

28 March 2017 | Sector Update

PROPERTY*Unexciting fundamentals***Maintain NEUTRAL****KEY HIGHLIGHTS**

- **House Price Index growth slowed to 5.3% in 3Q2016**
- **Property transaction value declined qoq and yoy in 3Q2016**
- **Approved Loan for Purchase of Property Net approved loan increased yoy in Jan-2017 but the recovery may not sustain**
- **Consumer Sentiment Index remains weak**
- **Maintain NEUTRAL on the sector with UOAEV (BUY; TP: RM2.75) as top pick**

House Price Index growth is stable at 5.3% in 3Q2016. HPI grew by 5.3%yoy to 241.6 in 3QCY2016. Although it is lower than the 5-year average growth of 8.9%, it maintained the same 5.3%yoy growth registered in 2QCY2016. Among the key states, the slowest yoy growth was recorded in Penang (+3.4%yoy to 272.3). Selangor HPI growth was better at +7.5%yoy followed by Johor's +5.5%yoy and Kuala Lumpur's +5.1%yoy. We believe that the outlook for property price growth 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.

Approved Loan for Purchase of Property Net approved loan increased yoy in Jan-2017 but the recovery may not sustain. In Jan-2017, net approved loan is up by 6% yoy to RM8.72b. Despite the increase, the uptrend cannot be confirmed yet as Dec-2016 data was down yoy while Nov-2016 was up yoy. Note that the 6% improvement in applied loan was attributed to 7% yoy increase in approval rate which more than offset the 1% decline in demand. Despite the increase in approval rate yoy, it is still at a very low level of 40.5%. Loan demand (as measured by Applied Loan) remains weak as it declined 1% yoy to RM21.53b. We think that continuous weakness in Ringgit in Jan-2017 has affected consumer sentiment.

Consumer Sentiment Index remains weak. The latest publication from Malaysian Institute of Economic Research (MIER) shows that 4Q2016 Consumer Sentiment Index (CSI) has weakened to 69.8 from 3Q2016's 73.6 and 2Q2016's 78.5. We gather that consumers are expecting rising prices to intensify while shopping plans are still conducted selectively. 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.


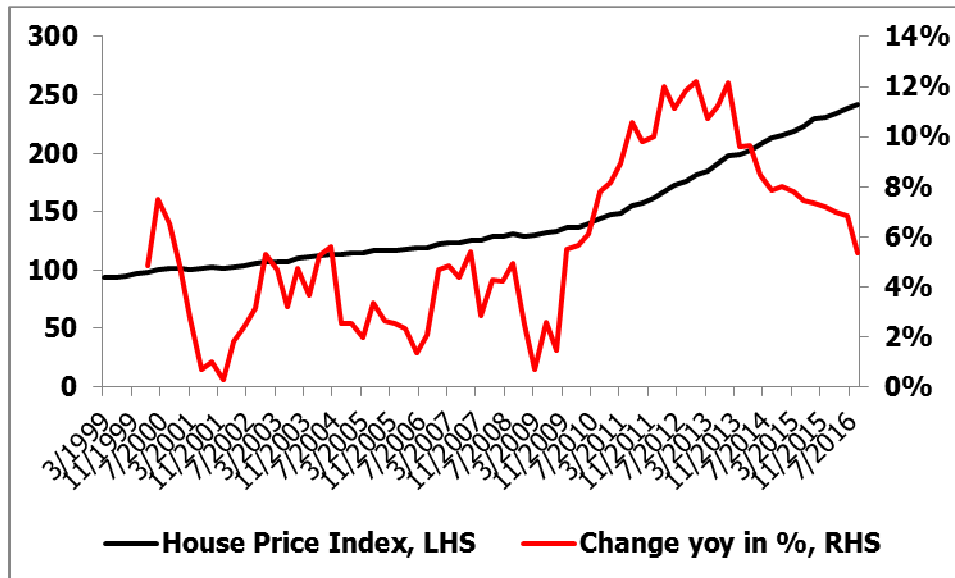
Maintain NEUTRAL with UOAEV (BUY; TP: RM2.75) as our top pick. We like UOAEV for its decent property sales where launch of its properties at affordable price range is well received by genuine home buyers. Besides, we also like its healthy balance sheet with net cash position and decent dividend yield of 5.9%. 

Chart 1: Malaysia House Price Index



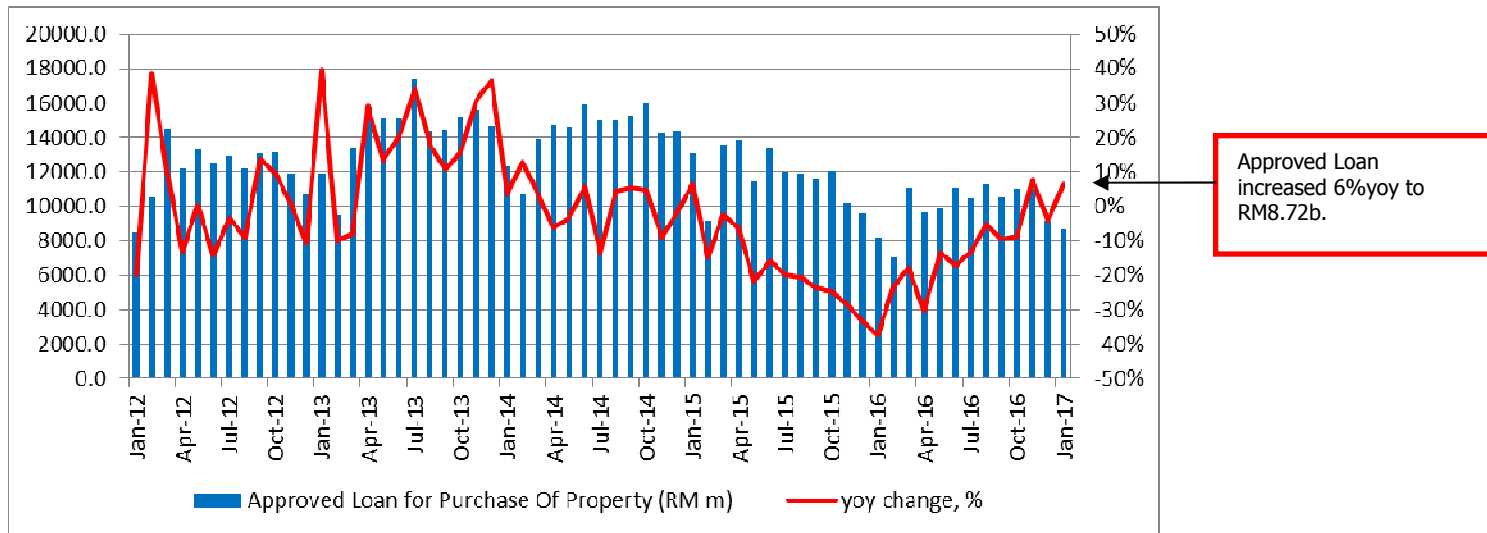
Source: NAPIC, MIDF Research Compilation

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: Approved loan increased 6%yoy for Jan-2017



Source: Bank Negara, MIDF Research Compilation

Table 2: Peers Comparison

Stock	FYE	Rec.	Price @ 27-Mar	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	1.96	1.82	1.59	5.09	8.28	38.5	23.7	1.0
MAHSING	Dec	NEUTRAL	1.49	1.57	15.26	15.59	15.71	9.6	9.5	3.9
SUNWAY	Dec	NEUTRAL	3.25	3.27	26.56	26.95	29.28	12.1	11.1	3.8
UEMS	Dec	NEUTRAL	1.25	1.04	4.62	3.98	4.17	31.4	30.0	0.9
UOADEV	Dec	BUY	2.55	2.75	23.18	27.03	29.72	9.4	8.6	5.9
GLOMAC	Apr	NEUTRAL	0.72	0.75	14.15	7.98	11.96	9.0	6.0	3.8
SPSETIA	Dec	NEUTRAL	3.45	3.40	35.72	25.02	27.09	13.8	12.7	4.9
ECOWLD	Oct	BUY	1.51	1.80	2.65	7.73	9.54	19.5	15.8	0.0
IOIPG	Jun	NEUTRAL	2.04	2.34	18.37	18.97	15.46	10.8	13.2	3.9

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.