

05 March 2015 | Sector Update

## 4QCY14: Property Earnings Wrap *A Lacklustre Quarter*

*Maintain NEUTRAL*

### KEY HIGHLIGHTS

- **Disappointing 4QCY14 results from property companies with earnings from 60% of the stocks under our coverage came in below expectations.**
- **Growth in property prices has moderated as reflected by the slowdown in House Price Index (HPI).**
- **Loan demand for the purchase of properties declined. This is reflected by a -10%yoy slippage in property loan applications in 2014 (first annual contraction in at least 8 years).**
- **We believe that banks have turned conservative with more stringent criteria on lending. This is especially so on loans for purchase of non residential properties.**
- **Expect value of new property sales to be lower this year.**
- **Maintain NEUTRAL with SUNWAY as our top pick.**

**Disappointing 4QCY14 results from property developers.** Out of the five property companies under our coverage which released their result recently, 60% or three of the stocks (UEM Sunrise, UOA Development and E&O) reported earnings which were below expectations. UEM Sunrise FY14 results lagged due to lower than expected new sales of RM2.44b (-18%yoy). As for UOA Development, its results missed our estimates with a lower FY14 new sales of RM1.64b (-18%yoy) while its PBT margin was lower than expected. Lastly, E&O results disappoint and it was likely due to lower new sales secured so far. For Sunway and Mah Sing, their earnings were in line with our estimates. Overall, we noticed that the trend of lower new sales on-year has started to hit developers in 2014 and we expect the trend to continue into 2015 in view of more stringent lending criteria by banks and cautious consumer sentiment due to the upcoming GST.

**House Price Index (HPI) growth has eased.** Based on the published quarterly data, growth in HPI have moderated quite noticeably with the latest reading in 3Q 2014 at +7.9%yoy as compared to a 5-year average growth rate of +9.5%. We are not entirely surprised by the moderation in HPI growth as the Government has over the years imposed various measures to curb property speculation and price bubbles from occurring. The measures include: (a) high RPGT of 30% for 1st 3 years, 20% for 4th year and 15% for 5th year, (b) removal of DIBS, and (c) higher floor price for foreigners to own a house at RM1.0m (from RM0.5m in 2013). Overall, we are positive on the HPI trend as it signals that Government has taken positive early precaution to prevent property price bubble from happening, and of which a burst will have damaging consequences to the economy.

**Lower new property sales as reflected by a -10%yoy decline in property loan applications for 2014 (first time in at least 8 years).** Bank Negara statistics have shown that total loan applications for properties have declined -10%yoy to RM327.2b in 2014. The negative growth figure reflects lower loan demand for purchase of properties. The decline in non-residential property loan applications was more severe at -13%yoy while for residential property loan application, the decline was milder at -9%yoy. For 2015, we expect a subdued growth in loan applications for purchase of properties in view of the slower economic growth prospects due to low commodity prices and weaker consumer sentiment. In view of the slower economic growth, we believe that banks may become more conservative with more stringent prudential criteria on lending. This is especially on loans for purchase of non-residential properties.

**Expect value of new property sales to be lower this year.** For 2014, the value of new sales by property companies under our coverage has, on average, declined -6.9%yoy. From our channel checks with property developers, most of them have guided for “flattish” growth in new property sales this year. We expect new property sales to be lower in 2015 as banks have tightened lending with more stringent criteria coupled with the potential interest hike in 2H15.

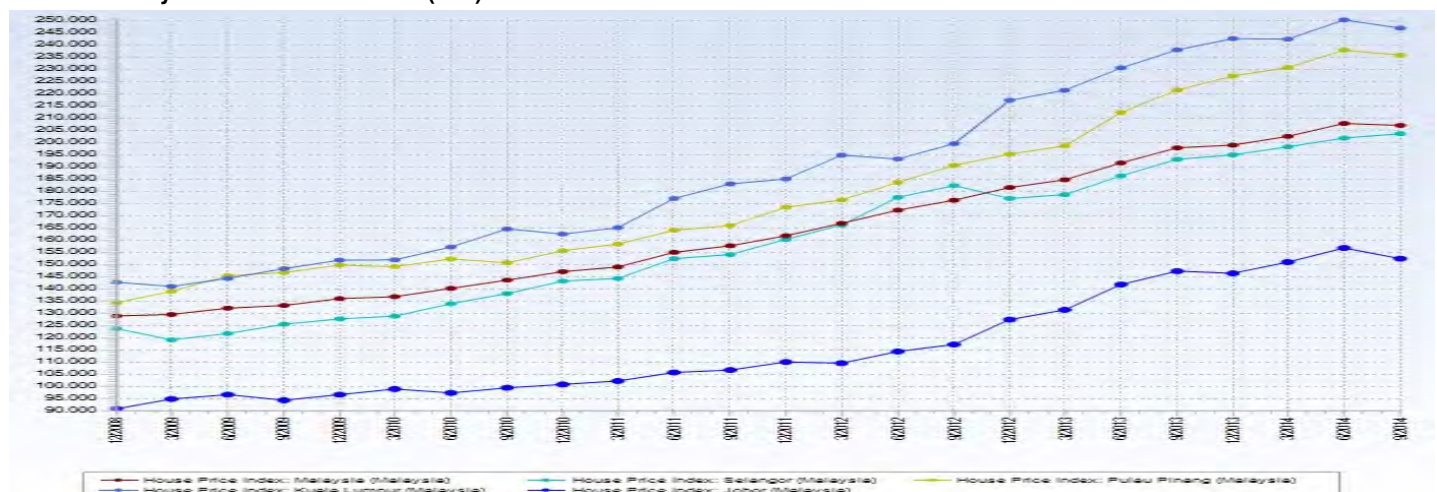
**Maintain NEUTRAL with SUNWAY as top pick.** Due to the aforementioned reasons and limited re-rating catalyst, we maintain NEUTRAL on property sector. Our top pick is SUNWAY (TP: RM3.72). We continue to like SUNWAY due to the potential listing of Sunway Construction Group (SCG) in June 2015 as SUNWAY shareholders stand to gain with the free distribution of SCG shares. We expect the new SCG shares to be priced more attractively with the unlocking of its fundamental value as opposed to it being held under the holding company, SUNWAY. Also, in the long term, the consistency of SUNWAY in meeting its earnings targets 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	9MFY15	3	37.7	27%	Below	9M15 Core Net Income (CNI) of RM37.7m was below expectations accounting for 27% of our estimate of RM140.8m. New sales likely to be below expectation and we think FY15 figure likely to stay below RM1.0b in FY15 (against management target of RM1.2b).
2	MAHSING	12MFY14	4	339.2	101%	Within	
3	SUNWAY	12MFY14	4	541.2	106%	Within	
4	UEMS	12MFY14	4	484.2	84%	Below	FY14 Core Net Income (CNI) of RM484m was below expectations accounting for 84% of our estimate of RM575m. New sales of RM2.44b (-18%yoy) was lower than expected.
5	UOADEV	12MFY14	4	277.1	79%	Below	FY14 Core Net Income (CNI) of RM277m was below expectations accounting for 79% of our estimate of RM399m. Both new sales and PBT margin was lower than expected.

Source: Respective Company, MIDF Research

**Chart 2: Malaysia House Price Index (HPI)**



Source: Bank Negara, CEIC

**Chart 3: Total Loans Applied To Purchase Properties In Malaysia**



Source: Bank Negara, MIDF Research Compilation

**Chart 4: Malaysia Overnight Policy Rate**



Source: Bank Negara, Bloomberg

**Chart 5: Peer Comparison**

Stock	FYE	Recommendation	Price @ 4-Mar	Target Price (RM)	Core EPS (sen)		EPS (% chg)		Core PE (sen)		Net DPS		Net Dvd Yield	
					FY15	FY16	FY15	FY16	FY15	FY16	FY15	FY16	FY15	FY16
E&O	Mar	SELL	2.16	1.88	4.07	5.58	-58.0%	37.1%	53.1	38.7	2.73	2.60	1.3	1.2
MAHSING	Dec	NEUTRAL	2.01	2.18	21.54	23.35	19.5%	10.5%	9.3	8.6	7.97	8.64	4.0	4.3
SUNWAY	Dec	BUY	3.48	3.72	32.28	34.17	2.9%	5.8%	10.8	10.2	11.30	11.96	3.2	3.4
UEMS	Dec	NEUTRAL	1.39	1.50	10.83	11.51	1.4%	6.3%	12.8	12.1	3.15	3.31	2.3	2.4
UOAEV	Dec	NEUTRAL	2.15	2.05	22.42	28.45	11.8%	26.9%	9.6	7.6	13.05	13.98	6.1	6.5

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.