

SECTOR UPDATE

Property – Malaysia

A Muted Year Ahead; Stay Selective Amid Market Turbulence

Developers' earnings rebounded strongly in 4Q21 as the economy reopens. 2021's sales were 45% stronger yoy, while 2022's flattish sales targets reflect a more cautious outlook amid the absence of HOC. More aggressive launches in 2022 could again hurt developers' balance sheets. We do not expect market rotation could excite the sector amid a lack of catalysts and lingering long-term issues. Maintain MARKET WEIGHT, stay selective. Top pick: Matrix for defensive shelter (7% yield) amid market volatility.

WHAT'S NEW

- 4Q21: Earnings rebounded strongly qoq as economy reopens.** In 4Q21, the property sector's (under our coverage) earnings rebounded 171% yoy with improved progress billings as construction activities were accelerated after the lockdown. Yoy, the sector saw 7% earnings decline due to operational loss from Mah Sing's glove manufacturing and as Sunway's 4Q20 earnings were boosted by lumpy earnings from its Singapore project. Full-year 2021 earnings of RM1.06b represent an 8% yoy growth.
- Strong 2021 sales; 2022's targets reflect normalisation.** In 2021, all developers under our coverage have surpassed their full-year sales targets (RHS table). In particular, 4Q21's sales recovered sequentially given: a) economic reopening-fuelled pent-up demand, b) front loading purchases before the Home Ownership Campaign (HOC) ends, and c) inventories clearance by developers via price discount/freebies. After a 45% yoy improvement, most of the developers were expecting a muted sales growth in 2022 (RHS chart). This reflects developers' more cautious outlook in the property market amid: a) the end of HOC, b) lack of the government's supportive measures, and c) interest rate hike. With that, we expect a base normalisation on sales or potentially a contraction in 2022, as seen in dropping loan applications and approvals value (RHS chart).
- More aggressive launches in 2022 could re-exacerbate overhang issue.** For 9M21, the total unsold units for residential properties eased 5% yoy after being stagnant at the elevated level since 2018 (RHS chart). This was attributable to developers' focus on clearing inventories and prudent launches in 2021, which saw most developers reporting improved balance sheet position (table overleaf). Having said that, their aggressive launch plans (RHS table) may re-exacerbate the overhang issue in Malaysia, given the lack of organic demands. This, we think, may continue to pressure property pricing and it could eventually hurt developers' margin and balance sheet.

ACTION

- Maintain MARKET WEIGHT, stay selective.** We do not foresee the market rotation (from high PE stocks) could excite the property sector (deemed as value stocks). For one, 2022 could be a tough year for developers to spur sales without the HOC. Secondly, back-testing suggests the sector could underperform when interest rates hike. Finally, the improving ROE (from a low base) might be insufficient to re-rate the sector's valuation (charts overleaf) amid lingering structural issues and the risk of worsening balance sheets (amid aggressive launches in 2022).
- Nevertheless, we believe developers that demonstrated resilient earnings base, have strong/improved balance sheet, and offer attractive dividend yield (4-7%) could be a shelter for investors amid market volatility. We take the opportunity to lower the discount to RNAV for Matrix Concepts Holdings (BUY/Target: RM2.70) and Eco World Development (HOLD/Target: RM0.95). Our top pick remains Matrix Concepts Holdings.**

PEER COMPARISON

Company	Tickers	Rec	Share Price 8 Mar 22 (RM)	Target Price (RM)	Market Cap (RMm)	P/B		PE		Div Yield	ROE	Net Margin
						FY22F (x)	FY23F (x)	FY22F (x)	FY23F (x)	FY22F (%)	FY22F (%)	FY22F (%)
EcoWorld Development	ECW MK	HOLD	0.970	0.95	2,856.0	0.6	0.6	12.7	13.3	3.9	4.7	9.0
Mah Sing Group	MSGB MK	HOLD	0.64	0.70	1,553.7	0.4	0.4	9.7	9.9	3.8	3.8	7.1
Matrix Concepts*	MCH MK	BUY	2.28	2.70	1,902.0	1.0	0.9	7.8	6.9	7.2	13.0	21.1
Kerjaya Prospek Property	KPPROP MK	BUY	0.595	1.00	264	1.0#	0.8#	7.6#	5.1#	0.0	15.5	18.0
SP Setia	SPSB MK	HOLD	1.14	1.35	4,637.5	0.3	0.3	11.6	12.4	1.7	2.8	9.7
Sunway Berhad	SWB MK	BUY	1.69	2.25	8,262.5	0.7	0.6	17.4	13.0	3.1	3.9	10.7
UEM Sunrise	UEMS MK	SELL	0.305	0.300	1,542.8	0.2	0.2	(75.3)	52.6	0.0	n.a	(1.6)
Sime Darby Property*	SDPR MK	NR	0.630	n.a.	4,285	0.4	0.4	15.2	13.2	2.8	2.7	9.7
Average						0.6	0.5	n.m.	15.8	2.8	6.6	10.5

*Year-end 31 Mar 21, reflects actual FY21 earnings. #fully diluted.

Source: UOB Kay Hian

MARKET WEIGHT

(Maintained)

SECTOR TOP PICKS

Top pick	Rec	Target Price (RM)	P/B (x)	PE (x)
MCH MK	BUY	2.70	0.9	6.8
SWB MK	BUY	2.25	0.8	12.9

Source: Bloomberg, UOB Kay Hian

2021 CORE NET PROFIT

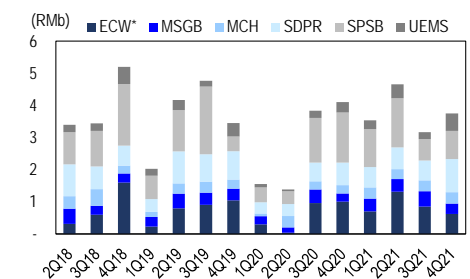
	2020 (RMm)	2021 (RMm)	yoy % chg	Results
EcoWorld*	234.0	240.0	2.6	Above
Mah Sing	62.1	106.2	71.0	In Line
Matrix Concept	239.9	242.7	1.2	In Line
SP Setia	198.4	295.3	48.8	Above
Sunway Bhd	384.3	297.3	-22.6	In Line
UEM Sunrise	-137.5	-118.8	-13.6	Below
Sector	981.2	1,062.7	8.3	

*Year ended 31 Oct

*Year ended 31 Mar, reflect Calendar Year net profit

Source: Respective companies, UOB Kay Hian

QUARTERLY SALES ACHIEVED BY TOP DEVELOPERS



	2021 (RMm)	yoy % chg	2021 target	% of target
EcoWorld	3,500	52	2,875	121.7
Mah Sing	1,600	45	1,600	100.0
Matrix Concepts*	1,340	37	1,100	121.8
Sime Prop	3,000	50	2,400	125.0
SP Setia	4,260	11	3,800	112.1
Sunway Bhd	2,610	101	1,900	137.4
UEM Sunrise	1,458	100	1,200	121.5
Total	17,768	45.3		

*Year ended 31 Mar, reflect Calendar Year sales

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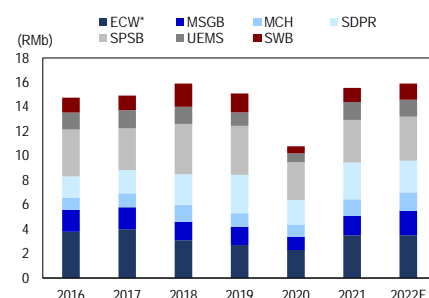
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- An unexciting year ahead.** As mentioned without incentives to spur buying interest on big ticket items, we think weak fundamentals (such as supply gluts and deteriorating affordability) would continue to pressure pricing. After an anticipated strong earnings recovery in 1H22 - spilled over from strong sales in 4Q21 and the resumption of construction activities after the lockdown – we believe developers' earnings could taper off from 2H22. The sector is trading at 1SD below its five-year mean P/B. Without notable near-term catalysts for the year, we deem the current valuation fair as long-term structural concerns are not expected to be resolved anytime soon.
- Matrix Concepts Holdings (MCH MK/BUY/Target: RM2.70)** (from RM2.50). We like Matrix given its: a) above-industry margin and ROE, b) resilient earnings base, c) strong balance sheet (0.04x net gearing), and d) sustainable dividend yield. We believe its attractive 7% yield could be a defensive shelter amid market volatility, and its strong value propositions should propel it to trade at a higher multiple. That said, we have lowered our discount to RNAV/share from 35% to 30%, or pegged to 1.1x FY23F P/B (0.5SD above its five-year historical mean P/B).
- Eco World Development (ECW MK/HOLD/Target: RM0.95)** (from RM0.80). We like management's concerted efforts to drive sales and moderate its net gearing level. After achieving RM3.5b sales in 2021, ECW will continue to focus on innovative launches and industrial products to maintain a RM3.5b sales target for FY22. With ECW's continuous efforts to reduce inventories and cut costs, its net gearing has lowered to 0.44x (from 0.62x). Given an improving balance sheet and ROE (vs historical level) outlook (chart overleaf), we have lowered our discount to RNAV/share from 70% to 65%, or pegged to 0.6x FY22F P/B (its five-year mean P/B).

ESSENTIALS

- Mortgage application and approval value dropped in Jan 22.** Mortgage application and approval value dropped 22% and 13% mom respectively in Jan 22. This could be the impact of the end of the HOC. Approval rate was higher in Jan 22 at 40% (+4ppt mom) amid backlog loan approvals due to earlier lockdowns. However, mortgage approval rate remained flatish at 35% in 2021 - the lowest historically albeit mortgage application and approval value rising 31% yoy respectively.
- Developers may drive sales at the expense of margin.** For residential homes priced from RM500,000-1m, buyers could enjoy cash savings of about RM11,275-28,550, or 2.3-2.9% of the total purchase price from the stamp duty exemption under the HOC. Local projects eligible for the HOC account for about 50-80% of property sales for developers under our coverage in 2021. Without the HOC as a push factor (especially for first time home buyers), developers would still be able to drive sales but could be at the expense of margins by cutting selling prices, absorbing stamp duty fees, giving out freebies, etc.
- The window of opportunity.** We believe there are opportunities arising from the demand for industrial land, driven by strong global demand for electronics devices, healthcare pharmaceuticals, e-commerce, etc. This has sped up demand from local supply chains such as electronic manufacturers and semiconductors. Due to the ongoing global economy recovery and US-China trade diversion, it should accelerate multinational companies' production relocation plans as evident in the rebound of Foreign Direct Investment approvals over 9M21 at RM106.1b (+135% yoy). We believe companies like SIME Darby Property, Eco World, and AME Elite with large landbank in the industrial space could benefit.
- Market could start pricing in a rate hike in 2022.** Historically, residential properties' transacted volume has trended in tandem with mortgage approval value. Our back testing suggests mortgage approval values were lower (or negative growth) after interest rate hikes. This led to underperformance of the sector in 2005-06 and 2010-11 relative to the KLCI (-5% to -20%). While UOB projected two rate hikes in 2022, we believe the market could start pricing in more rate hikes thereafter, in tandem with the US bond tapering effect. The sector could underperform as consumers' sentiments towards big-ticket items may fade.
- Long-term fundamentals remain unexciting.** The sector's long-term growth prospects could continue to be clouded by structural issues such as unresolved supply glut and deteriorating affordability. Sluggish income growth, rapid urbanisation and expanding wealth inequality are the key reasons properties have become unaffordable. Household debt-to-GDP hit a new peak in 2020-21, which further put homes out of reach for most Malaysians, especially the rural population. Moreover, our median home-price-to-income ratio also deteriorated.

2021 SALES ACHIEVED AND 2022 SALES TARGET*



*Only local projects

Source: Respective Companies, UOB Kay Hian

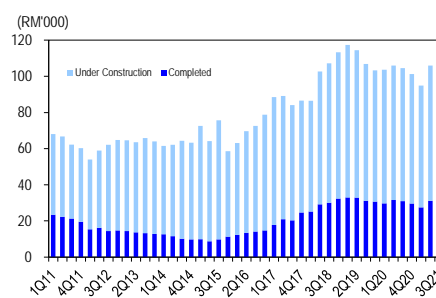
ANNUAL PLANNED LAUNCHES

	2020(RMm)	2021(RMm)	yoy % chg
Mah Sing	1,400	2,400	71.4
Matrix Concepts*	781	1,239	58.6
Sime Prop	3,700	2,800	(24.3)
SP Setia	2,240	3,881	73.3
Sunway Bhd	1,120	1,381	23.3
UEM Sunrise	550	2,508	356.0

*Reflect FY22/23

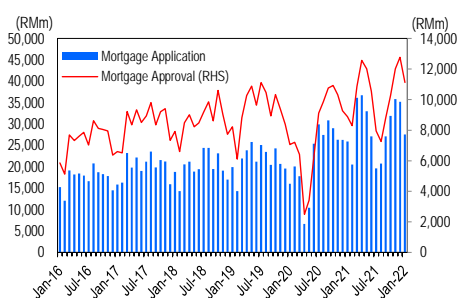
Source: Respective companies, UOB Kay Hian

INVENTORY DROPPED FROM ELEVATED LEVEL



Source: BNM, UOB Kay Hian

MORTGAGE APPLICATION AND APPROVAL IN JAN 22



Source: BNM, CEIC, UOB Kay Hian

KEY ASSUMPTION

(%)	2020	2021	2022F	2023F
Revenue Growth	-28.7	11.3	16.2	10.4
EBIT Margin	10.6	13.0	14.0	13.0
Net Profit Growth	-41.6	8.3	38.5	-0.9*
Net Margin	8.0	7.8	8.9	8.5

*Exclude Sunway due to lumpy earnings from Singapore project

Source: Respective companies, UOB Kay Hian

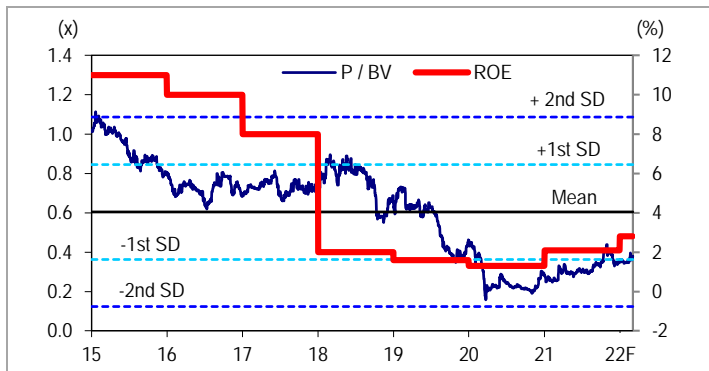
DEVELOPERS' BALANCE SHEET POSITION (2020 VS 2021)

	Inventories (RMm)		Net Gearing (x)		Cash Balance (RMm)	
	2020	2021	2020	2021	2020	2021
EcoWorld*	710	609	0.61	0.44	456	785
Mah Sing	747	729	0.25	0.33	1,063	1,016
Matrix Concepts^	142	47	0.06	0.04	281	163
Sime Darby Prop	574	330	0.28	0.25	801	909
SP Setia	1,096	1,049	0.61	0.59	2,919	3,071
Sunway Bhd^^	n.a.	n.a.	0.51	0.45	2,238	2,814
UEM Sunrise	468	397	0.40	0.50	1,301	858
Average	623	527	0.39	0.37	1,294	1,374

*Reflect FY22/23

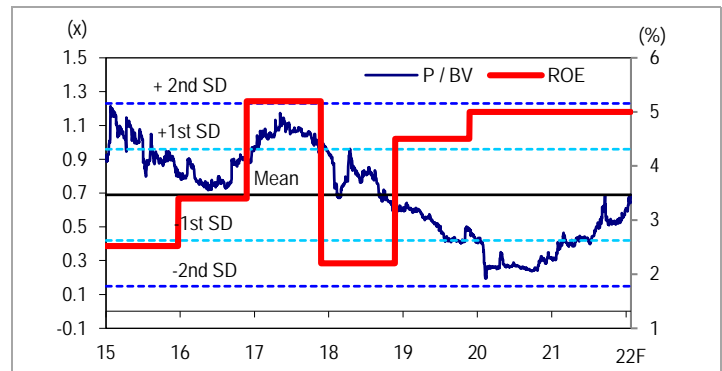
Source: Respective Companies, UOB Kay Hian

SP SETIA ROE VS P/B TREND



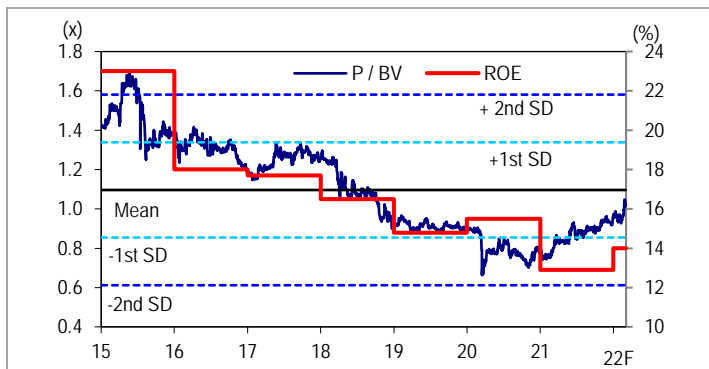
Source: Bloomberg, SP Setia, UOB Kay Hian

ECO WORLD ROE VS P/B TREND



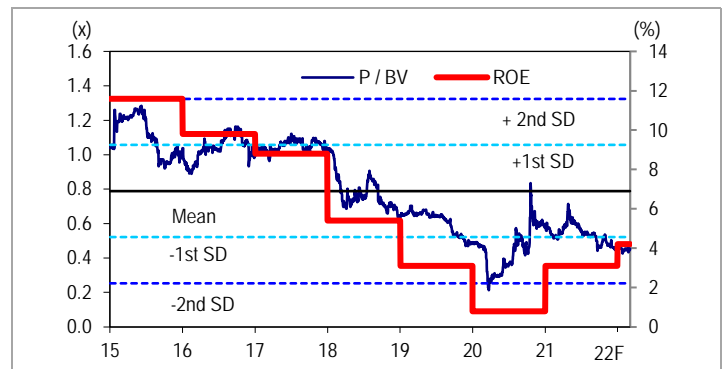
Source: Bloomberg, Eco World, UOB Kay Hian

MATRIX ROE VS P/B TREND



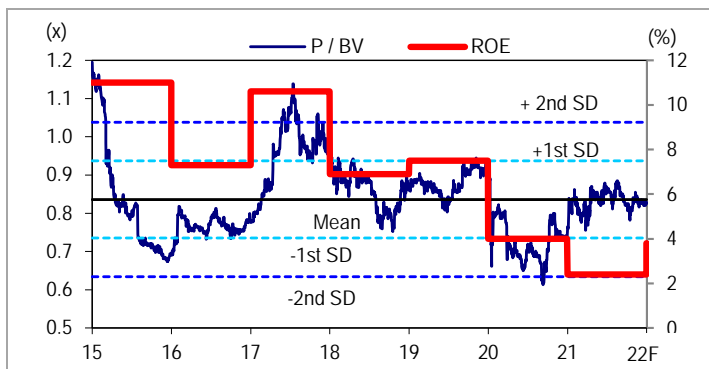
Source: Bloomberg, Matrix, UOB Kay Hian

MAH SING ROE VS P/B TREND



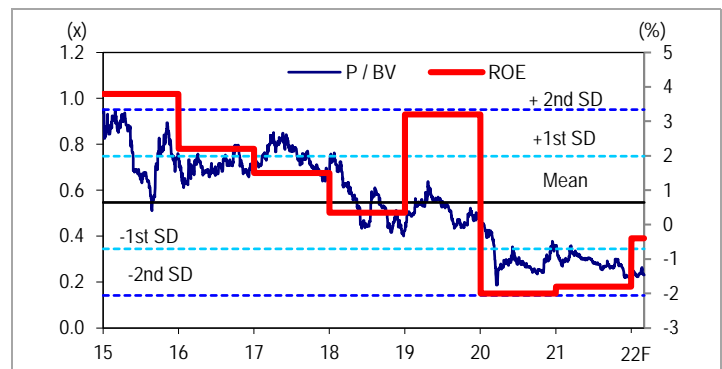
Source: Bloomberg, Mah Sing, UOB Kay Hian

SUNWAY ROE VS P/B TREND



Source: Bloomberg, Sunway, UOB Kay Hian

UEMS ROE VS P/B TREND



Source: Bloomberg, UEMS, UOB Kay Hian

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