

10 December 2015 | Sector Update

PROPERTY**Maintain NEUTRAL****Expect lower sales trend to continue in 1HCY16****KEY HIGHLIGHTS**

- **Mixed result in 3QCY15**
- **3QCY15 House Price Index (HPI) growth of 5.4%yoy was the lowest in 5 years**
- **Uninspiring loan demand for property purchase so far**
- **Lower on-year sales trend should continue in 1HCY16**
- **Maintain NEUTRAL; BUY calls on SPSETIA (BUY; TP: RM3.70) and GLOMAC (TP: RM1.08)**

Mixed result in 3QCY15. Out of the six property developers under our coverage which released their results in 3QCY15, 33% or two of the stocks under our coverage (UEMS and E&O) reported earnings which were below expectations. UEMS 9MFY15 results were below expectation due to higher than expected interest cost and expenses. As for E&O, its weaker results were due to slower profit recognition of its property projects and higher expenses. SUNWAY, MAHSING and GLOMAC earnings were in line with our estimates. UOADEV beat our estimate due to progress billing and the contribution from Vertical Office Suites which was completed in 3QFY15. Overall, the 3QCY15 earnings were mixed with two underperformed expectations and one above expectation.

3QCY15 House Price Index (HPI) growth of 5.4%yoy is the lowest in 5 years. HPI grew by 5.4%yoy and 0.8%qoq to 225.2 in 3QCY2015. Note that this was significantly lower than the 5-year average growth of 9.7%. Among the key states, the slowest on-year growth was recorded in Johor (+3.0%yoy) and Penang (+3.5%yoy). Selangor HPI growth was better at +6.2%yoy followed by Kuala Lumpur's +5.3%yoy. We believe that the outlook for property price is better in Greater KL (Selangor and KL) due to the support from urbanization factor.

Uninspiring loan demand for property purchase so far. The latest Bank Negara statistics show that "Applied Loan for Purchase of Property" has declined 13%yoy in Oct-2015 to RM25.19b. This was weaker than Sept-2015 data which declined 9%yoy. On a monthly sequential basis, the data was 1% lower. We are negative on the data as the number was showing nine consecutive on-year declines since Feb-2015. YTD, 10M2015 Applied Loan was lower at -7%yoy to RM253.88b. In our view, consumer appetite on big ticket items such as property remains low due to rising cost of living and weakening of Ringgit.

Lower on-year sales trend should continue in 1HCY16. The latest publication from Malaysian Institute of Economic Research (MIER) shows that Consumer Sentiment Index (CSI) is at all-time low of 70.2. Some notable comments from MIER include "trepidations of higher prices moderating" and "shopping plans on low gear" and we concur with this due to escalating cost of living partly due to GST and weakening Ringgit. Hence, we believe that consumer is likely to defer big item purchases in the near term. As a result, we believe that the trend of lower new property sales by developers is likely to continue at least in the 1HCY16.


Maintain NEUTRAL; BUY calls on SPSETIA (BUY; TP: RM3.70) and GLOMAC (TP: RM1.08). We like SPSETIA as: i) it is expected to benefit from higher GBP/MYR rate, ii) the upcoming 4QFY15 result is likely to be good, and iii) its net dividend yield of 5.2% is higher than peers' average of 3.8%. We also like GLOMAC 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). 

Table 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	6MFY16	2	3.4	3%	Below	1HFY16 Core Net Income (CNI) of RM3.4m was below expectations accounting for 3% of our estimate. This is due to slower profit recognition of its property projects and higher expenses.
2	MAHSING	9MFY15	3	274.0	73%	Within	
3	SUNWAY	9MFY15	3	415.0	74%	Within	
4	UEMS	9MFY15	3	151.6	37%	Below	9MFY15 Core Net Income (CNI) of RM151.6m was below expectations accounting for 37% of our estimate. This is due to higher than expected interest cost and expenses.
5	UOADEV	9MFY15	3	306.0	95%	Above	At 95% of our forecast, 9MFY15 CNI is higher-than-expected due to progress billing and the contribution from Vertical Office Suites which was completed in 3QFY15.
6	SPSETIA	9MFY15	3	612.0	102%	Above	9MFY15's Core Net Income (CNI) of RM612m was above expectation as it already accounted for 102% of our estimate of RM602m for the full year. Margin for Fulton Lane project in Australia was stronger than expected.
7	GLOMAC	6MFY16	2	42.1	45%	Within	

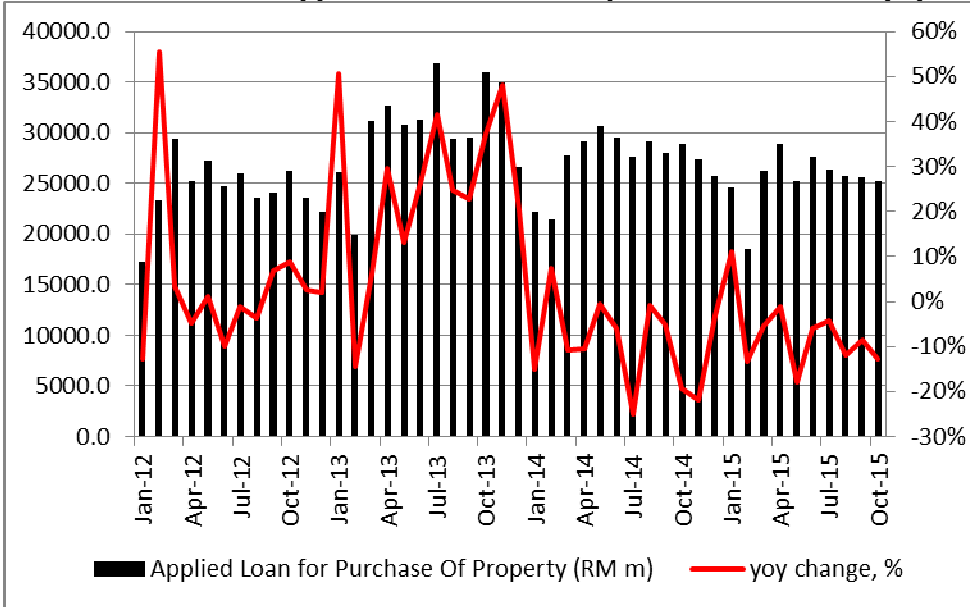
Source: Respective Company, MIDF Research

Table 2: Peer Comparison

Stock	FYE	Rec.	Price @ 9-Dec	Tgt Price (RM)	Core EPS (sen)		Core PE (sen)		Net Dvd Yield	
					15/16	16/17	15/16	16/17	15/16	16/17
E&O	Mar	NEUTRAL	1.51	1.66	9.10	9.47	16.6	15.9	1.5	2.5
MAHSING	Dec	NEUTRAL	1.41	1.44	15.79	16.29	8.9	8.7	4.1	4.3
SUNWAY	Dec	NEUTRAL	3.06	3.20	31.02	31.25	9.9	9.8	12.0	3.6
UEMS	Dec	NEUTRAL	1.13	1.11	5.17	9.42	21.9	12.0	1.2	2.3
UOADEV	Dec	NEUTRAL	2.11	2.02	26.95	23.89	7.8	8.8	7.4	5.6
GLOMAC	Apr	BUY	0.915	1.08	12.91	13.64	7.1	6.7	4.8	5.1
SPSETIA	Oct	BUY	3.13	3.70	27.75	29.03	11.3	10.8	5.3	5.6

Source: MIDF Research Estimate

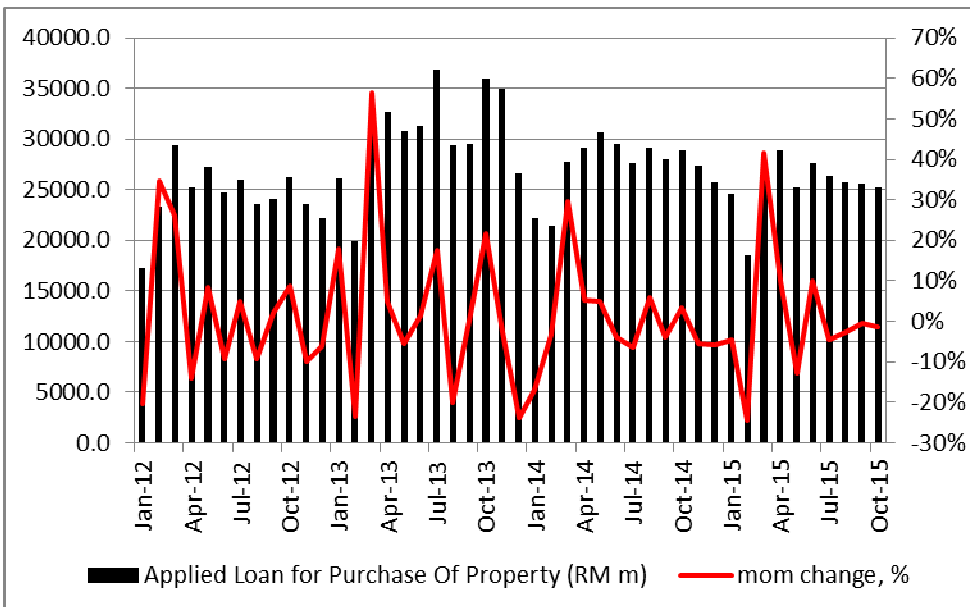
Chart 1: Total Loans Applied To Purchase Properties has declined yoy



Applied Loan for Oct-15 declined 13%yoy while 10M2015 was down 7%yoy.

Source: Bank Negara, MIDF Research Compilation

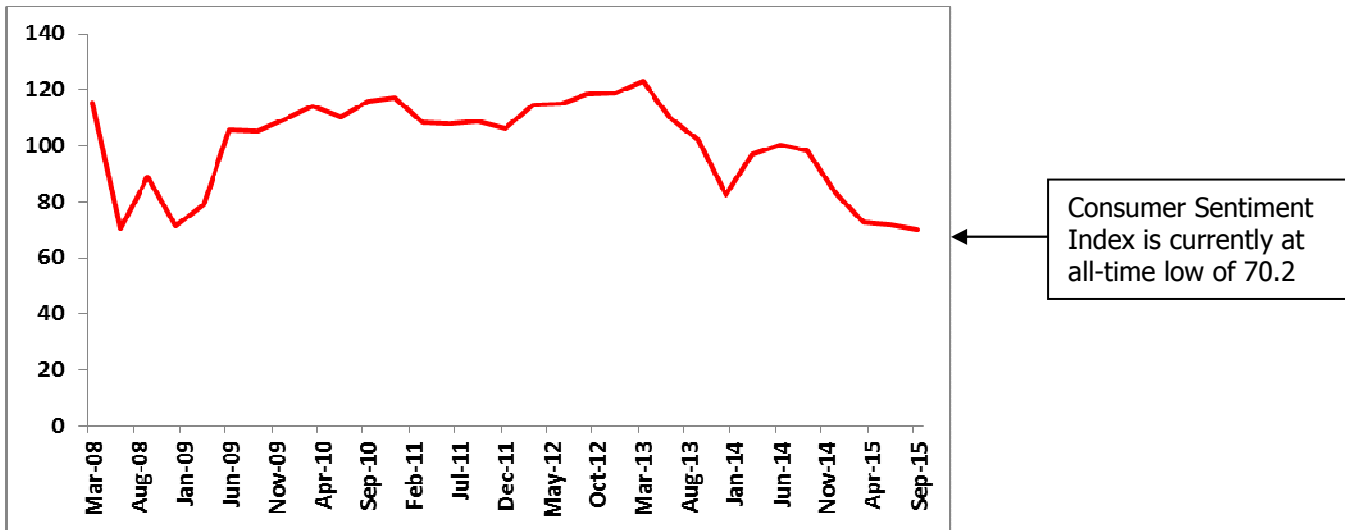
Chart 2: Total Loans Applied To Purchase Properties has declined mom



Applied Loan for Oct-15 has declined 1%mom

Source: Bank Negara, MIDF Research

Chart 3: Consumer Sentiment Index



Source: Malaysian Institute of Economic Research, MIDF Research

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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.