

26 October 2015 | Sector Update

PROPERTY***No Surprise From Budget 2016******Maintain NEUTRAL*****KEY HIGHLIGHTS**

- **RM2.96b allocation for affordable housing measures (+52%yoy).**
- **Real Property Gain Tax (RPGT) rate is unchanged while DIBS ban stays.**
- **The recent data shows that the dynamics of the sector are still weak.**
- **Maintain NEUTRAL with SPSETIA (BUY; TP: RM3.70) as our top pick.**
- **UOADEV downgraded to NEUTRAL with unchanged Target Price of RM2.05.**

RM2.96b allocation for affordable housing measures (+52%yoy). In the Budget 2016 announced last Friday, there were ten measures planned by the Government to address affordable housing issue with total allocation of RM2.96b. For comparison, Budget 2015 contains three measures with total allocation of RM1.94b. Effectively, the total allocation represents an increase of 52% and we believe this show that the Government is seriously looking into the issue of affordable housing.

Real Property Gain Tax (RPGT) rate is unchanged while DIBS ban stays. There is no change to the Real Property Gain Tax (RPGT) rate. As for Developer Interest-Bearing Scheme (DIBS), it is still disallowed. We are Neutral on the unchanged RPGT rate as this means that the Government may view that the current policy is working and hence there is no further cooling measures needed. Having said that, the DIBS ban stays and this means little cheer for property developers as well.

The recent data shows that the dynamics of the sector are still weak. According to the National Property Information Centre's (NAPIC) First Half 2015 Property Market Report, property transaction value in the 1H CY15 has declined 6.0%yoy to RM77.08b. Separately, the latest Bank Negara statistics show that "Applied Loan for Purchase of Property" for the first eight months of 2015 (8M15) has declined 7%yoy to RM203.13b. Hence, we think that the sector fundamentals are still lacking. We reiterate our view that lower on-year sales trend is likely to continue in 4QCY15 and 1QCY16.

Maintain NEUTRAL with SPSETIA (BUY; TP: RM3.70) as our top pick. We like SPSETIA as: i) it is expected to benefit from higher GBPMYR rate, ii) the upcoming 4QFY15 result is likely to be good, and iii) its net dividend yield is higher than peers' average. 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).


UOADEV downgraded to NEUTRAL with unchanged Target Price of RM2.05. Since our Upgrade on the stock to BUY on 21-Aug-2015 when the share price was RM1.82, it has gained 19% to RM2.17 as of 23-Oct-2015. Our valuation method of 30% discount to RNAV is unchanged. As the share price has appreciated substantially coupled with lack of catalysts from the Budget 2016, we downgrade the stock to NEUTRAL. 

Table 1: List of measures targeting affordable housing

Measures	Allocation (RM)
PR1MA to build 175,000 houses which will be sold at 20% below market prices. A total of 10,000 units are expected to be completed next year.	1.6b
SPNB will build 10,000 units of Rumah Mesra Rakyat with a subsidy of RM20,000 for each house.	200m
Build 100,000 houses, priced between RM90,000 and RM300,000, under Perumahan Penjawat Awam 1 Malaysia (PPA1M) by 2018. A Facilitation Fund of up to 25% of development cost is provided.	n.a.
Build 22,300 units of apartments and 9,800 units of terrace houses under the People's Housing Programme (PPR)	863m
Establish a First House Deposit Financing Scheme under KPKT to assist first-time house buyers of affordable houses to pay the deposit.	200m
Build 5,000 units of PR1MA and PPA1M houses in 10 locations in the vicinity of LRT and monorail stations, including in Pandan Jaya, Sentul and Titiwangsa.	n.a.
Department of Orang Asli Development to build houses for the community.	60m
Build houses for the second generation of settlers comprising 20,000 units by FELDA, 2,000 units by FELCRA and 2,000 units by RISDA. For houses built by FELDA, the maximum price is reduced to RM70,000 from RM90,000 previously.	n.a.
GLCs to build affordable houses in the vicinity of the MRT station in Bandar Kwasa Damansara. Kwasa Land owned by EPF will build 800 units and Sime Darby Property 4,600 units.	n.a.
KPKT to revive abandoned low and medium-cost private housing projects	40m
Boosting domestic demand	
Development of the Malaysian Vision Valley covering an area of 108,000 hectares (or 267,000 acres) from Nilai to Port Dickson. Initial investment forecast of RM5.0b in 2016	5.0b

Source: Budget 2016 Speech

Table 2: Summary of 1H2015 Property Market Report

Quarter	Transaction Value RM m, Year 2014	Transaction Value RM m, Year 2015	Change, %
1Q	40405	39460	-2.3%
2Q	41625	37616	-9.6%
First 6 Months	82030	77076	-6.0%

Quarter	Transaction Volume, Year 2014	Transaction Volume, Year 2015	Change, %
1Q	92905	93735	0.9%
2Q	100498	92883	-7.6%
First 6 Months	193403	186618	-3.5%

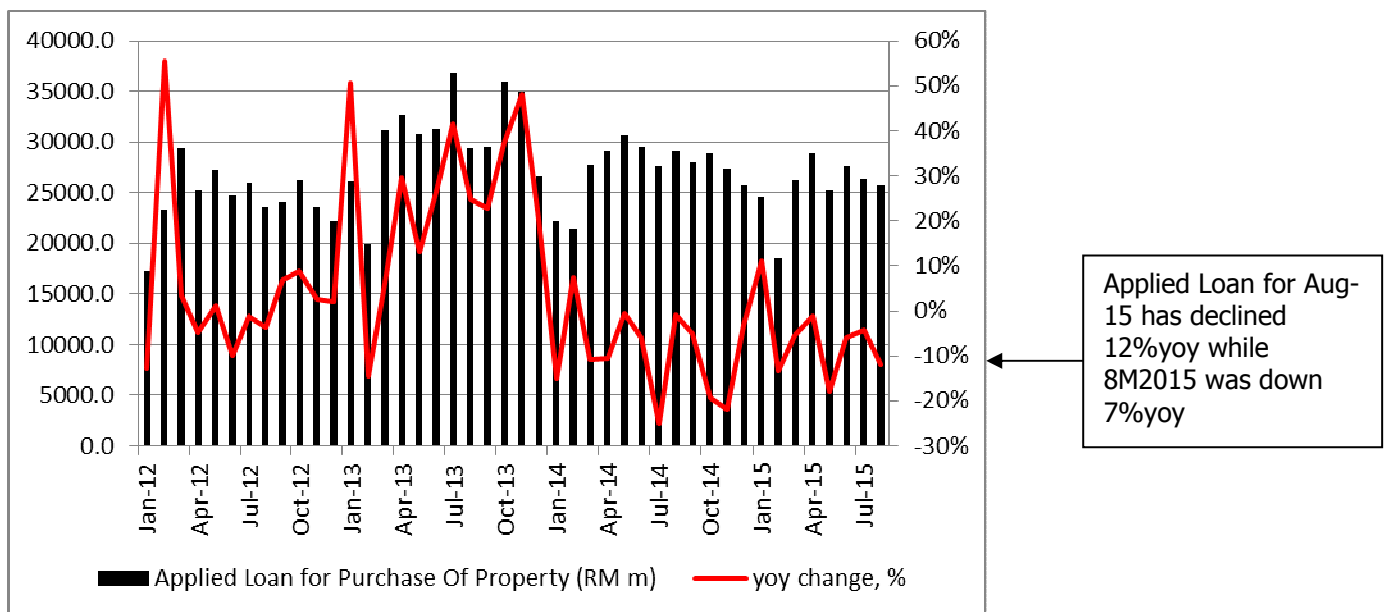
Source: National Property Information Centre (NAPIC), MIDF Research

Table 3: Peer Comparison

Stock	FYE	Rec.	Price @ 2-Oct	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	1.62	1.66	9.55	10.02	17.0	16.2	1.7	1.7
MAHSING	Dec	NEUTRAL	1.32	1.40	15.79	16.29	8.4	8.1	4.4	4.6
SUNWAY	Dec	NEUTRAL	3.05	3.20	31.02	31.25	9.8	9.8	12.1	3.6
UEMS	Dec	NEUTRAL	1.27	1.13	9.14	10.46	13.9	12.1	2.0	2.3
UOADEV	Dec	NEUTRAL	2.17	2.05	22.42	28.45	9.7	7.6	6.0	6.4
GLOMAC	Apr	BUY	0.91	1.08	12.91	13.64	7.0	6.7	4.8	5.1
SPSETIA	Oct	BUY	3.36	3.70	27.75	29.03	12.1	11.6	5.0	5.2

Source: MIDF Research Estimate

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



Source: Bank Negara, MIDF Research Compilation

Alan Lim, CFA
alan.lim@midf.com.my
 03-21738464

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
 (Bank Pelaburan)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

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.