

27 April 2018 | Sector Update

PROPERTY

Undemanding valuation

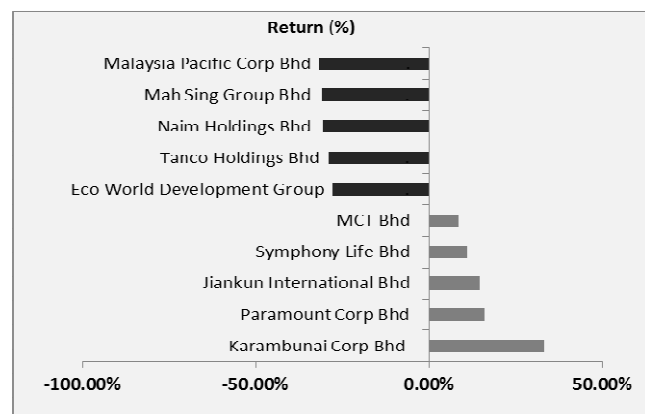
Maintain POSITIVE

KEY HIGHLIGHTS

- Kuala Lumpur Property Index (KLPRP) lagged behind KLCI
- Property counters are trading below historical price-to-book ratio
- Property stocks may benefit from spill over effect post 14th General Election
- House Price Index grew 6.5% in 3Q2017
- Maintain Positive on the sector

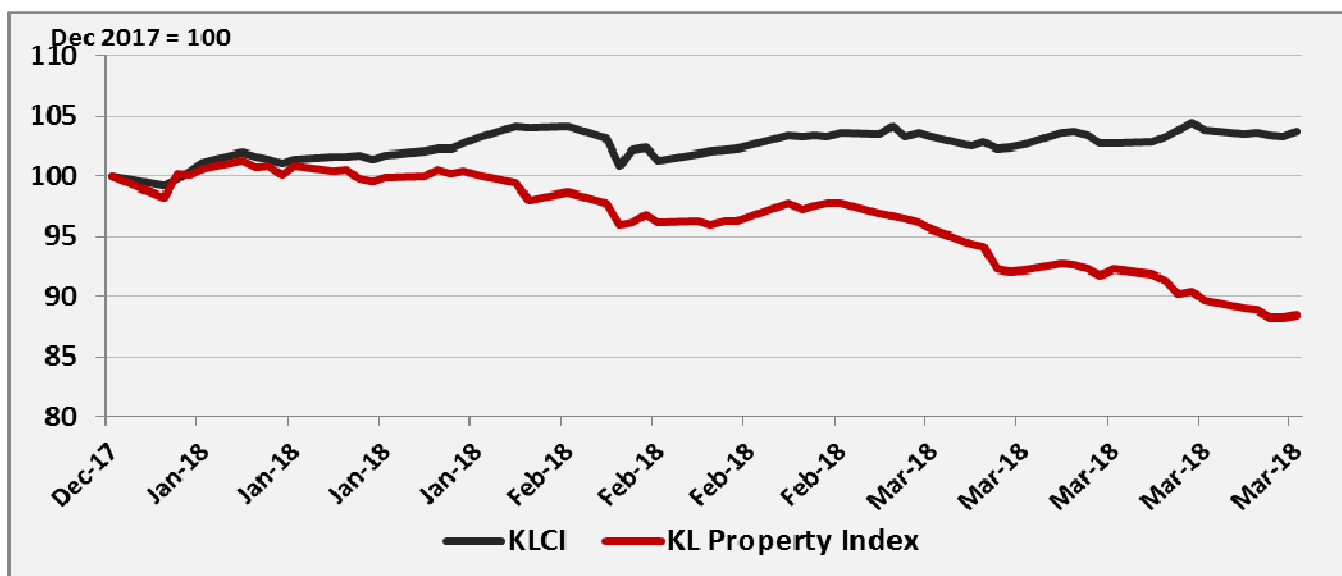
Kuala Lumpur Property Index (KLPRP) lagged behind KLCI. Performance of KLPRP was lacklustre in 1Q2018, losing by 11.6% against 3.7% gain in KLCI. The sell-down could be partly attributed to the concern over further Overnight Policy Rate (OPR) hike. Recall that Bank Negara Malaysia increased OPR by 25 basis points to 3.25% in 25th January 2018, the first rate hike since 10th July 2014. The decline in KLPRP was mainly led by big caps namely Mah Sing Group (-31%) and Eco World Development Group (-27%). Meanwhile, performance of KLPRP remains muted in April, dropping 1.6% against 0.9% gain in KLCI.

Figure 1: Top Five Gainers and Losers



Source: Bloomberg, MIDF Research

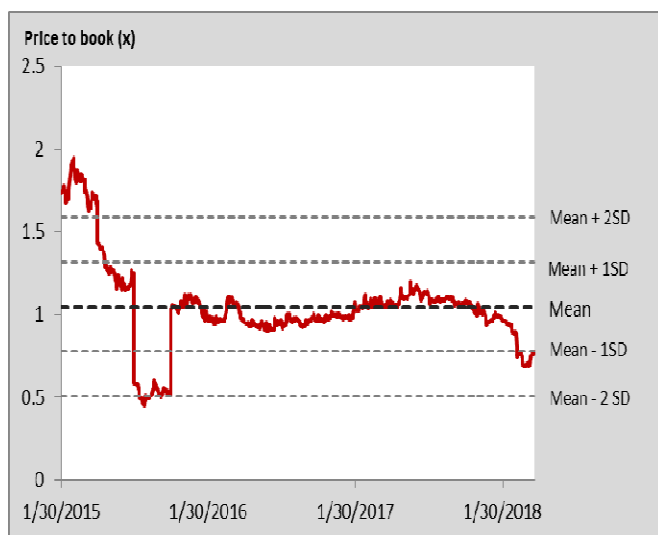
Figure 2: Return of KL Property Index against KLCI



Source: Bloomberg, MIDF Research

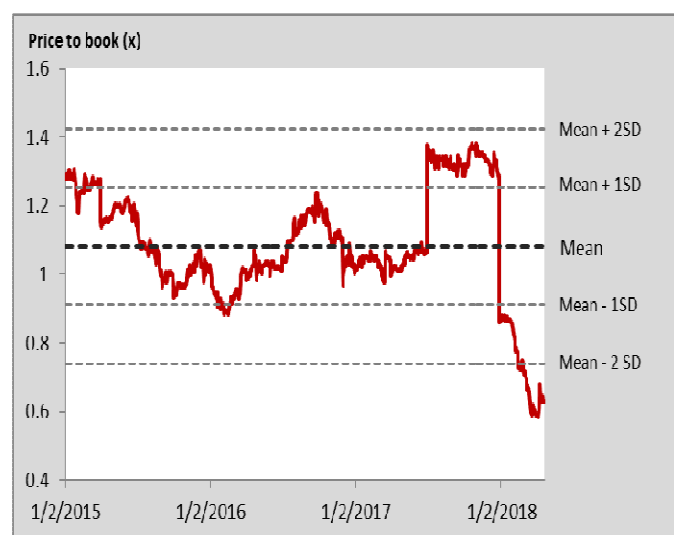
Property counters are trading below historical price-to-book ratio. The recent sell-down in property stocks makes some property stocks trading below 3-year mean price-to-book ratio. Notably, Mah Sing Group is trading at undemanding valuation of 0.72x price-to-book or 28% discount to book value, below its 3-year mean minus 2 standard deviation price-to-book ratio of 0.74x. Likewise, Eco World Development Group is trading at 23% discount to book value, below its 3-year mean minus 1 standard deviation price-to-book ratio of 0.77x. Similarly, UEM Sunrise is trading at steep discount of 37% to book value, approaching its 3-year mean minus 2 standard deviation price-to-book ratio of 0.58x. We view the sell-down as a bargain-hunting opportunity for investors as fundamentals of the property companies are largely intact.

Figure 3: EcoWorld Development P/B



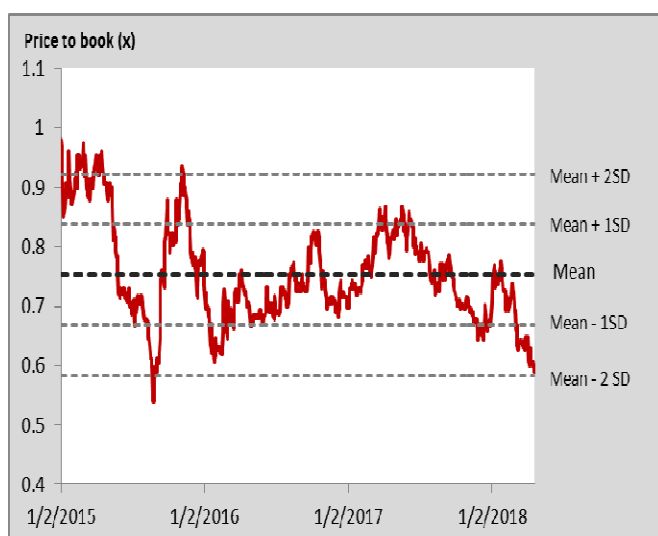
Source: Bloomberg, MIDF Research

Figure 4: Mah Sing Group P/B



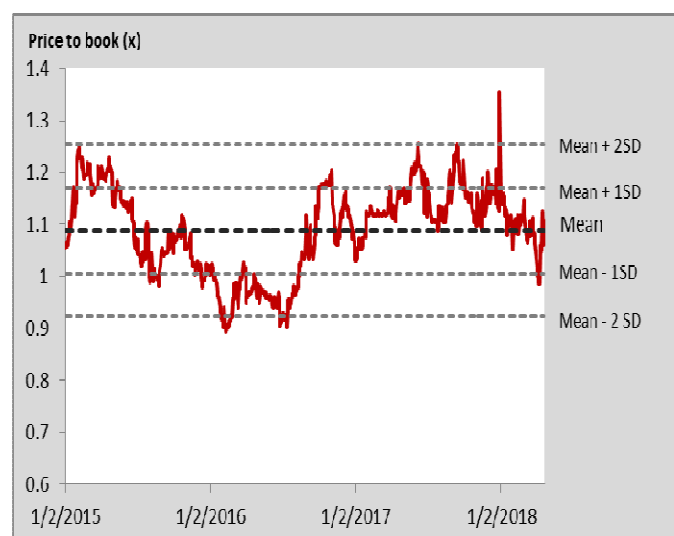
Source: Bloomberg, MIDF Research

Figure 5: UEM Sunrise P/B



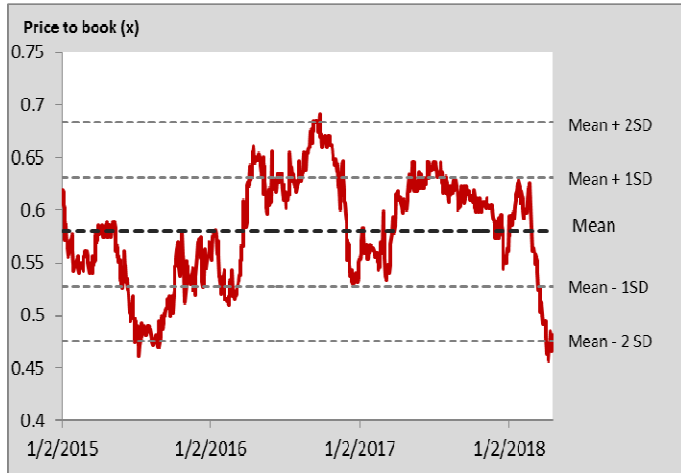
Source: Bloomberg, MIDF Research

Figure 6: S P Setia P/B



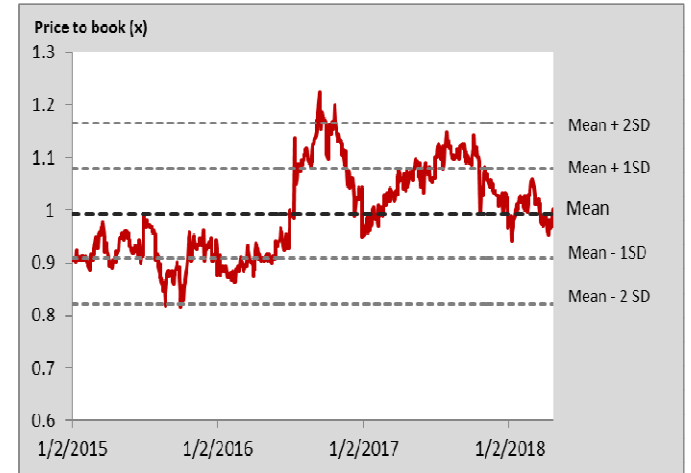
Source: Bloomberg, MIDF Research

Figure 7: IOI Properties P/B



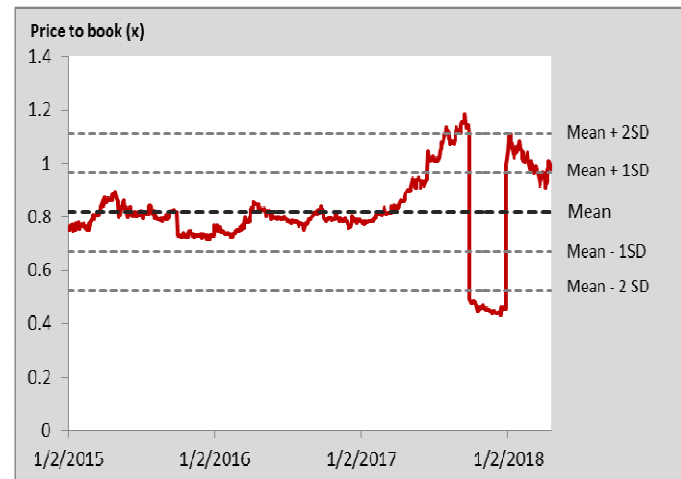
Source: Bloomberg, MIDF Research

Figure 8: UOA Development P/B



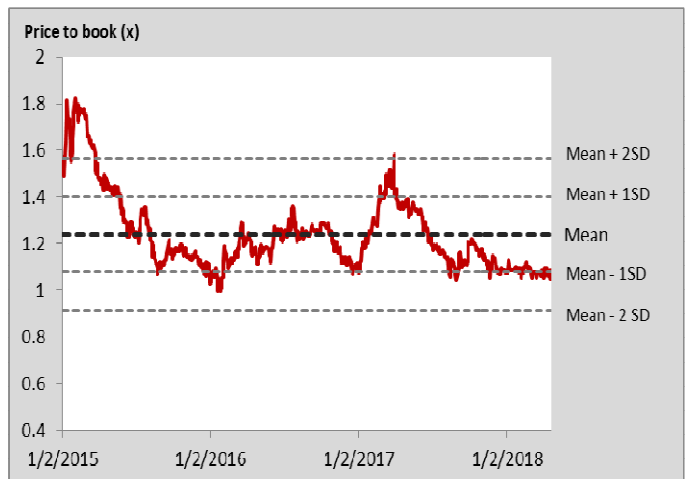
Source: Bloomberg, MIDF Research

Figure 9: Sunway Bhd P/B



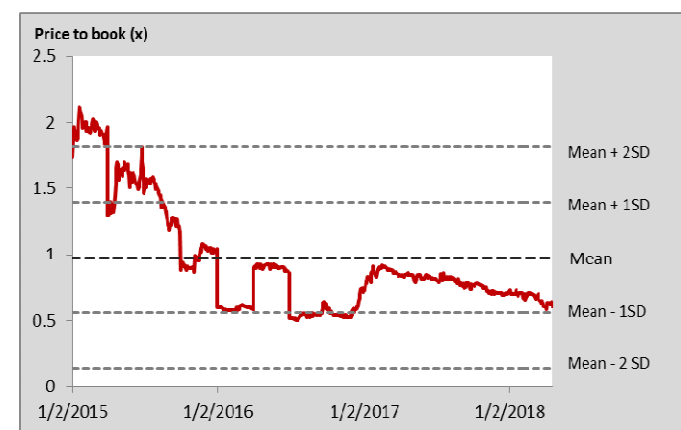
Source: Bloomberg, MIDF Research

Figure 10: E&O P/B



Source: Bloomberg, MIDF Research

Figure 11: Magna Prima P/B



Source: Bloomberg, MIDF Research

Property stocks may benefit from spill over effect post 14th General Election. 14th General Election (GE 14) will be held on 9th May 2018 and we see GE14 may have positive impact on property sector. We have examined the past performances of KL Property Index against KLCI for the period one month prior and one month after GE 13 in 2013 and GE12 in 2008. KL Property Index has been historically more sensitive to broader market movement due to its high beta nature. KL Property Index chalked up gains of 22.8% in one month after GE13 against KLCI's gain of 4.8%. Meanwhile, KL Property Index recorded steeper decrease of 10.1% in one month after GE12 against KLCI's loss of 5.8%. Note that beta of KL Property Index was higher in 2013 at 1.29 comparing to beta of 0.97 in 2008. On another note, OPR was more accommodative in 2013 at 3% against OPR of 3.5% in 2008. In the nutshell, we still view that property stocks may receive positive spill over effect after General Election 14 if outcome of GE14 turns out to be favourable to market as YTD 2018 beta of KL Property Index is at 1.09. Nevertheless, we reckon that upside momentum would be slightly weaker due to the present higher interest rate environment (OPR: 3.25%).

Figure 12: Performance of KLPRP and KLCI pre and post 13th General Election (held in May 2013)

	Return (%)	
	1 month before GE 13	1 month after GE 13
KLCI	0.4%	4.8%
KL Property Index	-2.7%	22.8%

Source: MIDF Research

Figure 13: Performance of KLPRP and KLCI pre and post 12th General Election (held in March 2008)

	Return (%)	
	1 month before GE 12	1 month after GE 12
KLCI	-8.4%	-5.8%
KL Property Index	-13.2%	-10.1%

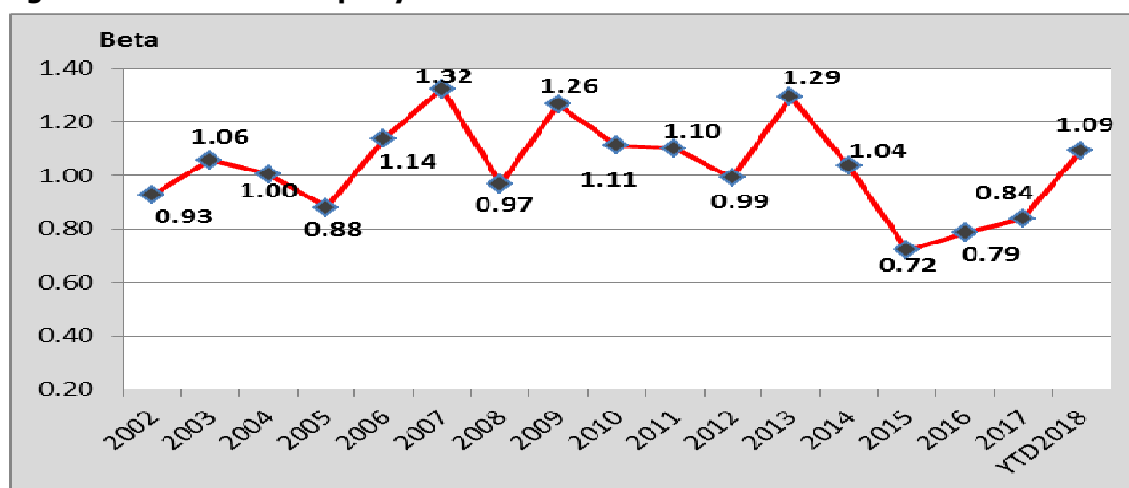
Source: MIDF Research

Figure 14: Overnight Policy Rate

	General Election 14	General Election 13	General Election 12
Overnight Policy Rate (OPR)	3.25%	3.00%	3.50%

Source: BNM, MIDF Research

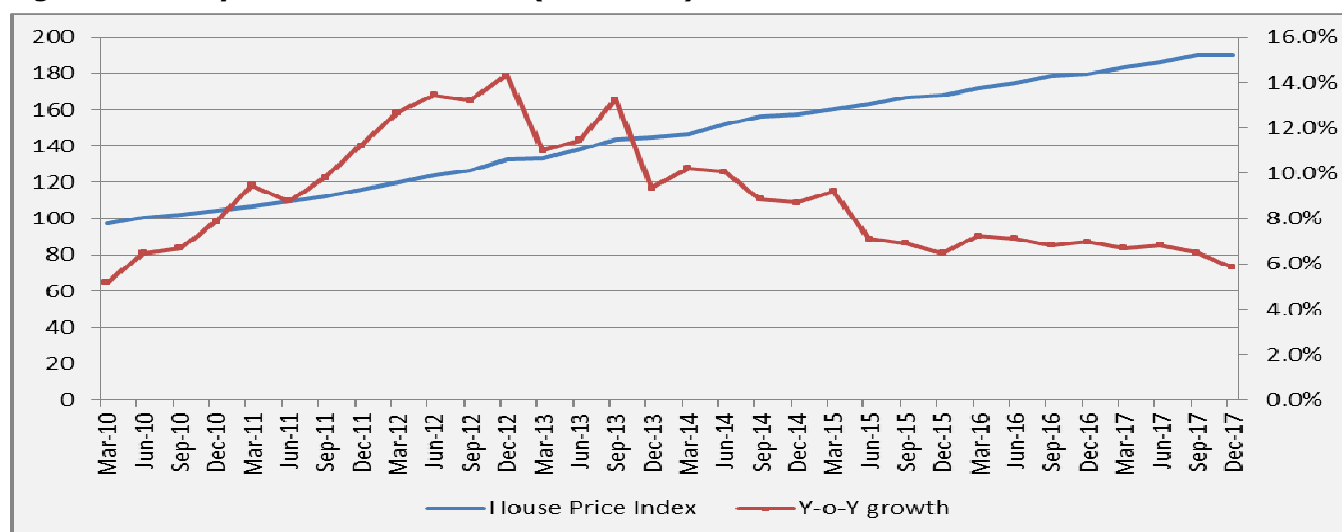
Figure 15: Beta of KL Property Index relative to KLCI



Source: Bloomberg, MIDF Research

House Price Index grew 6.5% in 3Q2017. According to data released by National Property Information Centre (NAPIC), Malaysia House Price Index (HPI) in 3Q2017 grew 6.5%yoy to 190.1, driven by increase in house prices in all states. House prices in Kuala Lumpur recorded highest growth of 7.2%, followed by Malacca (+6.9%) and Selangor (+6.7%). Nevertheless, HPI showed sign of weakening in 4Q2017 as preliminary HPI figures of 190.0 represents a slight decrease from HPI of 190.1 in 3Q2017. Note that this will be the first sequential decrease in HPI since 2009 if actual HPI for 4Q2017 turns out to be lower quarter-on-quarter. This may change our current view of stable property prices outlook.

Figure 16: Malaysia House Price Index (2010=100)



Source: NAPIC, MIDF Research


Maintain POSITIVE on the sector. We are maintaining our positive view on the sector as we see values emerged for some property stocks after the recent sell-down. Besides, near-term catalyst for the sector could be the favourable outcome of GE14 which may benefit property stocks. Nevertheless, we reckon that key risk for the sector would be the potential weaker HPI on sequential basis in 4Q2017 which would dent the recovery of the sector. We are recommending BUY on the three property stocks that are trading steeply below book value: EcoWorld Development (TP: RM1.48), Mah Sing (TP: RM1.68) and UEM Sunrise (RM1.36). We are also rating BUY for: (i) UOA Development (TP: RM2.84) for its attractive dividend yield 6.2%, (ii) S P Setia (TP: RM4.15) for its higher sales target and decent dividend yield of 5.4%, and (iii) E&O (TP: RM2.37) for deep value in STP2A project. 

Figure 17: Peers Comparison

Stock	FYE	Rec.	Price @ 26-April-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	1.39	2.37	6.4	5.7	21.6	24.2	2.5	2.3	1.8%	1.6%	1.00
MAHSING	Dec	BUY	1.01	1.68	14.7	16.5	6.9	6.1	6.5	6.6	6.4%	6.6%	0.71
SPSETIA	Dec	BUY	3.06	4.15	23.7	24.0	12.9	12.8	15.5	16.6	5.1%	5.4%	0.88
UEMS	Dec	BUY	0.905	1.36	6.1	5.3	14.9	17.2	1.0	1.5	1.1%	1.6%	0.64
UOADEV	Dec	BUY	2.43	2.84	24.9	28.4	9.8	8.6	15.0	15.0	6.2%	6.2%	0.98
ECOWLD	Oct	BUY	1.13	1.48	3.9	5.5	28.9	20.5	0.0	0.0	0.0%	0.0%	0.78
SUNWAY	Dec	NEUTRAL	1.52	1.77	11.8	12.5	12.9	12.2	6.0	6.1	3.9%	4.0%	0.97
MAGNA	Dec	NEUTRAL	1.14	1.23	4.0	3.4	28.5	33.1	0.0	0.7	0.0%	0.6%	0.64
IOIPG	Jun	NEUTRAL	1.57	1.89	20.9	14.1	7.5	11.1	6.0	5.4	3.8%	3.4%	0.48

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.