

23 July 2019 | Property Sector Thematic Report

## PROPERTY

*Rising residential property inventory*

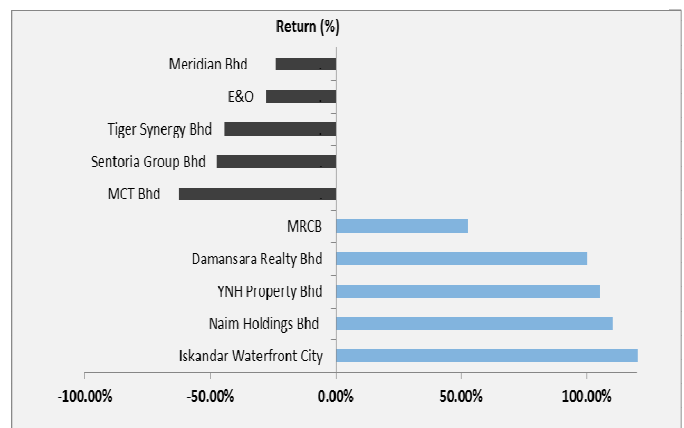
**Maintain NEUTRAL**

### KEY HIGHLIGHTS

- Flattish performance of Kuala Lumpur Property Index
- Swelling residential property inventory
- Condominiums contributed to highest unsold completed units in 2018
- House Ownership Campaign to ease property inventory
- Total applied loan surged in May
- Maintain Neutral on the sector

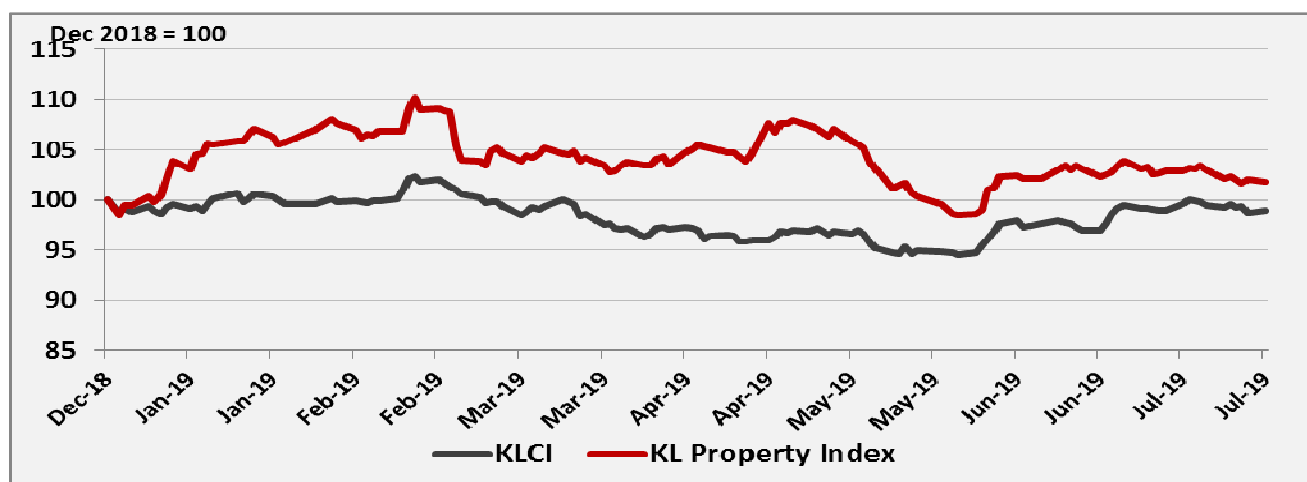
**Flattish performance of Kuala Lumpur Property Index.** Overall, the rather flattish year-to-date performance of Kuala Lumpur Property Index (KLPRP) could be attributed to the wait-and-see buyer sentiment as a result of swelling residential property inventory. Nevertheless, the KLPRP managed to outperform the broader index with a marginal gain of 1.8%ytd (as of 15<sup>th</sup> July 2019) against a marginal loss of -1.1%ytd in the FBM KLCI. The slight increase in KLPRP was mainly contributed by gains in small cap stocks, namely Iskandar Waterfront City Bhd (+134%), Naim Holdings Bhd (+110%) and YNH Property Bhd (+105%), which cushioned the losses in heavyweight big caps, such as S P Setia Bhd (-12.5%) and IOI Properties Group Bhd (-14.3%).

**Figure 1: KLPRP Top Five Gainers and Losers**



Source: Bloomberg, MIDF Research

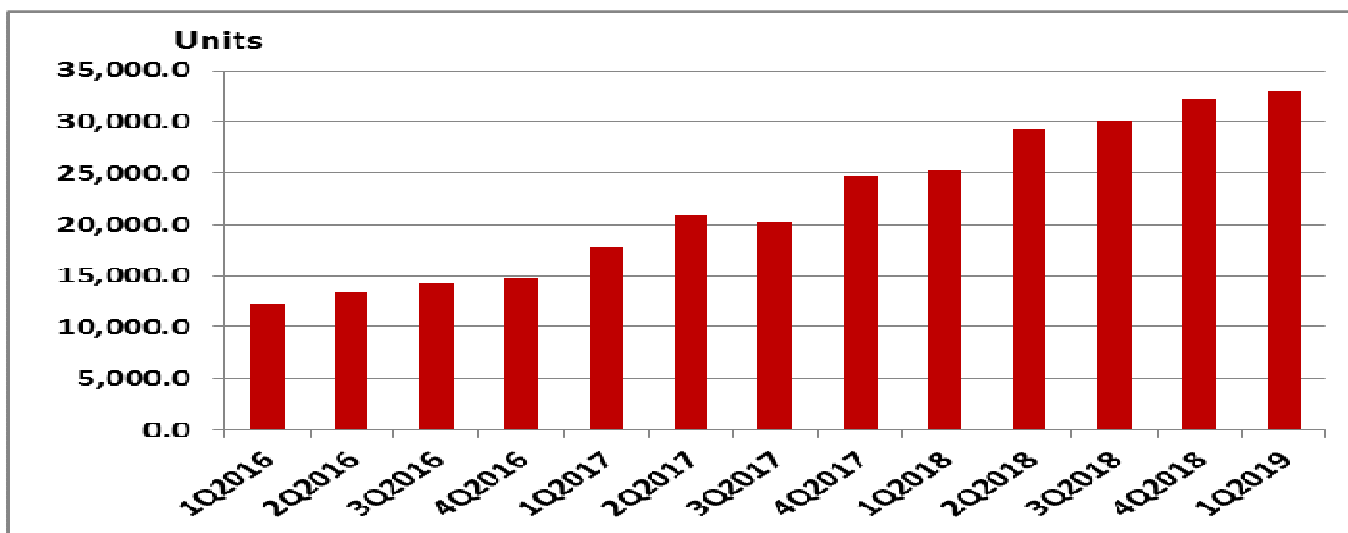
**Figure 2: Return of KL Property Index against KLCI**



Source: Bloomberg, MIDF Research

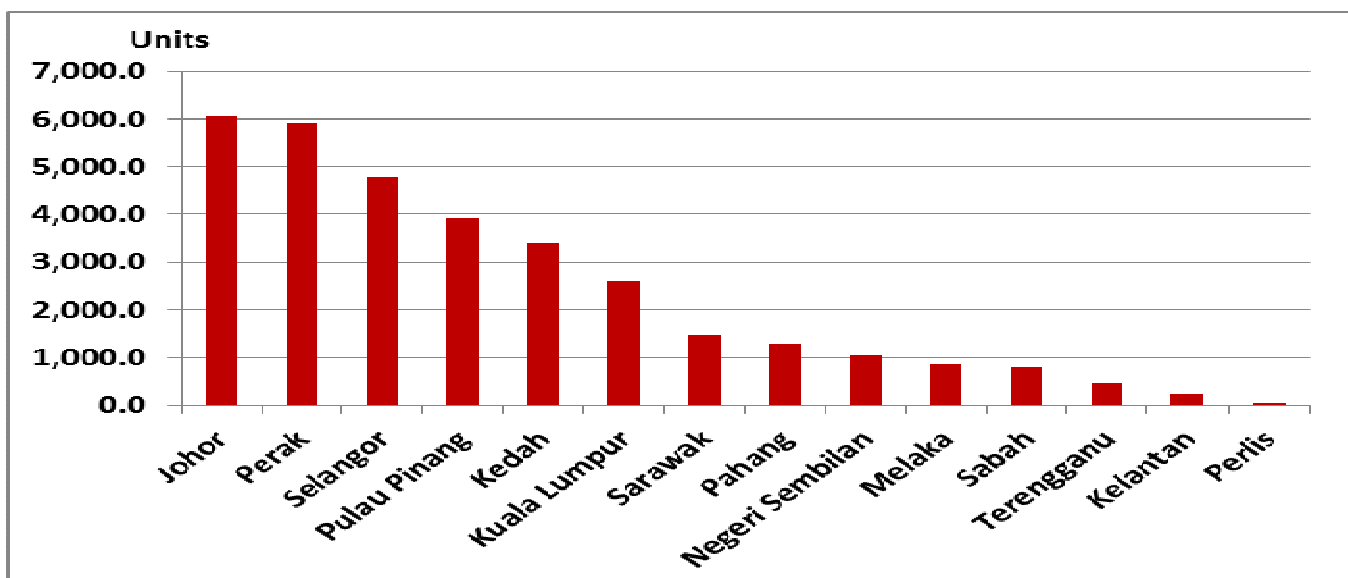
**Swelling residential property inventory.** According to data released by National Property Information Centre (NAPIC), unsold completed residential units in Malaysia were on the rise since 4Q2017. Note that the rising trend of unsold completed units took a breather in 3Q2017 after recording a 2.7%qoq decline. Meanwhile, number of unsold completed units surpassed 30k threshold since 3Q2018 while the latest figures in 1Q2019 show that unsold completed units were still on the rise by growing 1.9%q-o-q and 30.7%y-o-y. Across all states, Johor holds the highest count of unsold completed units at 6,057 units, followed by Perak (5,890 units) and Selangor (4,785 units). In a nutshell, we think that the swelling property inventory would result in the property market remains a buyer's market in the near term as property developers would have to continue their aggressive marketing effort such as offering discount to attract property buyers.

**Figure 3: Malaysia Unsold Completed Residential Units**



Source: NAPIC, MIDF Research

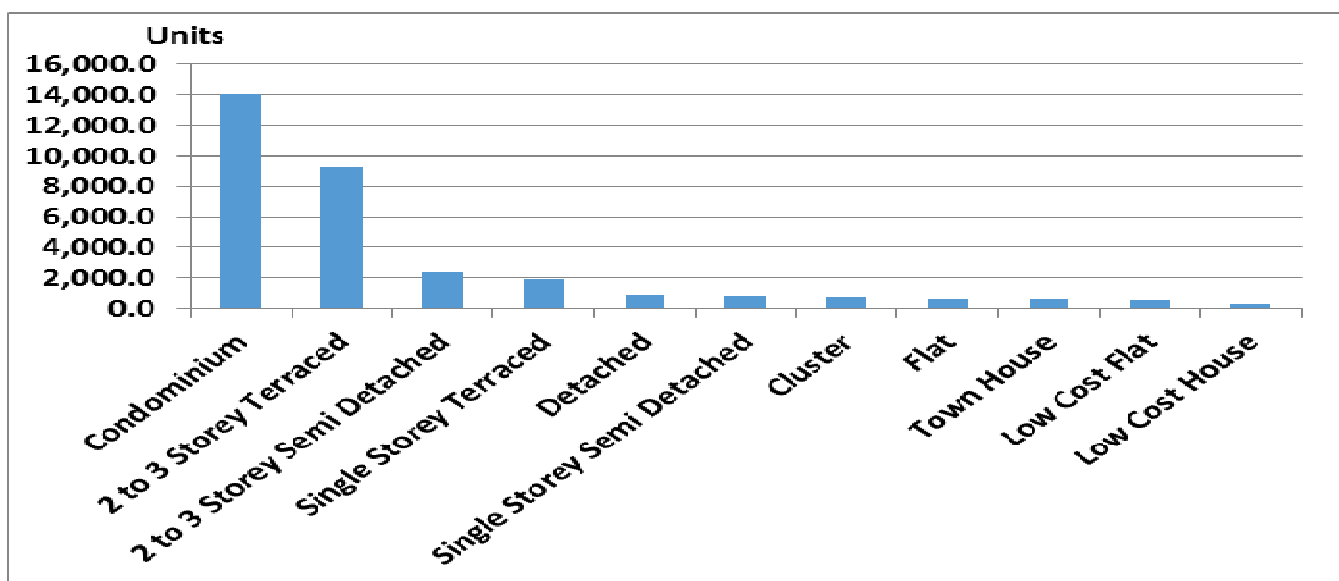
**Figure 4: Breakdown of Unsold Completed Residential Units in 1Q2019 by States**



Source: NAPIC, MIDF Research

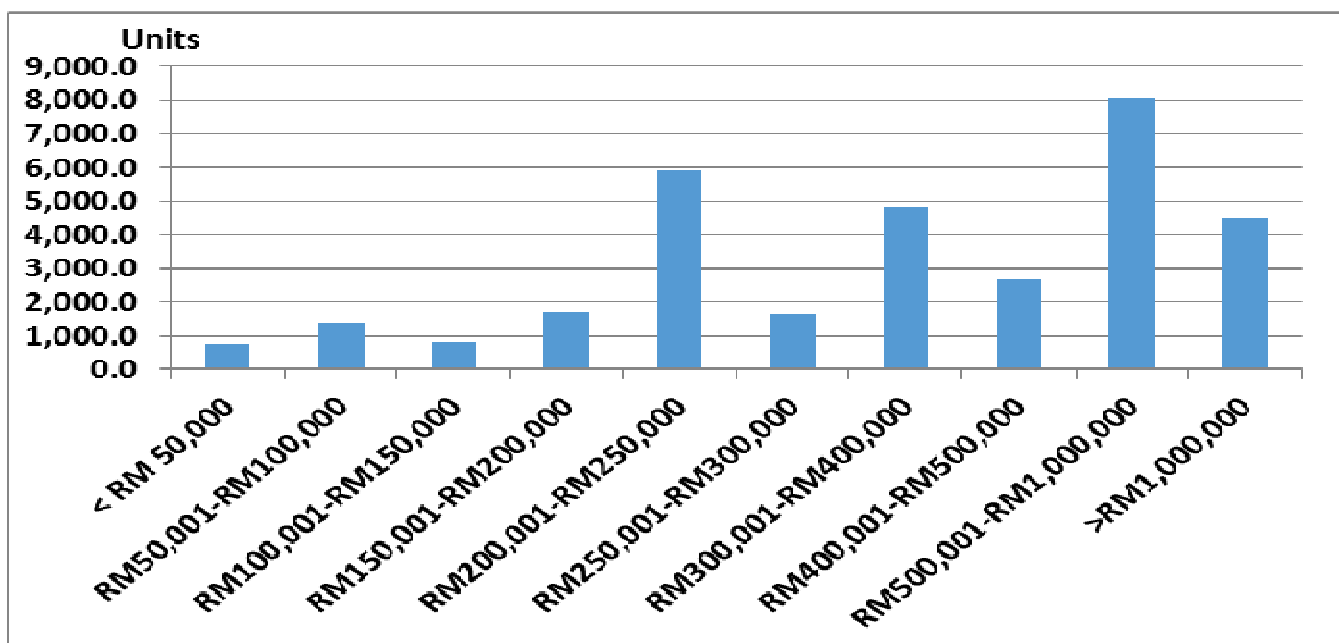
**Condominiums contributed to highest unsold completed units in 2018.** According to NAPIC, condominiums contributed significantly to the number of unsold completed units at 14,031 in 2018, making up 43% of total unsold units of 32,313 in 2018. Meanwhile, 2 to 3 storey terraced house contributed 9,273 units or 29% of unsold units in 2018. In term of price range of unsold completed properties, properties priced between RM500k to RM1m contributed highest number of unsold units of 8,057 in 2018 followed by properties priced between RM200k-RM250k with total unsold units of 5,915 in 2018. Notably, unsold completed properties priced between RM500k to RM1m recorded uninterrupted growth since 4Q2017 from 5,612 units to 8,057 units in 4Q2018, translating into growth rate of 43.6%yoy.

**Figure 5: Breakdown of Unsold Completed Residential Units in 2018 by Type of Properties**



Source: NAPIC, MIDF Research

**Figure 6: Breakdown of Unsold Completed Residential Units in 2018 by Price Range**



Source: NAPIC, MIDF Research

**House Ownership Campaign to ease property inventory.** While unsold completed properties remain escalated in 1Q2019, we think that property inventory may have a chance to ease going forward, banking on House Ownership Campaign (HOC) program. The Finance Minister announced during Budget 2019 speech that first-time house buyers can enjoy 100% exemption on stamp duty on purchase of residential properties for the period from 1st January 2019 to 30th June 2019. Subsequently, the HOC was rolled out in March to raise awareness on the stamp duty incentive.

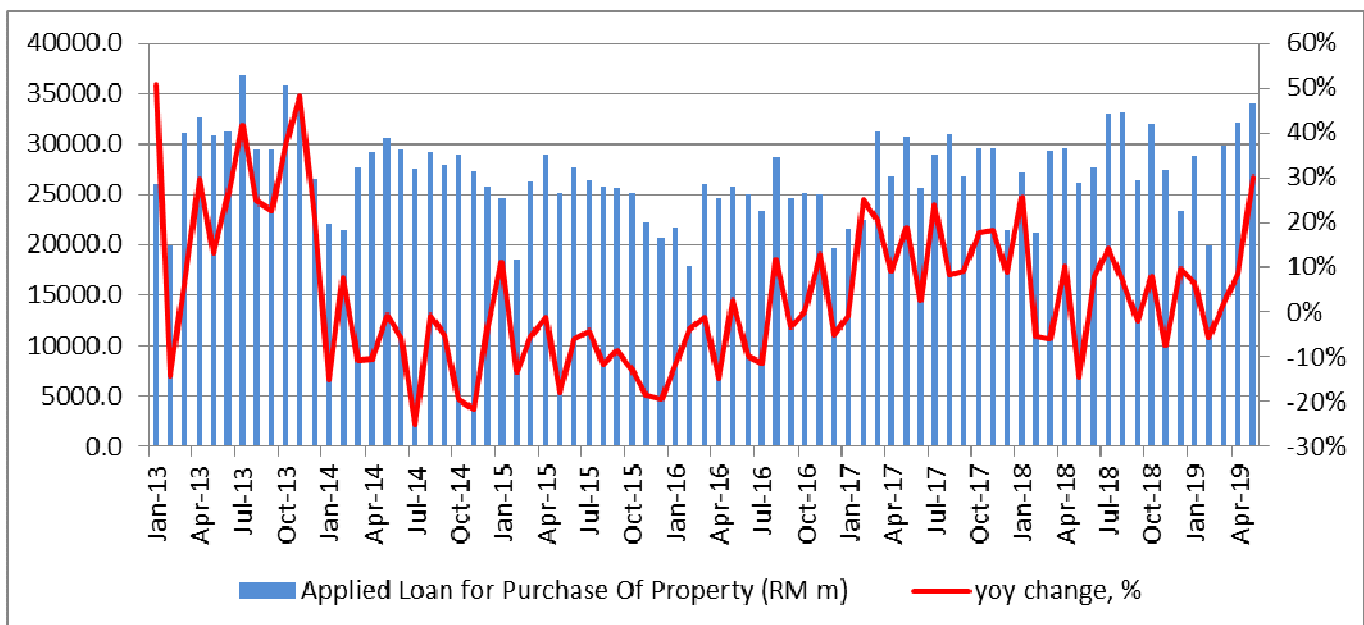
**Figure 7: House Ownership Campaign**




Source: Google

**Total applied loan surged in May.** According to data released by Bank Negara Malaysia, total applied loan for purchase of property jumped by 30%yoy to RM34.1b in May following an 8.1%yoy increase in April. Total applied loan recorded three consecutive positive y-o-y growths since March. We think that the positive growth figures could be attributed to HOC rolled out in March as it has stimulated buying interest among property seekers who wish to enjoy the stamp duty incentive and discount offered by property developers. Besides, OPR cut by 25 basis points to 3.00% from 3.25% on 7th May 2019 may have also helped in the loan growth. Looking ahead, we think that total applied loan growth in 2019 should remain in positive territory as the government has extended the HOC for six months, until Dec 31 this year.

**Figure 8: Total Applied Loan**



Source: Bank Negara Malaysia, MIDF Research

**Maintain Neutral on property sector.** We maintain our neutral stance on property sector as we think that the issue of high property inventory would keep property market under pressure in the near-term despite the HOC program which may partially help to ease the overhang issue. Our top pick for the sector is UOA Development (**BUY, Target Price: RM2.45**) as we like (i) its strategy of launching urban-based affordable priced properties in Klang Valley, as well as (ii) its decent dividend yield of 6.4%. 

**Figure 9: Peers Comparison**

Stock	FYE	Rec.	Price @ 22-July-2019	Tgt Price (RM)	Core EPS		Core PE (sen)		Net DPS		Net Dvd Yield		P/NTA (x)
					FY18A	FY19F	FY18A	FY19F	FY18A	FY19F	FY18A	FY19F	
UOADEV	Dec	BUY	2.19	2.45	20.9	19.5	10.5	11.2	14.0	14.0	6.4%	6.4%	0.85
MAHSING	Dec	BUY	0.905	1.03	11.1	9.8	8.1	9.2	4.5	4.2	5.0%	4.6%	0.62
IOIPG	Jun	BUY	1.36	1.65	11.4	12.6	12.0	10.8	5.0	5.0	3.7%	3.7%	0.40
ECOWLD	Oct	BUY	0.79	1.02	5.5	5.8	14.4	13.6	0.0	0.6	0.0%	0.7%	0.53
SPSETIA	Dec	BUY	2.08	2.53	6.3	8.0	32.9	26.0	8.6	9.0	4.1%	4.3%	0.58
UEMS	Dec	NEUTRAL	0.805	0.91	2.7	4.1	29.3	19.7	0.0	1.1	0.0%	1.4%	0.56
E&O	Mar	NEUTRAL	0.80	0.88	8.2	5.9	9.8	13.5	3.0	3.0	3.8%	3.8%	0.54
SUNWAY	Dec	NEUTRAL	1.65	1.56	12.0	13.0	13.7	12.7	7.1	7.3	4.3%	4.4%	1.04
MAGNA	Dec	SELL	0.99	0.72	-16.1	0.2	-6.1	424.7	0.0	0.0	0.0%	0.0%	0.68

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.