

04 September 2015 | Sector Update

PROPERTY 2QCY15 Earnings Wrap

Still A Weak Quarter

Maintain NEUTRAL

KEY HIGHLIGHTS

- **Property developers' earnings in 2QCY15 still weak with 40% of the stocks under our universe underperforming expectations.**
- **Unexciting sales performance in 1HCY15.**
- **Loan demand for property (residential and non-residential) purchase still weak.**
- **SPSETIA is our TOP PICK.**
- **Other BUYs are UEMS, UOADEV and GLOMAC.**

Property developers' results in 2QCY15 still weak. Out of the five property developers under our coverage which released their results in Aug-2015, 40% or two of the stocks under our coverage (UEMS and E&O) reported earnings which were below expectations. UEMS 1HFY15 results were below expectation due to higher than expected interest cost. As for E&O, its weaker results were due to lower than expected margin for its property division. Sunway, Mah Sing and UOADEV earnings were in line with our estimates. Overall, the recent quarters' earnings for property developers were weak as 40% of the stocks in our universe underperformed expectations with no property stocks' earnings above expectation.

Unexciting sales performance in 1HCY15. 40% or two of the stocks under our coverage (MAHSING and SUNWAY) reported sales performance which are still trailing full year sales target. 60% or three developers managed to meet their sales targets and these include UEMS, UOADEV and E&O. UEMS 1HFY15 sales of RM600m were supported by RM267m contribution from Aurora Melbourne Central (AMC) project in Australia. UOADEV 1HFY15 sales of RM504m were supported by RM146m sales from Vertical Corporate Tower B @ Bangsar South. E&O 1QFY16 sales of RM585m were supported by sales from Tamarind Tower A in Seri Tanjung Pinang 1 (which contributed more than RM300m of sales).

Loan demand for property (residential and non-residential) purchase still weak. The latest Bank Negara statistics show that "Applied Loan for Purchase of Property" has declined 4% yoy in July-2015 to RM26.40b. This is slightly better than Jun-2015 data which show 6% decline yoy. On a mom basis, the data show decline of 5%. We are neutral on this data as the yoy trend remains in the negative growth territory. We think that the general appetite among consumers to buy big ticket items such as property remains low. This is due to escalating cost of living due to GST and weakening Ringgit.

SPSETIA is our TOP PICK. Due to the aforementioned reasons and limited rerating catalyst, we maintain NEUTRAL on property sector. Our top pick is SPSETIA (BUY; TP: RM3.60). We like SPSETIA as: i) it is expected to benefit from higher GBPMYR rate, ii) the upcoming 3QFY15 result is likely to be good and iii) its net dividend yield of 4.7% is higher than peers' average of 3.9%.

Other BUYs are UEMS, UOADEV and GLOMAC. UEMS (BUY; TP: RM1.13) is a potential privatization candidate due to its deep valuation currently at 38% discount to Book Value of RM1.40. As for UOADEV (BUY; TP: RM2.05), we like its net dividend yield of 6.9% which is very attractive against peers' average of 3.9%. UOADEV balance sheet is also the strongest among developers with net cash of RM741m. Lastly, we like GLOMAC (BUY; TP: RM1.06) as we expect its FY16 earnings growth to be strong at +48%yoy as its unbilled sales have improved to RM796m as of end-FY15 (against RM555m as of end-FY14).

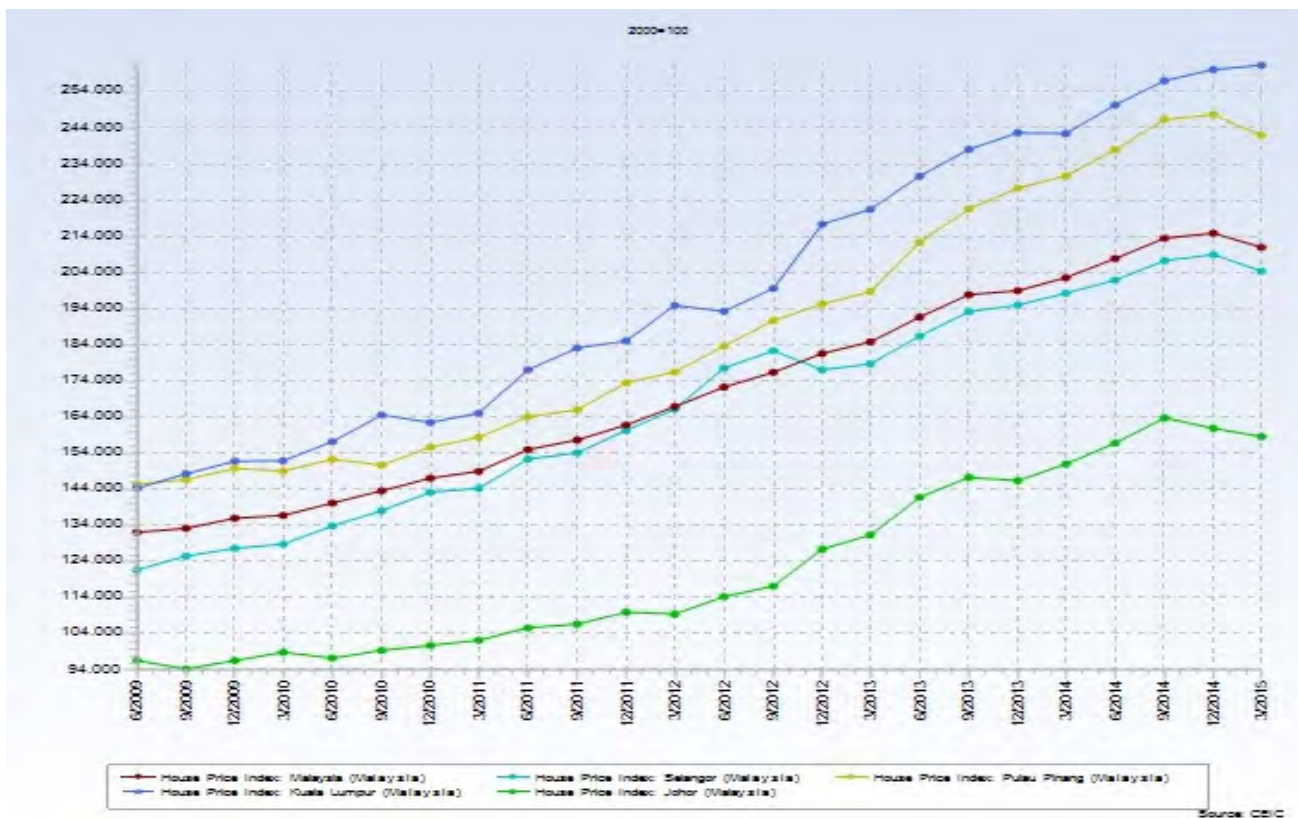


Chart 1: Summary of Property Developer quarterly result

No	Stock	Period Under Review	No Of Quarters	Cumulative Qtr CNI (RM m)	CNI % of our estimate	Against Expectation	Comment
1	E&O	3MFY16	1	8.9	6%	Below	1QFY16 Core Net Income (CNI) of RM8.9m was below expectations accounting for 6% of our estimate of RM150.0m. This is due to lower than expected margin of its property division.
2	MAHSING	6MFY15	2	189.4	47%	Within	
3	SUNWAY	6MFY15	2	267.4	48%	Within	
4	UEMS	6MFY15	2	104.0	25%	Below	1HFY15 Core Net Income (CNI) of RM104.0m was below expectations accounting for 25% of our estimate of RM422m. This is due to higher than expected interest cost.
5	UOADEV	6MFY15	2	147.9	46%	Within	

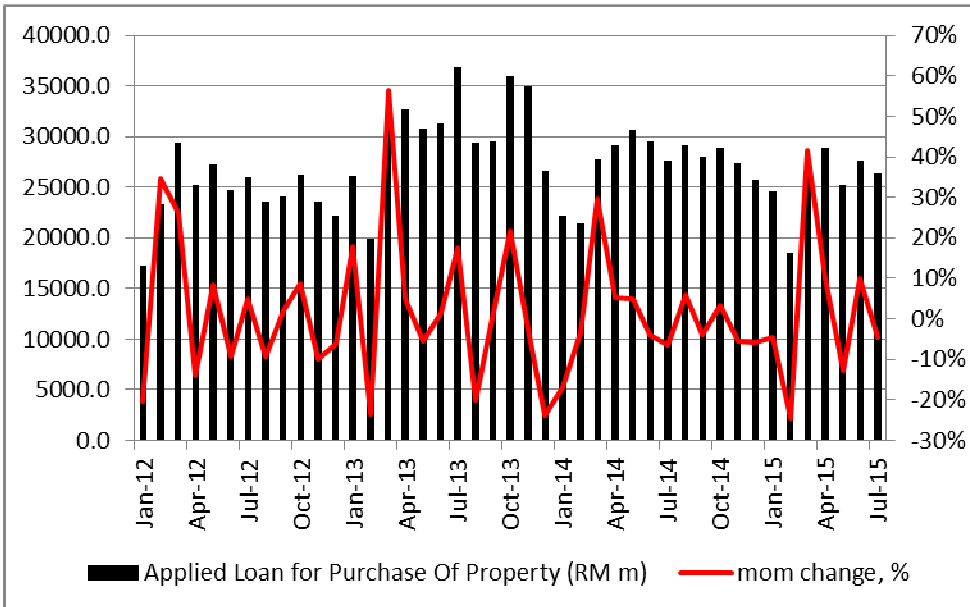
Source: Respective Company, MIDF Research

Chart 2: Malaysia House Price Index (HPI)



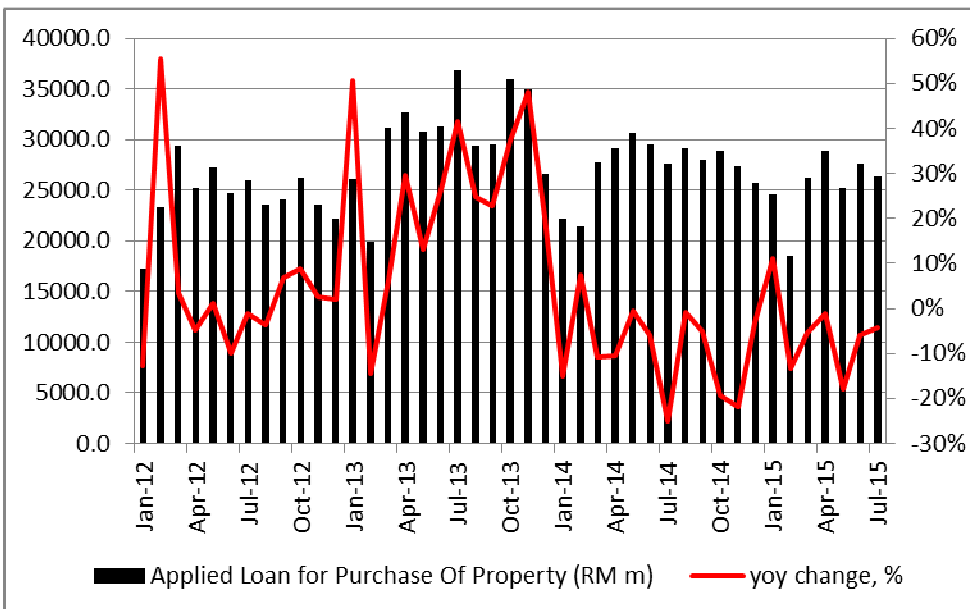
Source: National Property Information Centre (NAPIC), CEIC

Chart 3: Total Loans Applied To Purchase Properties has declined mom



Source: Bank Negara, MIDF Research Compilation

Chart 4: Total Loans Applied To Purchase Properties is still lower yoy



Source: Bank Negara, MIDF Research Compilation

Chart 5: Peer Comparison

Stock	FYE	Rec.	Price @ 3-Sep	Tgt Price (RM)	Core EPS (sen)		EPS (% chg)		Core PE (sen)		Net Dvd Yield	
					15/16	16/17	15/16	16/17	15/16	16/17	15/16	16/17
E&O	Mar	NEUTRAL	1.50	1.66	9.55	10.02	17.5%	4.9%	15.7	15.0	1.8	1.9
MAHSING	Dec	NEUTRAL	1.30	1.40	15.79	16.29	- 32.7%	3.2%	8.2	8.0	4.5	4.6
SUNWAY	Dec	NEUTRAL	3.45	3.70	31.58	32.09	0.6%	1.6%	10.9	10.8	10.7	3.3
UEMS	Dec	BUY	0.87	1.13	8.19	9.38	- 23.2%	14.5%	10.6	9.3	2.9	3.3
UOADEV	Dec	BUY	1.88	2.05	22.42	28.45	15.8%	26.9%	8.4	6.6	6.9	7.4
GLOMAC	Apr	BUY	0.75	1.06	12.91	13.64	48.1%	5.7%	5.8	5.5	5.9	6.2
SPSETIA	Oct	BUY	3.16	3.60	23.71	28.45	30.4%	20.0%	13.3	11.1	4.5	5.4

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.