

05 October 2015 | Sector Update

PROPERTY*Still Not Out Of The Woods***Maintain NEUTRAL****KEY HIGHLIGHTS**

- **Property developers' result in 3QCY15 was mixed.**
- **1HCY15 property transaction value is down 6.0%yoy with volume down 3.5%yoy.**
- **Loan demand for property purchase still weak.**
- **Weak consumer sentiment may cause lower yoy sales trend to continue in 4QCY15 and 1QCY16.**
- **Maintain NEUTRAL with SPSETIA (BUY; TP: RM3.60) as our top pick.**
- **Other BUYs are UOADEV (TP: RM2.05) and GLOMAC (TP: RM1.06).**
- **SUNWAY Target Price reduced to RM3.44 after its 26.0 sen special went ex.**

Property developers' result in 3QCY15 was mixed. Out of the seven property developers under our coverage which released their results in 3QCY15, 29% or two of the stocks under our coverage (UEMS and E&O) reported earnings which were below expectations. UEMS 1HFY15 results were below expectation due to higher than expected interest cost. As for E&O, its weaker results were due to lower than expected margin for its property division. SUNWAY, MAHSING, UOADEV and GLOMAC earnings were in line with our estimates. Only SPSETIA managed to beat our estimate. This is due to the stronger than expected margin for its Fulton Lane project in Melbourne, Australia. Overall, the 3QCY15 earnings were mixed with two underperformed expectations and one above expectation.

1HCY15 property transaction value is down 6.0%yoy with volume down 3.5%yoy. According to the National Property Information Centre's (NAPIC) First Half 2015 Property Market Report, property transaction value in the 1HCY15 has declined 6.0%yoy to RM77.08b. The decline in 2QCY15 at 9.6%yoy is worse than the 1QCY15 decline of 2.3% yoy. As for property transaction volume, it has declined 3.5%yoy to 186,618 in 1HCY15. The same trend occurs for volume in which 2QCY15 volume slipped 7.6%yoy and this is worse than 1QCY15 volume which still show 0.9%yoy growth. We view the data as a confirmation of our view that 2015 sales for developers are likely to decline yoy.

Loan demand for property purchase still weak. 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. For Aug-2015 against same month last year, it has declined 12% yoy to RM25.68b. This is worse than July-2015 data which show 4% decline yoy. On a mom basis, the data show decline of 3%. We are neutral on this data as the yoy trend remains in the negative growth territory. We think that the general appetite among consumers to buy big ticket items such as property remains low. This may be caused by escalating cost of living due to GST and weakening Ringgit.

Weak consumer sentiment may cause lower yoy sales trend to continue in 4QCY15 and 1QCY16. The latest publication from Malaysian Institute of Economic Research (MIER) shows that Consumer Sentiment Index (CSI) is currently at 71.7. Effectively, this means that CSI is at 6.5 years low. One of the notable comment from MIER is "Consumer spending less robust going forward" and we concur with this due to escalating cost of living due to GST and weakening Ringgit. Hence, we believe that consumer is likely to defer big item purchase in the near term. As a result, we believe that the trend of lower new property sales yoy by developers is likely to continue in 4QCY15 and 1QCY16.

Maintain NEUTRAL with SPSETIA (BUY; TP: RM3.60) 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 of 4.4% is higher than peers' average of 4.2%. **Other BUYs are UOADEV (TP: RM2.05) and GLOMAC (TP: RM1.06).** We like UOADEV for its net dividend yield of 7.1% which is very attractive against peers' average of 4.2%. UOADEV balance sheet is also the strongest among developers with net cash of RM741m. Lastly, we 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).

SUNWAY Target Price reduced to RM3.44 after its 26.0 sen special dividend went ex. Note that SUNWAY special dividend of 26.0 sen has went ex on 30-September. Hence, we have adjusted our Target Price accordingly to RM3.44. Our valuation method of 15% discount to RNAV is unchanged. We maintain our NEUTRAL call as we expect minimal catalysts going forward. 

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	3MFY16	1	8.9	6%	Below	1QFY16 Core Net Income (CNI) of RM8.9m was below expectations accounting for 6% of our estimate of RM150.0m. This is due to lower than expected margin of its property division.
2	MAHSING	6MFY15	2	189.4	47%	Within	
3	SUNWAY	6MFY15	2	267.4	48%	Within	
4	UEMS	6MFY15	2	104.0	25%	Below	1HFY15 Core Net Income (CNI) of RM104.0m was below expectations accounting for 25% of our estimate of RM422m. This is due to higher than expected interest cost.
5	UOADEV	6MFY15	2	147.9	46%	Within	
6	SPSETIA	9MFY15	3	612.0	102%	Above	9MFY15's Core Net Income (CNI) of RM612m was above expectation accounting for 102% of our estimate of RM602m. Margin for Fulton Lane project in Australia was stronger than expected.
7	GLOMAC	3MFY16	1	21.1	23%	Within	

Source: Respective Company, MIDF Research

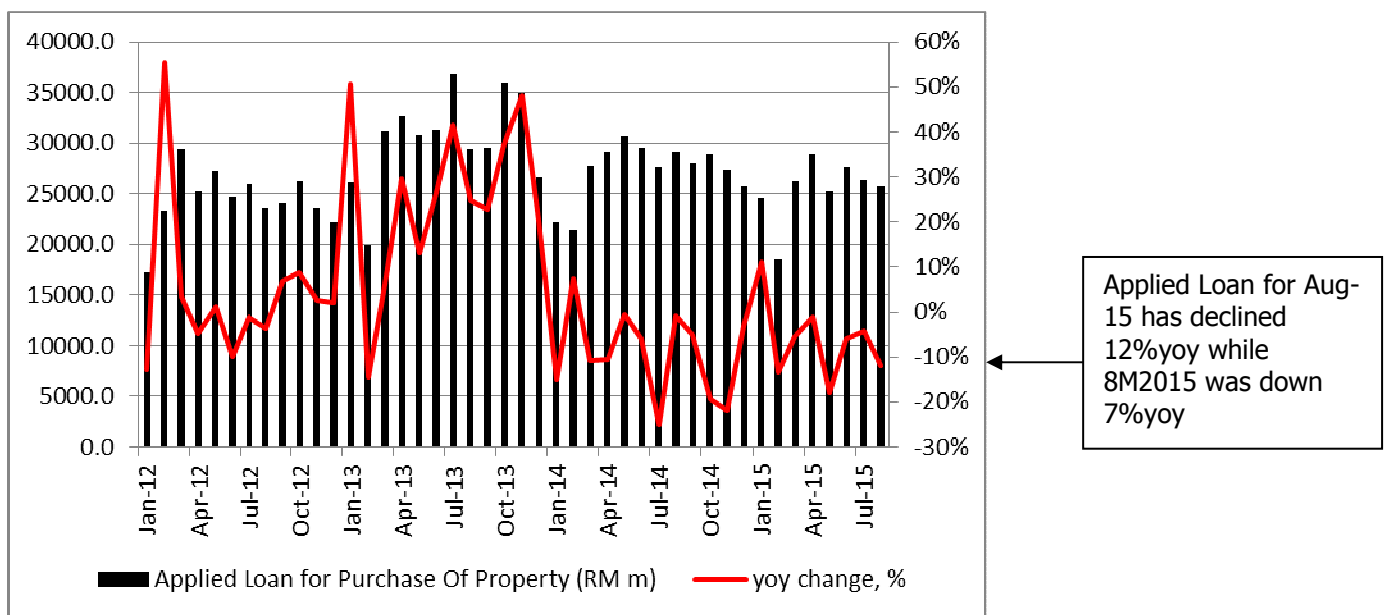
Table 2: Summary of 1H2015 Property Market Report

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%

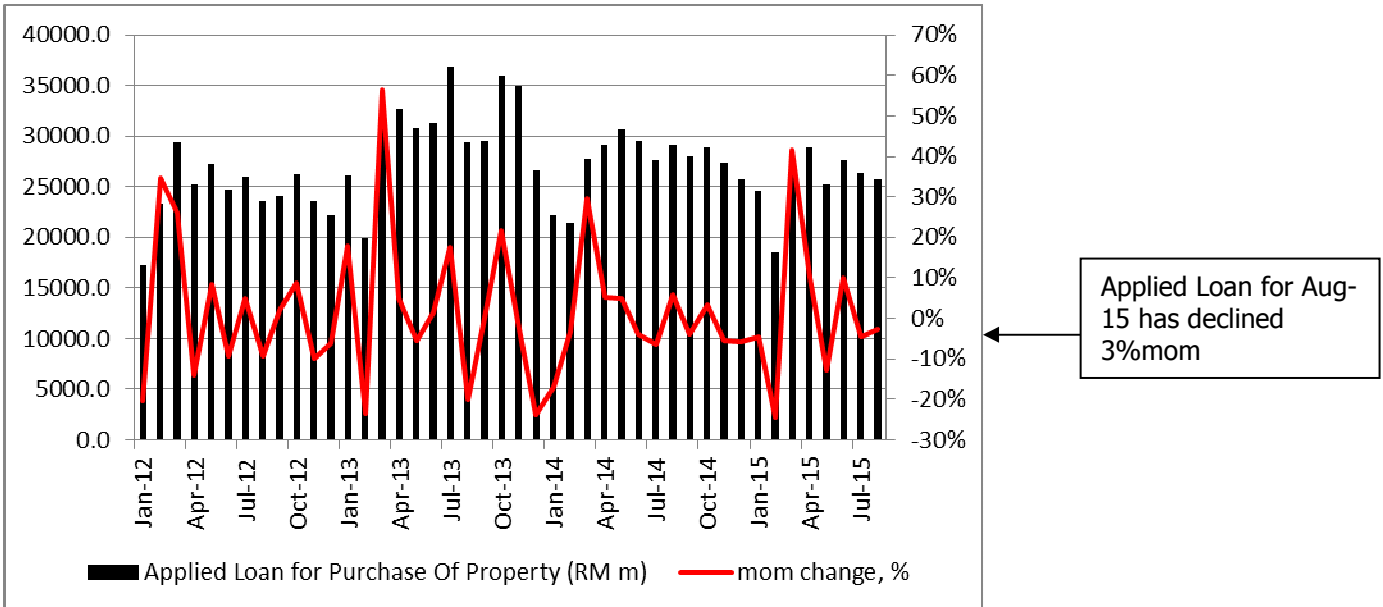
Source: National Property Information Centre (NAPIC), MIDF Research

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



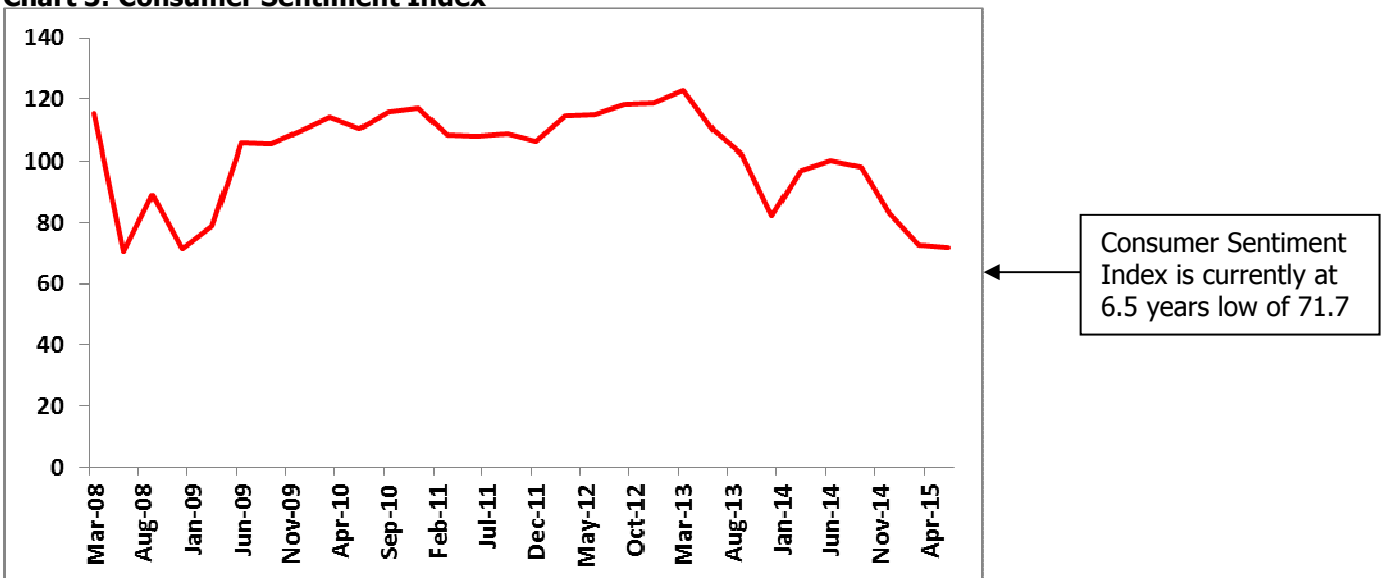
Source: Bank Negara, MIDF Research Compilation

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



Source: Bank Negara, MIDF Research

Chart 3: Consumer Sentiment Index



Source: Malaysian Institute of Economic Research, MIDF Research

Chart 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	1.55	1.66	9.55	10.02	16.2	15.5	1.7	1.8
MAHSING	Dec	NEUTRAL	1.27	1.40	15.79	16.29	8.0	7.8	4.6	4.7
SUNWAY	Dec	NEUTRAL	3.12	3.44	31.58	32.09	9.9	9.7	11.9	3.6
UEMS	Dec	BUY	1.19	1.13	8.19	9.38	14.5	12.7	2.2	2.4
UOADEV	Dec	BUY	1.85	2.05	22.42	28.45	8.3	6.5	7.1	7.6
GLOMAC	Apr	BUY	0.83	1.06	12.91	13.64	6.4	6.1	5.3	5.6
SPSETIA	Oct	BUY	3.26	3.60	23.71	28.45	13.7	11.5	4.4	5.3

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.