

24 October 2016 | Sector Update

PROPERTY

Maintain NEUTRAL

No Major Surprise From Budget 2017

KEY HIGHLIGHTS

- **Focus is on First Home Buyers**
- **Increase in stamp duty on real estate above RM1.0m**
- **No increase in EPF Account 2 allocation for home financing**
- **Real Property Gain Tax (RPGT) rate is unchanged while DIBS ban stays**
- **Recent data shows that the dynamics of the sector are still weak**
- **Maintain NEUTRAL on the sector; UOADEV downgraded to NEUTRAL**

Focus is on First Home Buyers. In the Budget 2017 announced last Friday, the government has announced a new special "step-up" end-financing scheme for the PR1MA program. Through this scheme, financing will be easier and more accessible to the buyers with total loan up to 90% to 100% with loan rejection rate to be reduced drastically. Stamp duty exemption is also increased to 100% (from 50%) for house purchase and loan (only for house with value up to RM300,000 for first home buyers). We believe that these measures should relieve the burden of first home buyers slightly. However, the public listed developers will not benefit significantly as almost all of their products are in different price categories. For details on the measures, refer to Page 2.

Increase in stamp duty on real estate above RM1.0m. The rate of stamp duty on instruments of transfer of real estate worth more than RM1.0m will be increased from 3% to 4% effective 1-Jan-2018. This measure is expected to affect sales for high end house from 2018 onwards. However, we reckon there will be a slight short term increase in demand to buy ahead in 2017 before the new measure takes effect.

No increase in EPF Account 2 allocation for home financing. Before Budget 2017, media has reported on the possibility of increasing the fund from Employees Provident Fund (EPF) Account 2 to 40% (from the current 30%). This is aimed to assist first home buyers in their home financing. However, this is not mentioned in the Budget 2017 speech and hence the current 30% allocation to Account 2 in the EPF account stays. We are neutral on this as the status quo allocation remains.

Real Property Gain Tax (RPGT) rate is unchanged while DIBS ban stays. There is no change to the Real Property Gain Tax (RPGT) rate. As for Developer Interest-Bearing Scheme (DIBS), it is still disallowed. We are Neutral on the unchanged RPGT rate as this means that the Government may view that the current policy is working and hence there is no further cooling measures needed. Having said that, the DIBS ban stays and this means little cheer for property developers as well.

Recent data shows that the dynamics of the sector are still weak; maintain NEUTRAL on the sector. The latest Bank Negara statistics show that "Approved Loan for Purchase of Property" in Aug-2016 decreased 5%yoy to RM11.28b. The decline in approved loan was mainly due to lower approval rate by the banks. However, an 8% improvement was seen on a monthly basis. On a cumulative basis, total approved loan for 8M2016 was at RM78.73b (-20%yoy). We maintain our NEUTRAL view on the sector due to lack of catalysts seen from Budget 2017 as well as weak performance seen from recent data.


UOADEV downgraded to NEUTRAL with unchanged Target Price of RM2.68. Since we upgraded the stock to BUY on 23-Jun-2016 when the share price was at RM2.16, it has gained 25% to RM2.70 as of 21-Oct-2016. As its share price has appreciated substantially coupled with lack of catalysts from the Budget 2017, we thereby downgrade the stock to NEUTRAL. 

Table 1: List of measures related to property sector

Measures	Allocation (RM)
New special "step-up" end-financing scheme for the PR1MA program is announced. Through this scheme, financing will be easier and more accessible to the buyers with total loan up to 90% to 100% with loan rejection rate to be reduced drastically. Application process for this scheme will be implemented effective 1 January 2017. This scheme is collaboration among the Government, Bank Negara Malaysia (BNM), Employees Provident Fund (EPF) as well as four local banks, namely, Maybank, CIMB, RHB and AmBank.	N.M.
Stamp duty exemption is increased to 100% (from 50%) on instruments of transfer and housing loan instruments for houses with the value up to RM300,000 for first home buyers. Effective period is 1-Jan-2017 to 31-Dec-2018.	N.M.
The rate of stamp duty on instruments of transfer of real estate worth more than RM1.0m will be increased from 3% to 4% effective 1-Jan-2018.	N.M.
Government to vacant lands at strategic locations to GLCs and Perumahan Rakyat 1Malaysia (PR1MA). This is aimed to build more than 30,000 houses with the selling price ranging between RM150,000 an RM300,000 which is much lower than the market price from RM250,000 to RM400,000.	N.M.
Syarikat Perumahan Negara Berhad (SPNB) will build 5,000 units of People's Friendly Home with a subsidy of RM20,000 for each house.	200m
Second Generation House infrastructure development for FELDA, FELCRA and RISDA.	400m
The Ministry of Urban Wellbeing, Housing and Local Government (KPKT) will build 9,850 houses under People's Housing Programme (PPR). 11,250 PPR houses are being built with an allocation of RM576 million. These PPR houses will be sold between RM35,000 and RM42,000.	134m
To increase the public servants' housing loans eligibility from between RM120,000 and RM600,000 to between RM200,000 and RM750,000;	N.M.
MyBeautiful New Home targeting B40. Initially, 5,000 units will be built with prices ranging from RM40,000 to RM50,000 per unit. The Government will finance RM20,000 while the remaining will be paid as instalments by each owner. These houses will be built on their own land; land permitted by the landowner; and land awarded by state governments.	200m

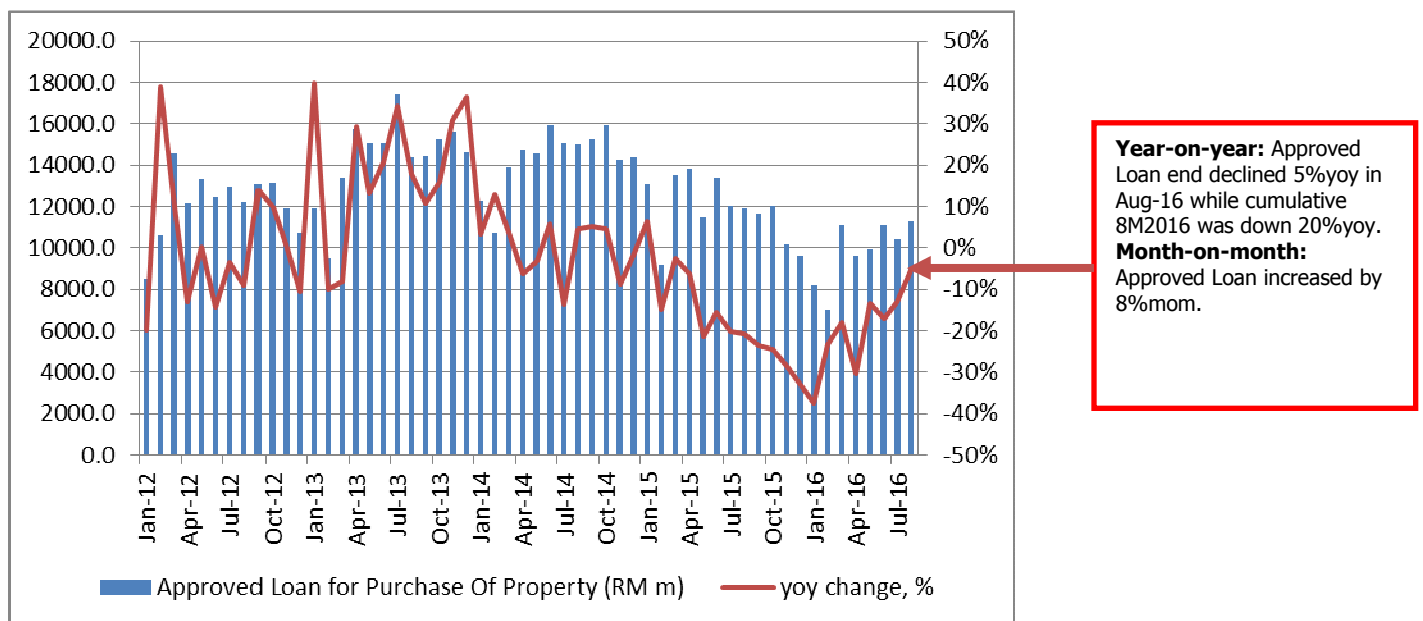
Source: Budget 2017 Speech

Table 2: Peers Comparison

Stock	FYE	Rec.	Price @ 21-Oct	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	1.63	1.60	7.83	9.92	20.8	16.4	1.5	1.9
MAHSING	Dec	NEUTRAL	1.60	1.68	16.29	17.30	9.8	9.3	3.8	4.0
SUNWAY	Dec	NEUTRAL	3.04	3.25	29.93	32.56	10.2	9.3	3.6	3.6
UEMS	Dec	NEUTRAL	1.15	1.03	2.63	3.74	43.6	30.7	0.6	0.9
UOADEV	Dec	NEUTRAL	2.70	2.68	26.76	28.30	10.1	9.5	5.6	5.6
GLOMAC	Apr	NEUTRAL	0.775	0.77	10.51	8.39	7.4	9.2	4.6	3.6
SPSETIA	Dec	NEUTRAL	3.51	3.38	25.02	27.09	14.0	13.0	4.8	5.2
ECOWLD	Oct	BUY	1.34	1.68	4.97	7.73	27.0	17.3	0.0	0.0
IOIPG	June	NEUTRAL	2.51	2.65	18.97	19.34	13.2	13.0	3.2	3.2

Source: MIDF Research Estimate

Chart 1: Approved Loan for Purchase Of Property has declined yoy



Source: Bank Negara, 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.