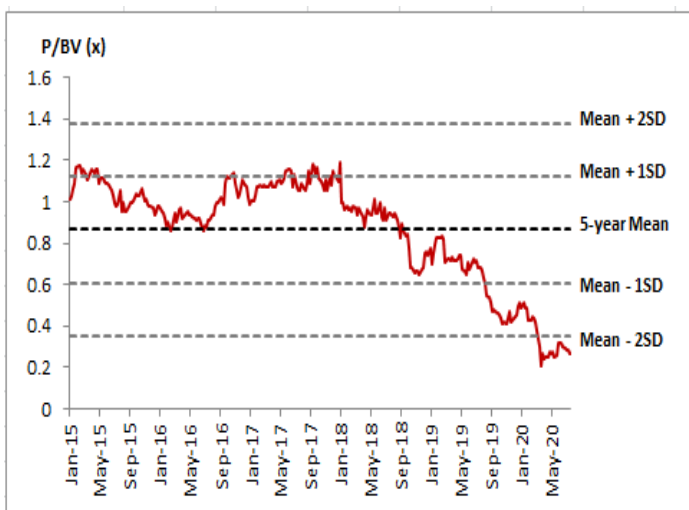


Source: NAPIC, MIDF Research

Aggressive OPR cuts improve homebuyers’ purchasing power. Bank Negara Malaysia (BNM) cut its overnight policy rate (OPR) for the fourth time this year by 25 basis points (bps) to a record low of 1.75% on 7th July 2020 due to severe impact of the Covid-19 pandemic on the global economy. Recall that BNM cut OPR by 25bps each in January and March and subsequently cut OPR by 50bps on 5th May 2020. The aggressive OPR cuts this year to record low OPR is positive to the sector as it improves homebuyer’s purchasing power by reducing loan installment. We estimate monthly installment to reduce by ~14%, after 125bps cut for RM500k loan with loan repayment period of 30 years, which is quite significant in our view. Hence, we think the record low interest rate will partly help to alleviate homebuyers’ issue of securing home financing as the record low yield has boosted affordability of homebuyers.

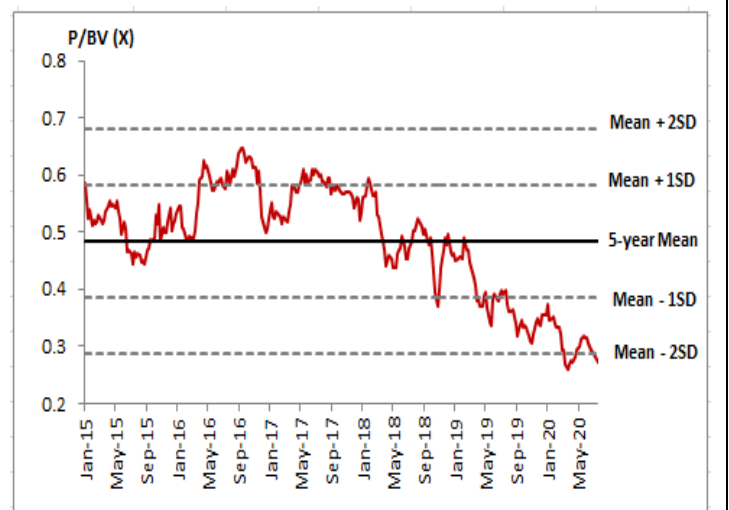
Property counters are trading below historical price-to-book ratio. Most of the developers are trading at undemanding valuations with the recent drop in share prices. Notably, S P Setia, IOI Properties Group and UEM Sunrise are trading below -2 standard deviation of its 5-year mean price-to-book while Eco World Development Group, Mah Sing Group, UOA Development and E&O are trading below -1 standard deviation of its 5-year mean price-to-book. Hence, we think that the property counters are undervalued and should trade at higher valuation considering that the sector outlook is improving gradually.

Figure 4: S P Setia P/BV



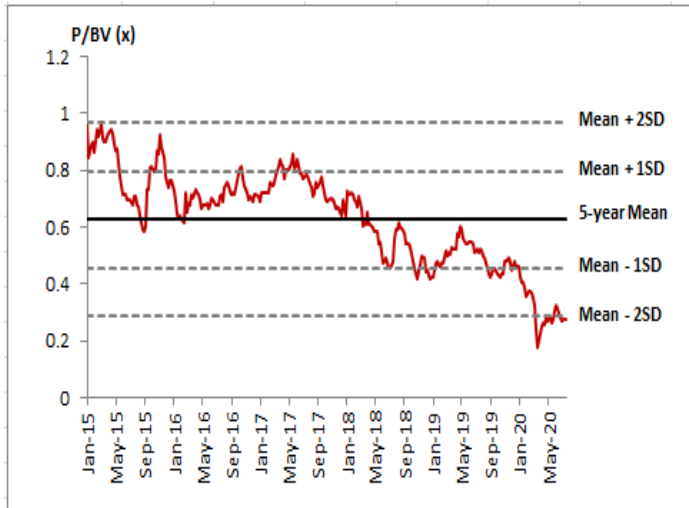
Source: Bloomberg, MIDF Research

Figure 5: IOI Properties Group P/BV



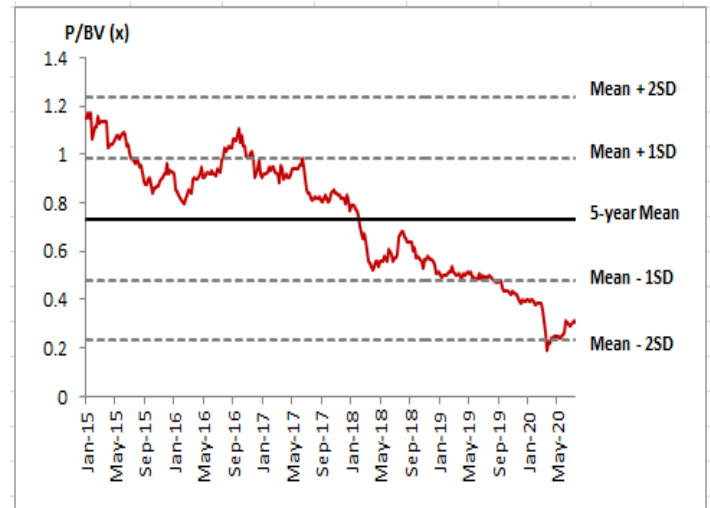
Source: Bloomberg, MIDF Research

Figure 6: UEM Sunrise P/BV



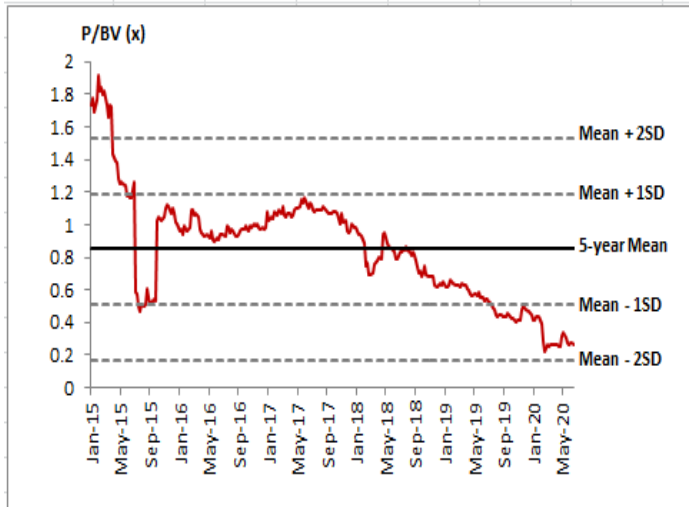
Source: Bloomberg, MIDF Research

Figure 7: Mah Sing P/BV



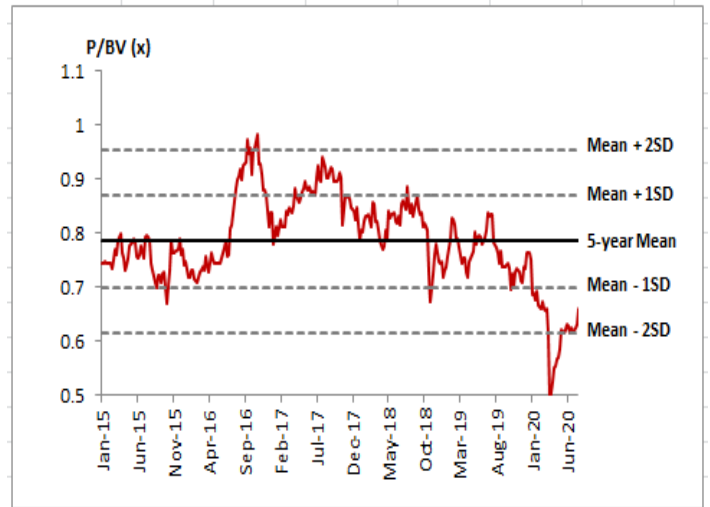
Source: Bloomberg, MIDF Research

Figure 8: Eco World Development P/BV



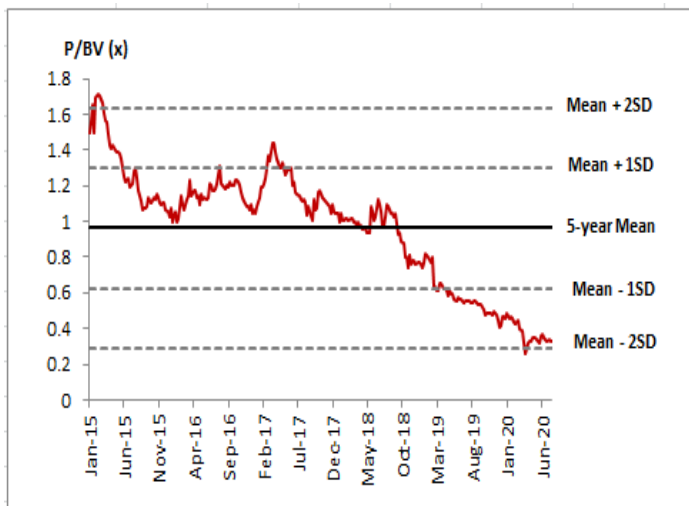
Source: Bloomberg, MIDF Research

Figure 9: UOA Development P/BV



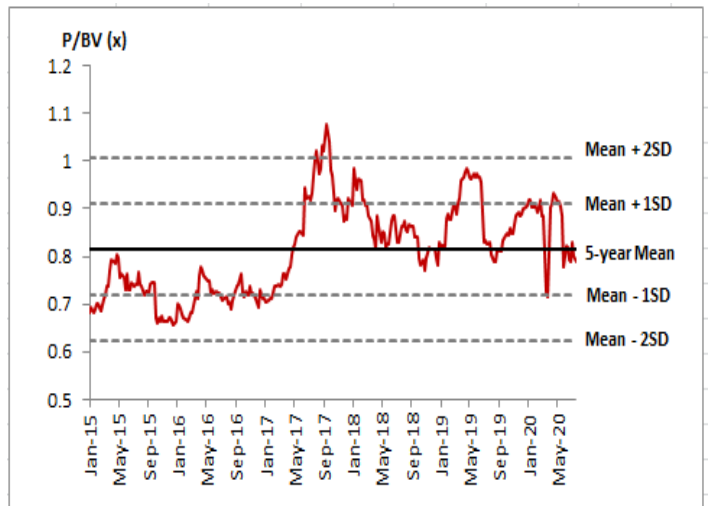
Source: Bloomberg, MIDF Research

Figure 10: E&O P/BV



Source: Bloomberg, MIDF Research

Figure 11: Sunway Berhad P/BV



Source: Bloomberg, MIDF Research

Narrower RNAV discount for property counters. We raise target prices for property counters under our coverage as we narrow our RNAV discount for property companies slightly amid our expectation of gradual recovery for property sector in 2H2020. Target price for S P Setia is raised to RM1.42 from RM1.33, based on 68% (previously 70%) discount to RNAV. Target price for Mah Sing is revised higher to RM0.82 from RM0.70, based on 63% (previously 68%) discount to RNAV. Similarly, target price for UEM Sunrise is adjusted higher to RM0.58 from RM0.54, based on 73% (previously 75%) discount to RNAV. Meanwhile, target price for IOI Properties Group is revised to RM1.29 from RM1.21, based on 68% (previously 70%) discount to RNAV. Likewise, target price for UOA Development is revised to RM2.12 from RM2.06, based on 28% (previously 30%) discount to RNAV. Meanwhile, we revise target price for Eco World Development to RM0.68 from RM0.61 as we reduce RNAV discount to 70% from 73%. As for Sunway Berhad, we revise target price to RM1.61 from RM1.59 based on sum-of-parts valuation. Lastly, target price for E&O is revised to RM0.44 from RM0.42 as we narrow RNAV discount to 87% from 88%.

Figure 12: Peer comparison table

Stock	Rec.	Price @ 27-July-2020	Previous TP (RM)	New TP (RM)	Core EPS		Core PE (sen)		Net DPS		Net Dvd Yield		P/NTA (x)
					FY19A	FY20F	FY19A	FY20F	FY19A	FY20F	FY19A	FY20F	
SPSETIA	BUY	0.78	1.33	1.42	9.2	5.7	8.4	13.6	1.0	1.0	1.3%	1.3%	0.22
MAHSING	BUY	0.685	0.70	0.82	9.7	5.6	7.1	12.2	3.4	2.5	4.9%	3.6%	0.48
UEMS	BUY	0.43	0.54	0.58	6.6	1.8	6.5	23.3	0.0	0.0	0.0%	0.0%	0.30
IOIPG	BUY	0.935	1.21	1.29	11.6	9.4	8.0	10.0	3.0	3.6	3.2%	3.8%	0.27
UOADEV	BUY	1.62	2.06	2.12	18.6	15.0	8.7	10.8	14.0	11.0	8.6%	6.8%	0.61
ECOWLD	BUY	0.415	0.61	0.68	7.0	4.9	5.9	8.4	0.0	0.0	0.0%	0.0%	0.27
SUNWAY	BUY	1.37	1.59	1.61	13.4	11.6	10.2	11.9	9.1	6.9	6.6%	5.1%	0.82
E&O	NEUTRAL	0.400	0.42	0.44	5.9	0.7	6.7	58.4	3.0	1.0	7.5%	2.5%	0.32

Source: MIDF Research

Upgrade Property sector to POSITIVE from NEUTRAL. While we reckon that the upcoming 2QCY20 earnings by developers will be dismal due to the business disruption from MCO, we think that the negatives have been largely priced in considering that KL Property Index has declined by 23.6% year-to-date. We opine investors should look forward to earnings and new property sales recovery in 2HCY20 which will be underpinned by PENJANA incentives and record low interest rate. Besides, the lower property inventory has also eased the concern of property overhang. Hence, we upgrade the Property sector to Positive from Neutral with our top picks being **SP Setia (BUY, TP: RM1.42)** and **Mah Sing (BUY, TP: RM0.82)**. We like SP Setia and Mah Sing as their products are more towards affordable to mid-range properties which cater for demand of owner-occupiers.

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% 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.