

9 October 2014 | Property sector

Preview Budget 2015

Expect cheers for aspiring property owners

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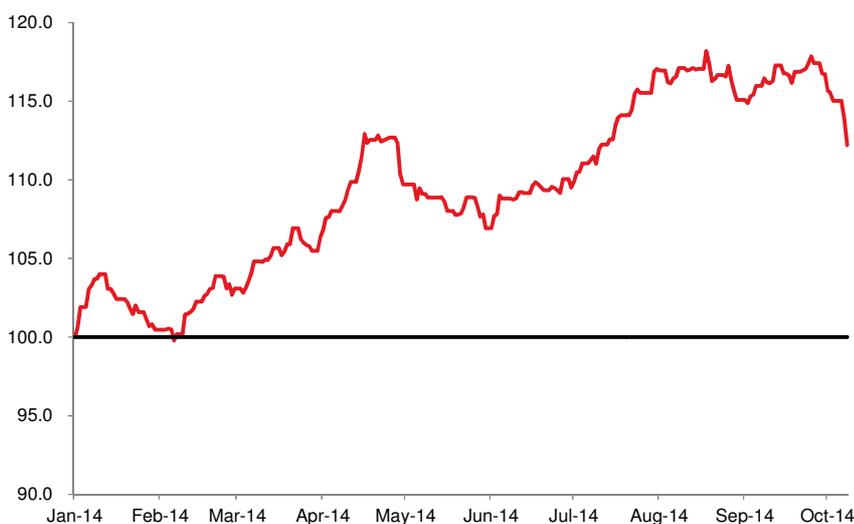
Maintain NEUTRAL

HIGHLIGHTS

- **KLPRP vs KLCI.** The KLPRP Index has outperformed the KLCI despite the property sector starting to see the impact from the government's cooling measures announced in the tabling of Budget 2014. Ytd, KLPRP is up +9.6% vs a -2.3% decline for the KLCI. The uptrend in KLPRP, in our view, is a misnomer and was largely event driven as opposed to an overtly positive sector outlook such. Some of the key events during the period were: a) IJM Corp's privatisation of IJM Land, b) IOI Property Group declaring dividend, and c) Sunway's plan to list its construction arm by Q2 2015.
- **Perception vs reality.** Contrastingly, consensus' calls on key stocks within the sector are positively-biased. Within the big caps (ie. SP Setia, IOI Property, and UEM Sunrise), consensus are neutral-to-negative while stock ratings within mid-caps (ie. IGB, Mah Sing, UOA, and E&O) and small-caps (ie. Glomac, Eco World, and Hua Yang) are overwhelmingly positive. To a lesser extent, big cap stocks such as SP Setia and IOI Property enjoys some income buffer from oversea projects as earnings contribution are still largely from the domestic market. We believe the small-to-medium caps remains the preferred sector picks due to their product mix of medium-to-low value properties which is largely seen as favourable to sustain healthy demand amidst rising house prices and slower take up rates.
- **Cooling measures for the property sector.** Recall that the government had introduced tax exemptions on the disposal of real property from 1 April 2007 to 31 December 2009 to jump start for property sector. Coupled with the reduction in financing costs, property investment became an increasingly attractive investment asset while pent up demand also fuelled new property purchases. The real property gains tax (RPGT) was later re-introduced in 2010 at a punitive rate of 5% vs the 0-30% under the Real Property Gains Tax Act 1976. Since then, the RPGT rate has been broadened and increased to limit speculative purchases – one of the key factors in driving up property prices while various affordable housing schemes were introduced to also benefit the middle income segment rather than the lower income as seen in the past. To some extent, we believe these measures have been effective as property transaction declined -10.9% in 2013 while transaction value grew +6.7% to RM152.37b according to the Valuation and Property Services Department (JPPH) Property Market Report for 2013. While the impact from the recent hike in RPGT rates tabled during Budget 2014 is still inconclusive, initial signs have started to show with some of the property developers holding back launches in 1H14 and cutting back revenue targets for FY14. Notwithstanding, the latest House Price Index (HPI) reading for the 1Q14 period saw +9.6%yoy growth.
- **Budget 2015 property sector preview.** Following the rationalisation in petrol subsidy and the imminent GST imposition in 2015, we expect to see more measures focused towards affordable housing in the upcoming Budget 2015 tabling at the end of this week. We anticipate some of the measures introduced in prior years to make a comeback (ie. full loan facility under *Skim Rumah Pertamaku*) or extended (ie. 50% exemption in stamp duty for first time buyers of houses worth RM400k and below) and broadened (ie. better incentive to encourage private developer participation to build low to medium cost properties, and more PR1MA/PPR units built in 2015). We also expect further relieve targeted at first-home buyers such as zero-rated GST for properties worth RM400k and below as lobbied by REHDA. The floor price of properties accessible to foreigners could also be raised and providing cheaper funding for first-time buyers. We are not expecting another round of hike in RPGT.

- **Beneficiaries and losers.** Based on our expectations, we believe the key beneficiaries would be companies with good mix of medium-to-low value property such as Mah Sing, IJM Land, and LBS. To a lesser extent, UEM Sunrise could also benefit from their product mix and landbank sale. Meanwhile, this could be a setback for companies with sizeable exposure to high-end properties such as E&O, SP Setia and Sunway.
- **Remain Neutral.** We are currently neutral on the sector as we see the GST imposition may lead to some reduction in disposable income and dampen consumer sentiments in the near term. However, we think this could be offset by the government's targeted measures aforementioned while longer term prospects remains positive against the positive outlook for the domestic economy.

Chart 1: KLPRP vs KLCI ytd performance (Index=100)



Source: Bloomberg, MIDFR calculations

Table 1: Consensus call on key property stocks

Companies	Mkt Cap (RMm)	BUY	NEUTRAL	SELL
Big cap stocks				
SP Setia	8,655	22%	57%	22%
IOI Property	8,227	88%	13%	0%
UEM Sunrise	7,941	40%	50%	10%
Total	24,823	49%	40%	11%
Medium cap stocks				
IGB Corp	3,818	25%	50%	25%
Mah Sing Group	3,497	76%	24%	0%
UOA Development	3,019	80%	20%	0%
Easter & Oriental	2,790	67%	22%	11%
Total	13,125	60%	30%	10%
Small cap stocks				
Glomac	799	0%	75%	25%
Eco World	1,110	86%	0%	14%
Hua Yang	554	75%	0%	25%
Total	2,463	55%	24%	20%
Sector	40,411	53%	36%	11%

Source: Bloomberg, MIDFR calculations

Table 2: Previous budget measures on Property ownerships and transactions

Budget Year	Measures introduced	Implications / Rationale
Budget 2010	<p>Real property gains tax (RPGT) of 5% on gains from disposal of real property with the purchaser bear 2% and the vendor bears the remaining 3%.</p> <p>This excludes the following:</p> <ul style="list-style-type: none"> • First RM10,000 or 10% gains, whichever is higher. • Gifts between parent and child, husband and wife, grandparent and grandchildren. • Once in a lifetime waiver for an individual who is a Malaysian citizen or with permanent resident status. 	<p>At this juncture, the RPGT rate of 0-30% has been exempted since Apr 1, 2007.</p> <p>To broaden the government's tax revenue base and to ensure equitable tax system.</p>
Budget 2011	<p>Affordable housing measures introduced:</p> <ul style="list-style-type: none"> • Provision of RM568m for the building of houses: <ul style="list-style-type: none"> ○ 300 units under <i>Projek Bantuan Perumahan Bandar</i> ○ 79,000 units under <i>Program Perumahan Rakyat</i> ○ 8,000 units under <i>Projek Bantuan Rumah Sewa</i> • Provision of RM50m for estate workers under <i>Skim Pembiayaan Perumahan Kos Rendah</i> – enables estate workers to obtain max. RM60k loan at 4% p.a. interest over 40-year repayment period which extends to the 2nd generation. • For first-time home buyers: <ul style="list-style-type: none"> ○ Introduction of <i>Skim Rumah Pertamaku</i> which provides 100% loan without 10% down payment for those with monthly household income of less than RM3k and maximum house purchase worth up to RM220k; ○ 50% stamp duty exemption on instruments of transfer for a house purchase price not exceeding RM350k – also applicable to stamp duty on loan agreement; limited to the purchase of terrace house, condominium, apartment or flat. 	<p>To boost house ownership amongst Malaysian permanent estate workers.</p> <p>To increase house ownership and lessen the burden for first-time buyers.</p>
Budget 2012	<p>Affordable housing measures introduced:</p> <ul style="list-style-type: none"> • For first-time home buyers, the price limit of house purchased under the <i>Skim Rumah Pertamaku</i> is increased to RM400k with the same eligibility as per Budget 2011 • Introduction of <i>Perumahan Rakyat 1 Malaysia</i> or PR1MA, targeted at middle income group which is sold below market price. Full stamp duty exemption on loan instruments for the purchase of up to RM300k under the scheme. • Provision of RM443m for the construction of 8,000 units for sale and 7,000 units for rent under the <i>Program Perumahan Rakyat</i> (PPR). • Higher RPGT rate to curb speculative purchases. The RPGT is on net gains after deducting renovation and incidental costs. 	<p>To improve affordability of house ownership which is targeted at the lower and middle income groups.</p> <p>As the 5% rate introduced in Budget 2010 was ineffective, the higher RPGT rate of 10% for sales made in first 2 years and 5% for sales made from year 3 to 5.</p>

Budget Year	Measures introduced	Implications / Rationale
Budget 2013	<p>Affordable housing measures introduced:</p> <ul style="list-style-type: none"> • Provision of RM1.9b to build 123k of affordable houses under the PR1MA scheme and National Housing Department (SPNB). <ul style="list-style-type: none"> ○ RM500m to build 50,000 houses under PR1MA with sales price of RM100k-400k. ○ Provision of RM500m for PR1MA to collaborate with private developers to build 30k houses – house prices would be 20% lower than the prevailing market price. ○ RM320m allocated for SPNB to build 22,855 residential units under the <i>Rumah Mesra Rakyat</i> and <i>Rumah Mampu Milik</i> schemes. • For first-time home buyers: <ul style="list-style-type: none"> ○ The eligibility of purchasers under the <i>Skim Rumah Pertamaku</i> is increased for individuals earning RM5k per month or joint-loans between spouses with combined monthly income of RM10k. ○ The 50% stamp duty exemption on instruments of transfer and loan agreements is extended up to end 2014 and residential properties worth up to RM400k from RM350k previously. • RPGT rate is increased further to curb speculative purchases. The RPGT is on net gains after deducting renovation and incidental costs. • Provision of RM100m for the revival of 30 abandoned housing projects and tax incentives for banks and developers, and stamp duty exemption for victims of abandoned projects for additional finance and transfer of house. 	<p>To improve affordability of house ownership which is targeted at the lower and middle income groups.</p> <p>Further hike in RPGT from 10% to 15% for properties sold within 2 years of purchase and from 5% to 10% for properties sold within year 3 and year 5.</p>
Budget 2014	<ul style="list-style-type: none"> • RPGT rate is increased further to curb speculative purchases. The RPGT is on net gains after deducting renovation and incidental costs. Separate RPGT rates introduced for non-citizens. • Floor price for properties that could be purchased by foreigners is raised from RM500k to RM1m. • Developers are prohibited from implementing Developer Interest Bearing Scheme (DIBS). • RM578m allocated for the construction of 16,473 housing units under the PPR scheme and another RM146m for the construction of 600 housing units under <i>Program Perumahan Rakyat Disewa</i> and <i>Perumahan Rakyat Bersepadu</i>. • RM1b allocated for PR1MA to provide 80k housing units which are priced 20% lower than the prevailing market rate. • Introduction of Private Affordable Ownership Housing Scheme (MyHome) to encourage private developers build more low and medium-cost houses. <ul style="list-style-type: none"> ○ Each unit built entitles to RM30k subsidy with the low and medium-cost houses maximum prices of RM45k and RM170k respectively. The low and medium costs must make up at least 20% each of the entire housing project. ○ Open to first-time buyers with monthly household income of RM3k for low-cost and maximum of 6k for the medium-cost. • Provision of RM82m for the revival of 20 abandoned housing projects involving 8,197 houses. 	<p>Further hike in RPGT, separate RPGT schedule for foreigners, the elimination of DIBS, and the higher floor price for foreigners are aimed at containing the rise in house prices.</p> <p>To improve affordability of house ownership which is targeted at the lower and middle income groups.</p> <p>To boost supplies of affordable homes for the low and middle income groups without stifling the private developers.</p>

Table 3: RPGT rates

Disposal	RPGT Rates									
	Before 1 Apr 2007			1 Apr 2007 to 31 Dec 2009	From 1 Jan 2010	From 1 Jan 2012	From 1 Jan 2013	From 1 Jan 2014		
	Companies	Individuals	Individuals (Non-citizens)					Companies	Individuals	Individuals (Non-citizens)
Within 2 years	30%	30%	30%	Exempted	5%	10%	15%	30%	30%	30%
In year 3	20%	20%	30%		5%	5%	10%	30%	30%	30%
In year 4	15%	15%	30%		5%	5%	10%	20%	20%	30%
In year 5	5%	5%	30%		5%	5%	10%	15%	15%	30%
In year 6 onwards	5%	0%	5%		0%	0%	0%	5%	0%	5%

Source: Ministry of Finance Malaysia

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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.