

30 December 2016 | Sector Update

PROPERTY**Maintain NEUTRAL****Looking ahead into a lacklustre 2017****KEY HIGHLIGHTS**

- **House Price Index growth slowed to 5.3% in 2Q2016**
- **Property transaction value declined qoq and yoy in 3Q2016**
- **Consumer Sentiment Index is also weaker in 3Q2016**
- **Marginal recovery of in loan demand and approval rate in October**
- **Maintain NEUTRAL on the sector with UOADEV (BUY; TP: RM2.68) as top pick**

House Price Index growth slowed to 5.3% in 2Q2016. HPI grew by 5.3%yoy to 235.4 in 2QCY2016. Note that this is significantly lower than the 5-year average growth of 9.3%. Among the key states, the slowest yoy growth was recorded in Penang (+4.6%yoy to 266.1). Kuala Lumpur HPI growth was better at +6.9%yoy followed by Selangor's +6.6%yoy. We believe that the outlook for property price is better in Greater KL (Selangor and KL) due to the support from urbanization factor.

Property transaction value declined qoq and yoy in 3Q2016. According to the latest Property Market Report released by National Property Information Centre (NAPIC), Malaysia property market transaction value has declined 6.3%qoq to RM30.8b in the 3Q2016. The lower transaction value is consistent with the fall in transaction volume by 8.5%qoq to 76,456 units. Against similar quarter last year, 3Q2016 property market transaction value declined 17.9% mainly due to 11.0% decline in volume. We believe that the data reflects slow demand recovery among consumers due to ongoing concerns on weak Ringgit and uninspiring employment outlook.

Consumer Sentiment Index is also weaker in 3Q2016. The latest publication from Malaysian Institute of Economic Research (MIER) shows that 3Q2016 Consumer Sentiment Index (CSI) has weakened to 73.6 in from 2Q2016's 78.5. We gather that while household income has improved the employment and financial outlook is still uninspiring. We believe that the data suggest that the demand outlook for potential property buyers remains soft in 2017 and they are likely to remain price sensitive.

Marginal recovery of in loan demand and approval rate in October – Loan demand (as measured by "Applied Loan for Purchase of Property" by Bank Negara data) showed marginal recovery in October by inching up 2.1%mom to RM25.2b. On a yearly basis, applied loan in October was relatively unchanged while total applied loan on a cumulative 10MCY2016 declined 4%yoy to RM242.7b. Loan approval rate (approved loan/applied loan) increased in October improved marginally to 43.7% from 42.7% in September. Nevertheless, it remains lower than loan approval rate of 47.7% in October last year. As a result, "Approved Loan for Purchase of Property" in October was higher by 4.4%mom to RM11.0b on the back of higher applied loan and higher loan approval rate. Nevertheless, approved loan in October was 9% lower yoy. On a cumulative basis, total approved loan for 10M2016 is at RM100.3b (-18%yoy).


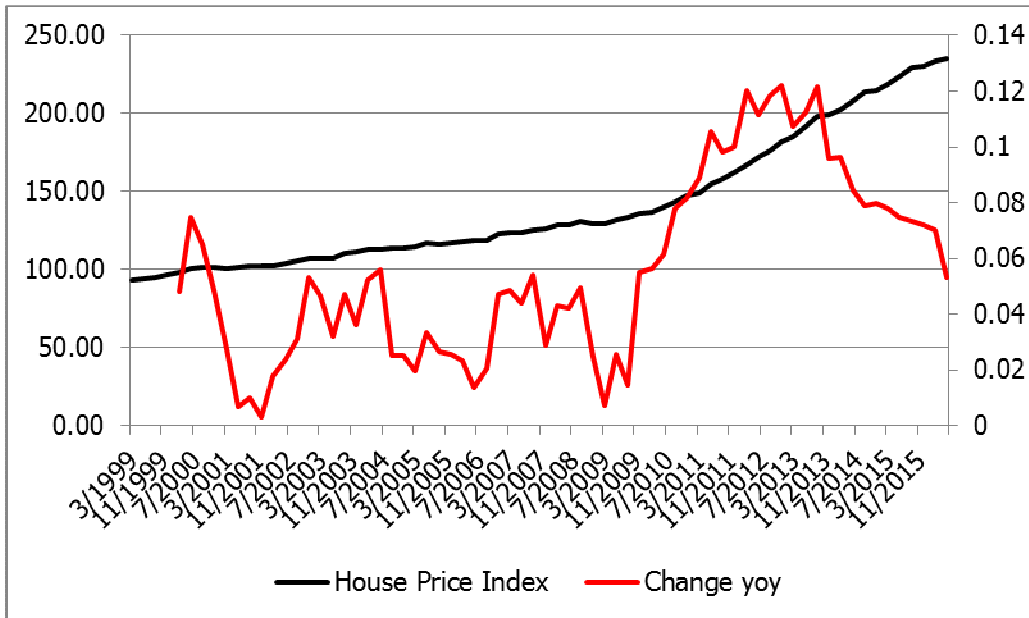
Maintain NEUTRAL with UOADEV (BUY; TP: RM2.68) as our top pick. Overall, we maintain our NEUTRAL view as we think that sales will be at best flattish in 2017. For stock pick, we like UOADEV for: i) minimum 60% sales growth expected in FY16 to RM1.3b (against FY15's RM800m), ii) sturdy balance sheet of UOADEV with net cash of 44 sen per share, iii) highest dividend yield among peers at 6.4% and iv) we expect positive sentiment following the inclusion of UOADEV into FBM Mid 70 Index as mid-cap fund managers may allocate more funds to invest in the company. 

Chart 1: Malaysia House Price Index



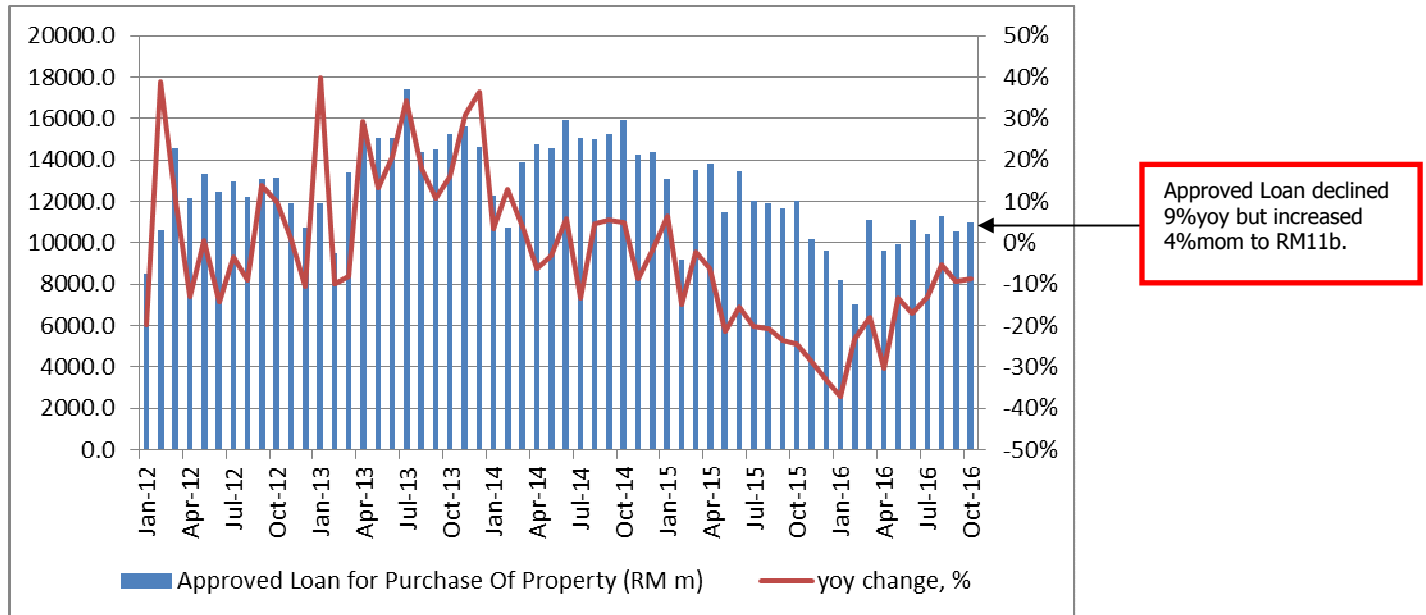
Source: NAPIC, MIDF Research Compilation

Table 1: 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	31,721	80,011
2Q16	32,878	83,517
3Q16	30,795	76,456
Change, yoy (3Q16 vs 3Q15)	-17.9%	-11.0%
Change, qoq	-6.3%	-8.5%
9M15	114,085	272,296
9M16	95,394	239,984
Change, yoy (9M16 vs 9M15)	-16.4%	-11.9%

Source: NAPIC, MIDF Research

Chart 2: Slight recovery in loan demand and approval rate in October



Source: Bank Negara, MIDF Research Compilation

Table 2: Peers Comparison

Stock	FYE	Rec.	Price @ 29-Dec	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	1.45	1.58	4.16	7.79	34.9	18.6	1.1	2.1
MAHSING	Dec	NEUTRAL	1.43	1.57	15.59	15.71	9.2	9.1	4.0	4.1
SUNWAY	Dec	NEUTRAL	3.03	3.25	29.93	32.56	10.1	9.3	3.6	3.6
UEMS	Dec	NEUTRAL	1.05	1.03	3.98	4.17	26.4	25.2	1.1	1.1
UOADEV	Dec	BUY	2.35	2.68	26.76	28.30	8.8	8.3	6.4	6.4
GLOMAC	Apr	NEUTRAL	0.70	0.76	7.98	11.96	8.8	5.9	3.9	5.6
SPSETIA	Dec	NEUTRAL	3.14	3.38	25.02	27.09	12.6	11.6	5.4	5.8
ECOWLD	Oct	BUY	1.35	1.68	7.73	9.54	17.5	14.2	0.0	0.0
IOIPG	June	NEUTRAL	2.08	2.34	19.00	15.50	10.9	13.4	3.8	3.1

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.