

14 June 2018 | Sector Update

PROPERTY

Maintain POSITIVE

Positive leading indicator from loan statistic

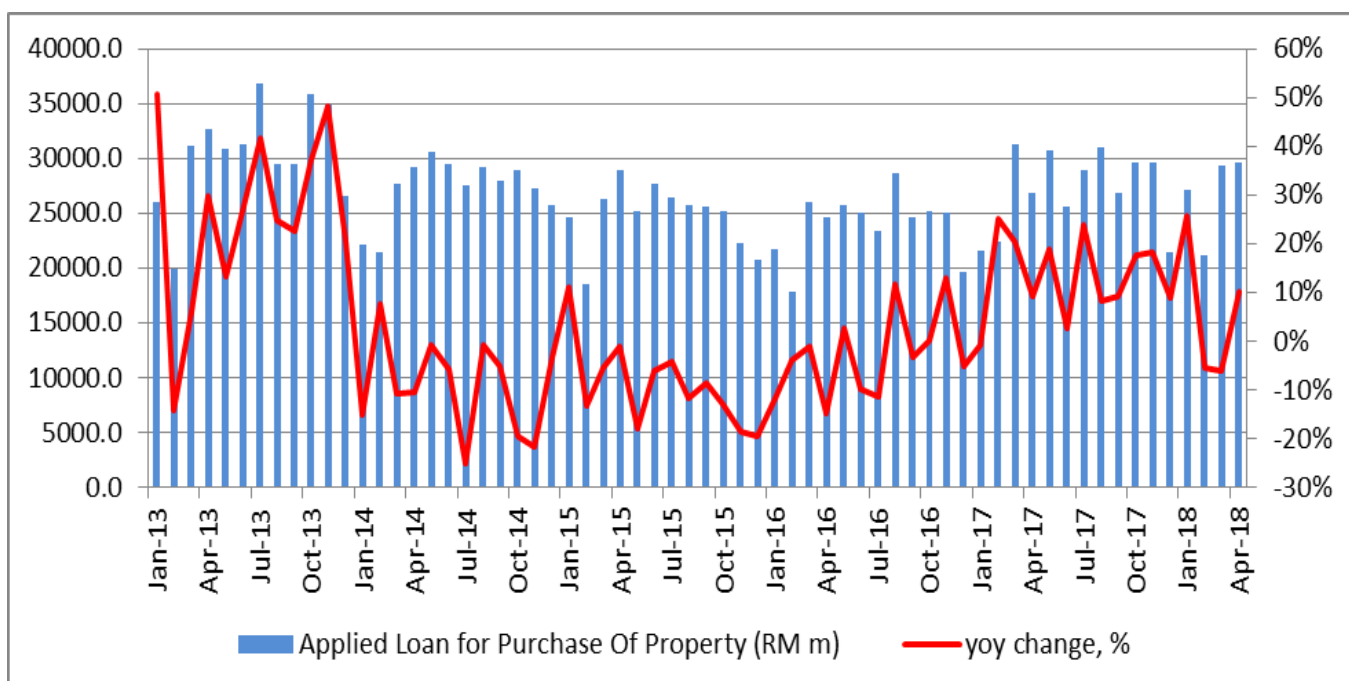
KEY HIGHLIGHTS

- Lower progress billing and adoption of MFRS15 dragged 1QCY18 earnings
- Applied loan recovered from knee-jerk reaction to OPR hike
- Zero-rated GST is a boon to property sector
- Maintain Positive on the sector

Lower progress billing and adoption of MFRS15 dragged 1QCY18 earnings. For the recently concluded 1QCY2018 results season, six property companies out of nine companies under coverage reported earnings which were below expectations. The main reason for the earnings miss was the slower-than-expected progress billing in 1QFY18. Meanwhile, the adoption of “MFRS15 – Revenue from contracts with customers”, effective January 2018 dragged earnings of UEM Sunrise. The adoption of MFRS15 which changes revenue recognition has resulted in deferred revenue recognition of UEM Sunrise international projects. In this context, revenue recognition of international projects has been changed to upon settlement from progress completion.

Applied loan recovered from knee-jerk reaction to OPR hike. Total applied loan resumed its year-on-year growth in April, growing by 10.2%yoy to RM29.6b. This is following 6.3%yoy and 5.5%yoy declines in March and February. Note that year-on-year growth in total applied loan was interrupted in February after registering positive growth for twelve consecutive months. The lower applied loan figures in March and February were largely due to knee-jerk reaction to OPR hike by Bank Negara Malaysia in January. The resumption of year-on-year growth in applied loan indicates that demand for housing is recovering from the knee-jerk reaction to OPR hike. Meanwhile, cumulative applied loan in 4M2018 is at RM107.1b, increasing by 5%yoy.

Figure 1: Monthly total applied loan



Source: Bank Negara Malaysia, MIDF Research

Zero-rated GST is a boon to property sector. With the Goods and Services Tax (GST) adjusted to zero per cent effective 1st June 2018, we view the zero-rated GST to be positive to the sector. Firstly, zero-rated GST will lead to lower costs of developers as developers have been made to absorb GST on input costs in the past. Secondly, zero-rated GST should boost the sale of commercial properties as buyers no longer have to pay GST. Besides, buying interest on property may also be helped by zero-rated GST as consumer sentiment should be boosted following higher disposable income.


Maintain POSITIVE view on Property sector. We are maintaining our Positive view on the sector as leading indicator from loan statistic remains positive while buying sentiment on property should support by zero-rated GST. Our top three picks for the sector are S P Setia, UOA Development and Mah Sing. We like SPSETIA (BUY; TP: RM3.69) as we expect the acquisition of I&P to create synergy. We also like UOA Development (BUY; TP: RM2.80) for its attractive dividend yield of 5.9% and healthy balance sheet. For Mah Sing (BUY; TP: RM1.60), we are recommending BUY due to its attractive valuation (trading at a 22% discount to NTA) and decent dividend yield of 5.8%. 

Figure 2: Peers Comparison

Stock	FYE	Rec.	Price @ 13-June-2018	Tgt Price (RM)	Core EPS		Core PE (sen)		Net DPS		Net Dvd Yield		P/NTA (x)
					FY17A	FY18F	FY17A	FY18F	FY17A	FY18F	FY17A	FY18F	
E&O	Mar	BUY	1.60	2.37	6.2	8.2	25.6	19.6	2.0	3.0	1.3%	1.9%	1.12
MAHSING	Dec	BUY	1.13	1.60	14.8	13.1	7.7	8.6	6.5	6.5	5.8%	5.8%	0.78
SPSETIA	Dec	BUY	3.00	3.69	23.7	17.8	12.7	16.8	15.5	12.4	5.2%	4.1%	0.79
UEMS	Dec	BUY	0.720	1.25	6.1	4.9	11.8	14.6	1.0	1.4	1.4%	1.9%	0.52
UOADEV	Dec	BUY	2.55	2.80	24.9	23.9	10.2	10.7	15.0	15.0	5.9%	5.9%	1.01
ECOWLD	Oct	BUY	1.28	1.48	3.9	5.5	32.7	23.2	0.0	0.0	0.0%	0.0%	0.88
SUNWAY	Dec	NEUTRAL	1.60	1.60	11.8	12.5	13.6	12.8	6.0	6.1	3.8%	3.8%	1.02
MAGNA	Dec	NEUTRAL	1.10	1.18	4.0	2.0	27.5	54.6	0.0	0.4	0.0%	0.4%	0.62
IOIPG	Jun	NEUTRAL	1.71	1.69	20.9	12.7	8.2	13.5	6.0	4.8	3.5%	2.8%	0.52

Source: MIDF Research Estimate

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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.