

02 June 2015 | Sector Update

PROPERTY 1QCY15 Earnings Wrap

Still A Weak Quarter

Maintain NEUTRAL

KEY HIGHLIGHTS

- **Property developers' earnings in 1QCY15 still weak.**
- **There were no outperformers in the recent 1QCY15 results of property developers.**
- **Loan demand for property (residential and non-residential) purchase still weak despite of an improvement in loan applications for purchase of property for the second consecutive month.**
- **Expect value of new property sales to be lower this year.**
- **Maintain NEUTRAL with SUNWAY as our top pick.**

Property developers' results in 1QCY15 still weak. Out of the five property developers under our coverage which released their results in May-2015, 40% or two of the stocks under our coverage (UEM Sunrise and E&O) reported earnings which were below expectations. UEM Sunrise 1QFY15 results were below expectation due to higher than expected cost for Aurora Melbourne Central project. 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.

Loan demand for property (residential and non-residential) purchase still weak despite of an improvement in loan applications for purchase of property for the second consecutive month. Latest Bank Negara statistics showed that total loan applications for purchase of properties rose sequentially for the second consecutive month after four consecutive months of decline. On a monthly basis, loan applications for purchase of property grew +10% to RM28.9b in April-2015 (against RM26.2b in March-2015). However, it on a year-on-year basis, loan growth in applications slowed down by -1% to RM28.9b (against RM29.2b in April-2014). Overall, loan demand for purchase of property is still soft and we are less sanguine on the outlook of property developers' earnings in CY15. Most property developers have guided for lower new property sales in CY15 in view of the challenging market conditions. New property launches is expected to be lower in CY15 than CY14. We gather that banks have been more selective on loan approvals. Banks prefer financing purchase of affordable houses and are generally less favourable on financing commercial properties.

Expect value of new property sales to be lower this year. From our channel checks with property developers, most of them have guided for "flattish" growth in new property sales. We expect new property sales to be lower in 2015 as banks have tightened lending with more stringent criteria.


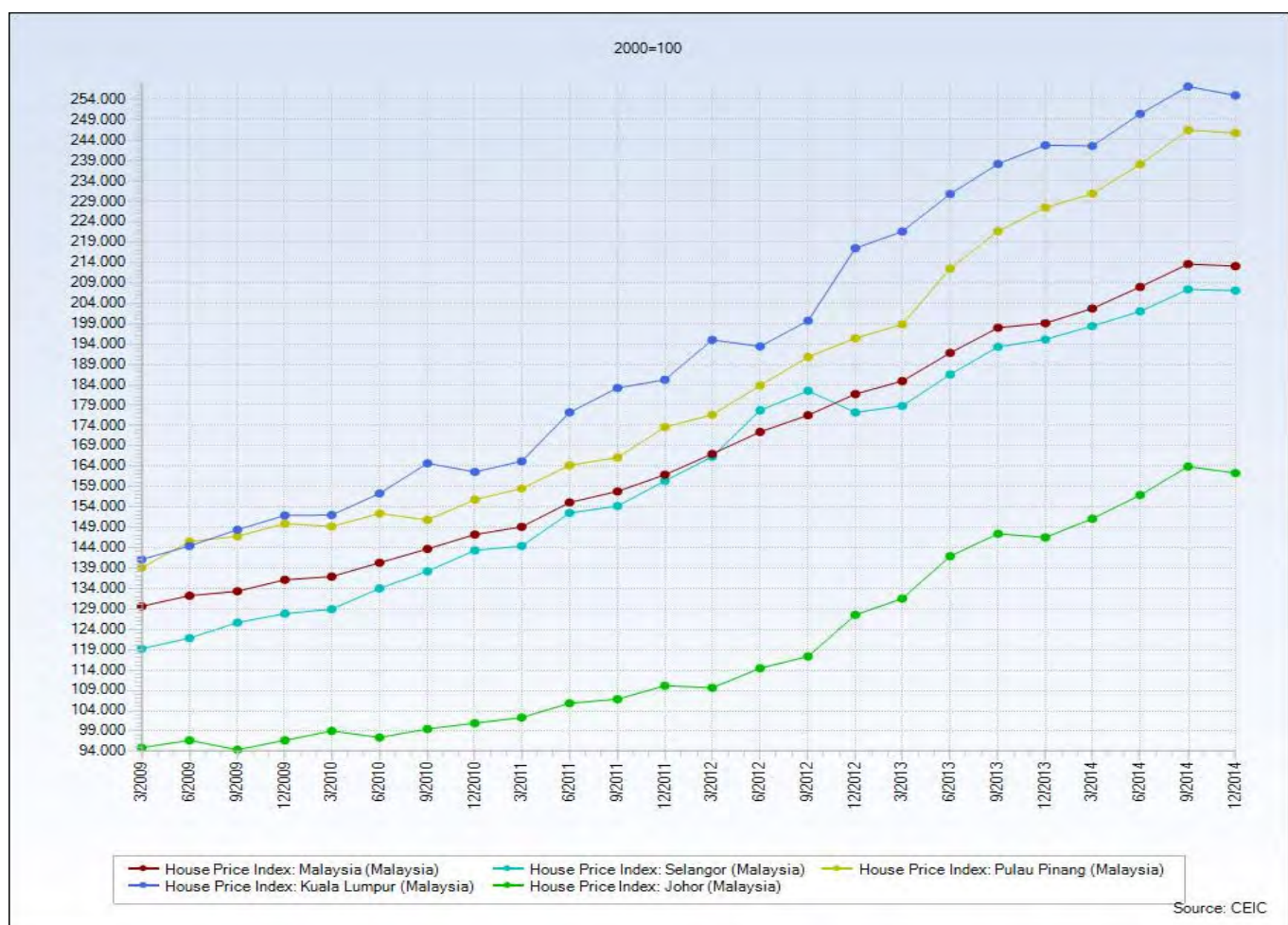
Maintain NEUTRAL with SUNWAY as TOP PICK. Due to the aforementioned reasons and limited rerating catalyst, we maintain NEUTRAL on property sector. Our top pick is SUNWAY (TRADING BUY; TP: RM3.86). Although SUNWAY share has gone ex for the 1-for-10 dividend in specie, the near term catalyst is still on the dividend payment which is estimated at above 22.0 sen. In the long term, the consistency of SUNWAY in meeting its earnings target and dividend payments are seen as positive factors in supporting its share price. 

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	FY15	4	92.5	87%	Below	FY15 Core Net Income (CNI) of RM92.5m was below expectations accounting for 87% of our estimate of RM106.7m. This was due to lower than expected margin of its property division.
2	MAHSING	3MFY15	1	98.9	24%	Within	
3	SUNWAY	3MFY15	1	129.4	23%	Within	
4	UEMS	3MFY15	1	53.1	11%	Below	1QFY15 Core Net Income (CNI) of RM53.1m was below expectations accounting for 11% of our estimate of RM491m. We believe that the lower than expected earnings was due to higher than expected cost for Aurora Melbourne Central project.
5	UOADEV	3MFY15	1	78.9	24%	Within	

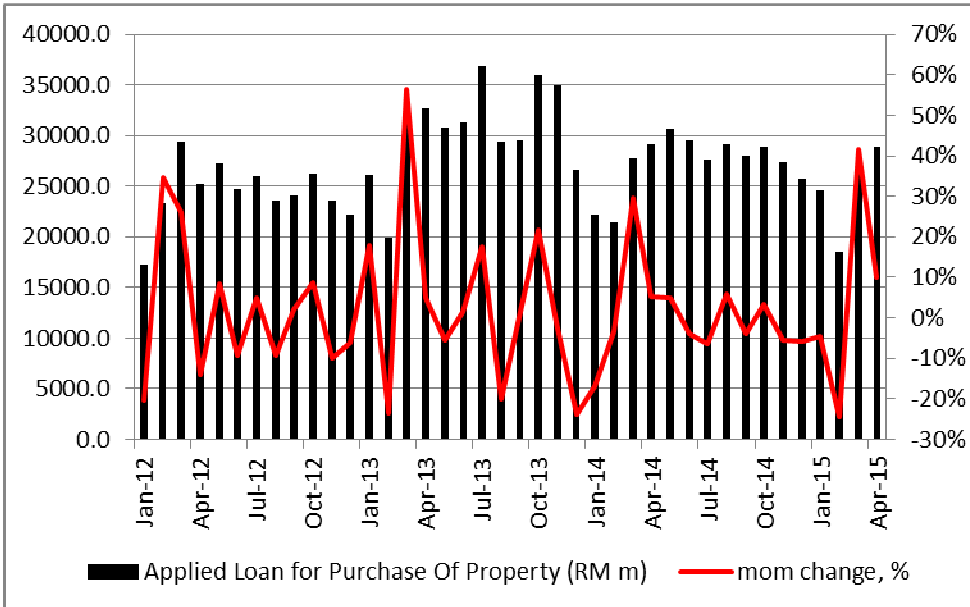
Source: Respective Company, MIDF Research

Chart 2: Malaysia House Price Index (HPI)



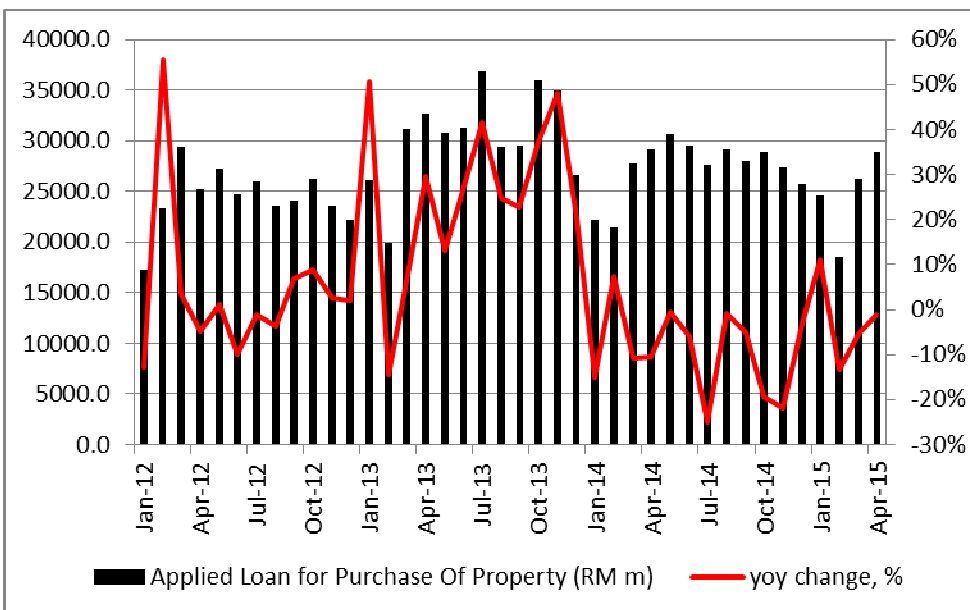
Source: National Property Information Centre (NAPIC), CEIC

Chart 3: Total Loans Applied To Purchase Properties has improved 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 @ 1-Jun	Target Price (RM)	Core EPS (sen)		Core PE (sen)		Net DPS		Net Dvd Yield	
					FY15/16	FY16/17	FY15/16	FY16/17	FY15/16	FY16/17	FY15/16	FY16/17
E&O	Mar	NEUTRAL	1.81	2.02	10.65	11.15	17.0	16.2	2.98	3.12	1.6	1.7
MAHSING	Dec	NEUTRAL	2.17	2.18	21.36	23.35	10.2	9.3	7.90	8.64	3.6	4.0
SUNWAY	Dec	TRDG BUY	3.39	3.86	32.18	34.06	10.5	10.0	11.26	11.92	3.3	3.5
UEMS	Dec	NEUTRAL	1.02	1.20	9.37	9.99	10.9	10.2	2.93	3.08	2.9	3.0
UOADEV	Dec	NEUTRAL	2.21	2.05	22.42	28.45	9.9	7.8	13.06	13.99	5.9	6.3
GLOMAC	Apr	NEUTRAL	0.88	1.06	7.55	11.60	11.7	7.6	3.52	3.83	4.0	4.3
SPSETIA	Oct	NEUTRAL	3.36	3.33	22.48	26.96	14.9	12.5	13.49	16.18	4.0	4.8

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.