

Malaysia Property

NEUTRAL

[Unchanged]

Fragile recovery

Lack of strong re-rating catalysts; maintain NEUTRAL

We maintain our Neutral stance on the sector and see several hindrances to sales, in particular potential interest rate hikes and political uncertainties ahead of general elections (GE15) that could adversely affect the decision to purchase big-ticket items. Elsewhere, the latest NAPIC statistics showed weakness, with unsold stocks having unexpectedly jumped significantly both YoY and QoQ. We believe that property sector recovery is not broad-based and remains fragile. Our top pick: SDPR.

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Feedbacks from our roadshow

We conducted a roadshow on the property sector in end-Mar 2022. Most of the investors we spoke to were generally concerned on: i) developers' profit margins post the hikes in labour/raw material costs; and ii) potential impact on property sales in the absence of HOC and from interest rate hikes. Investors generally agreed that the sector lacks strong re-rating catalysts over the short term. Having said that, we sensed stronger interest towards developers which pay a good dividend, have healthy balance sheets and higher exposure in landed/industrial properties.

Latest NAPIC data showed weakness

While 2021 residential property sales grew +4%/17% YoY to 198,825 units/MYR76.9b (from 191,354 units/MYR65.9b in 2020) thanks to historically low interest rate and HOC 2021, unsold stocks have jumped to 129,054 units, +8% QoQ, +13% YoY (3Q21: +1% QoQ, +3% YoY). This was despite the implementation of HOC 2021 that was meant to reduce the unsold stocks in the country. While HOC managed to lift the buying sentiment (demand), strict control on supply (e.g. housing approvals, plot ratio) and accurate & timely housing data are equally important in helping solve the persistent property overhang issue in the country, in our view.

Developers are less aggressive in 2022

Without the HOC extension and given the uncertainty arising from the Russia-Ukraine war as well as potential interest rate hikes in 2H22, developers are cautious and expecting flat/lower sales target (-56% to +2.8% YoY) in 2022. We stay cautious and advocate investors to be selective. We like SDPR for its exposure in both landed properties and industrial parks as well as healthy balance sheet (0.31x net gearing).

Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x)		P/B (x)		Div yld (%)	
							22E	23E	22E	23E	22E	23E
Sunway	SWB MK	2,076	Hold	1.79	1.79	0	19.4	17.2	0.8	0.8	1.5	1.7
SP Setia	SPSB MK	1,167	Buy	1.22	1.42	16	11.3	10.4	0.3	0.3	1.8	2.1
Sime Darby Prop.	SDPR MK	943	Buy	0.59	0.69	17	15.6	13.3	0.4	0.4	3.2	3.7
Eco World Dev	ECW MK	657	Hold	0.95	0.93	(2)	10.9	9.7	0.6	0.6	3.7	4.1
UEM Sunrise	UEMS MK	410	Hold	0.35	0.35	1	13.5	12.0	0.3	0.3	1.5	1.7
Eco World Int'l	ECWI MK	245	Hold	0.44	0.43	(1)	nm	nm	0.4	0.4	0.0	0.0
Tambun Indah	TILB MK	92	Buy	0.90	0.84	(7)	8.2	7.6	0.5	0.5	4.9	5.3

Feedbacks from our roadshow in end-Mar 2022

Concerns focused on sales and profit margins

We spoke to about 40 funds during our online sector roadshow in end-March 2022. During the roadshow, we came to understand that investors are mostly cautious on the property sector and concerned on developers' profit margins post the hikes in labour/raw material costs and potential impact on property sales in the absence of HOC and given pending interest rate hikes. Investors have also expressed their concerns on the persistent property supply overhang issue in the country.

Investors generally agreed with our view that the sector lacks strong re-rating catalysts over the short term and will remain trading-oriented. Having said that, preferences seem to be on the developers with good dividend track record, healthy balance sheet and with higher exposure in the landed (compared to the high-rise) and industrial property segments.

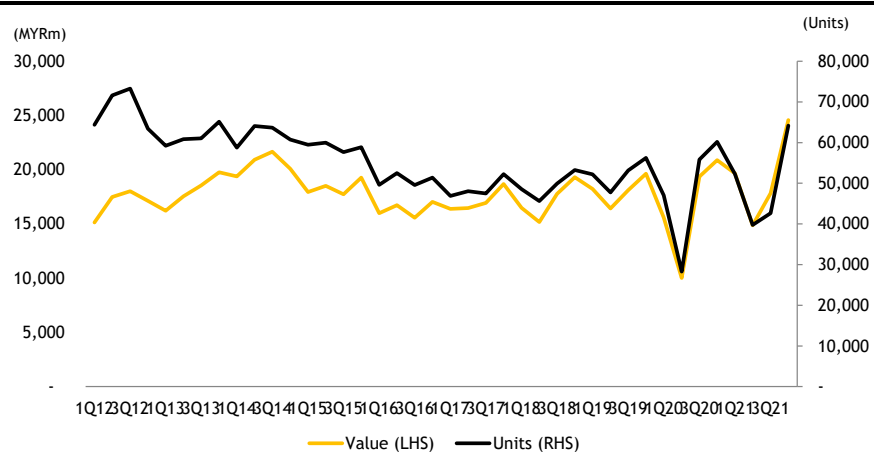
What do the 4Q21 NAPIC statistics say?

4Q21 property sales rebounded strongly post lockdown

Despite the imposition of two lockdowns (MCO 2.0 and MCO 3.0) in 2021, 2021 residential property sales continued to improve to MYR76.9b, +17% YoY (2020: MYR65.9b) and even better than 2019 (pre-Covid; +6% versus MYR72.4b in 2019), which was also supported by HOC 2019. In 4Q21, residential property sales rebounded strongly by +38% QoQ and +18% YoY to MYR24.6b thanks to the reopening of economy in end Aug - early Sep 21 and the rush into property buying before the end of HOC 2021 on 31 Dec 2021.

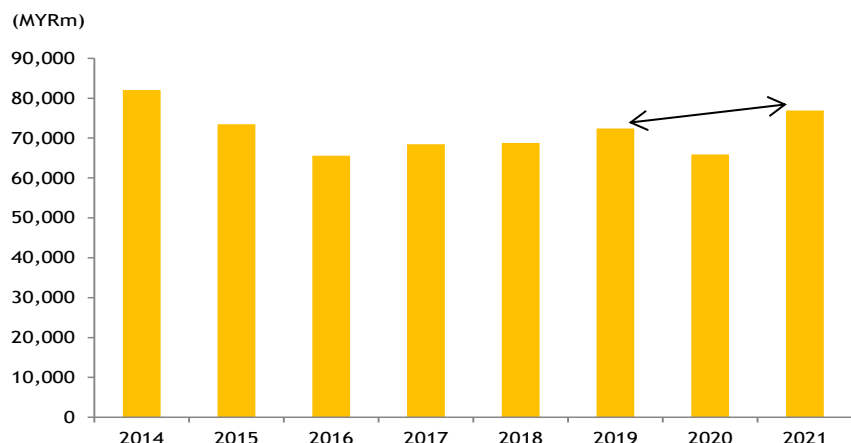
The stronger sales in 2021 were driven by attractive marketing packages offered by the developers, historically low interest rate and HOC 2021. Also, we believe the more established online marketing platforms and experiences gained during MCO 1.0 in 2020 had helped developers to overcome the lockdowns in 2021.

Figure 1: Residential property sales (in value/unit) rebounded strongly +38%/51% QoQ, +17.6%/6.6% YoY in 4Q21



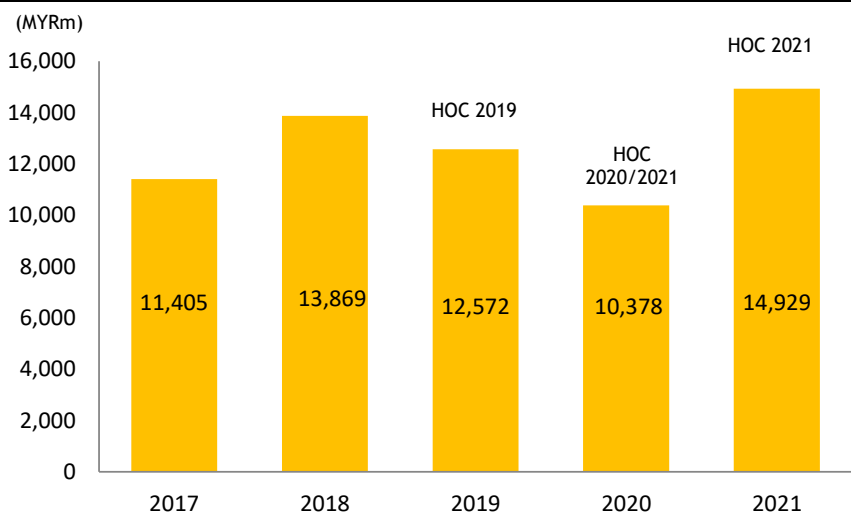
Source: NAPIC, CEIC, Maybank IBG Research (chart)

Figure 2: 2021 residential property sales (in value) performed better than 2019 despite two Covid-19 lockdowns, in 1Q21 and end May-Aug 2021, respectively



Source: NAPIC, CEIC, Maybank IBG Research (chart)

Figure 3: 2021 property sales for the developers under our coverage (excluding ECWI) were higher than the pre-pandemic years of 2018 and 2019



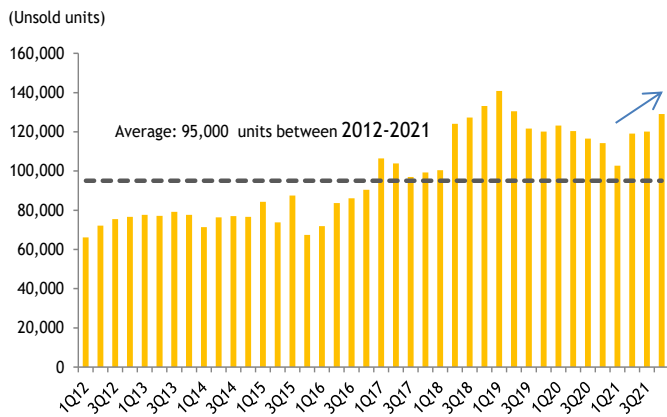
Source: Companies, Maybank IBG Research (chart)

Booster on demand is not enough; control on supply is equally important

Unsold stocks unexpectedly piled up significantly in 4Q21. 4Q21 unsold residential properties jumped significantly to 129,054 units, +8% QoQ, +13% YoY (3Q21: +1% QoQ, +3% YoY). This was despite the implementation of HOC 2021 which was meant to reduce the country’s unsold properties.

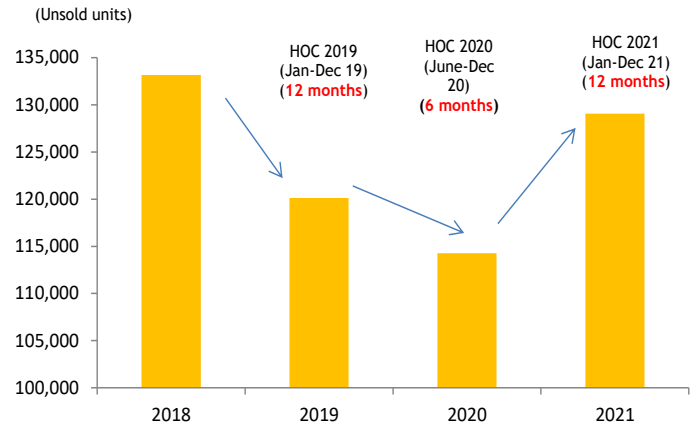
In our view, while HOC managed to lift the buying sentiment (demand) for properties, strict control on housing supply (e.g. housing approvals and plot ratio) as well as accurate and timely housing data (for better housing planning and launches) are equally important to solve the persistent overhang issue in the country. Complications may arise as land is also a state matter and the state government can legislate on land matters; hence, a proper coordination between the federal government and state governments are much needed in order to solve the overhang issue.

Figure 4: Unsold residential properties unexpectedly jumped by +7.5% QoQ, +12.9% YoY in 4Q21



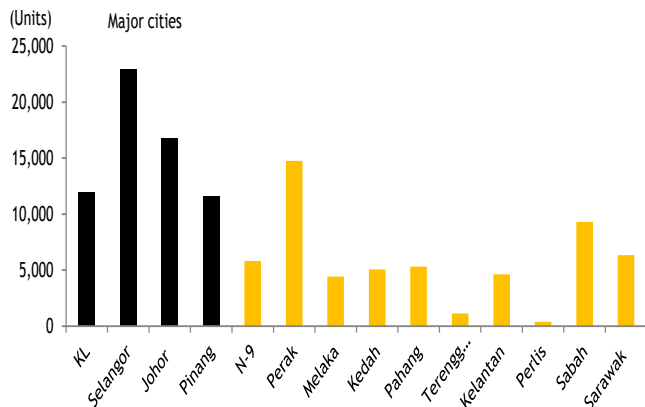
Source: NAPIC, CEIC, Maybank IBG Research (Chart)

Figure 5: Unsold residential properties increased in 2021 despite the implementation of HOC2021



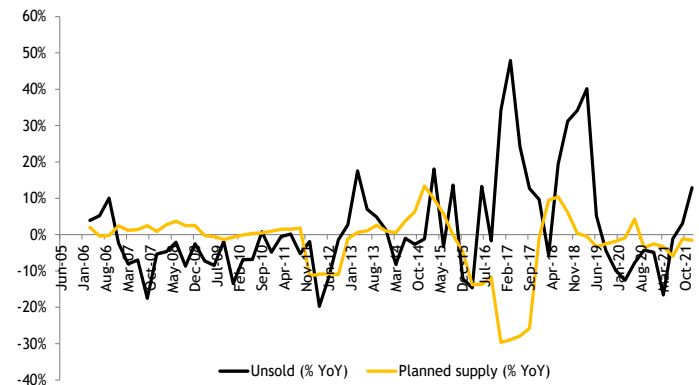
Source: NAPIC, CEIC, Maybank IBG Research (Chart)

Figure 6: Unsold residential properties by state



Source: NAPIC, CEIC, Maybank IBG Research (Chart)

Figure 7: Malaysia: Unsold residential properties in 4Q21 rose +13% YoY while planned supply contracted -1.6% YoY



Source: NAPIC, CEIC, Maybank IBG Research (Chart)

Developers are less aggressive in 2022

Targeting flat/lower sales targets for 2022

Without the presence of HOC and the uncertainty arising from the Russia-Ukraine war as well as potential interest rate hikes in 2H22, developers are generally less aggressive and expecting flat/lower sales targets (-56% to +2.8% YoY) for 2022.

Elsewhere, it will be hard to gauge the actual impact of HOC on 2022 sales just by looking at 1Q22 sales as 1Q22 sales could be distorted by the conversion of bookings that were secured in end 2021 before the end of HOC 2021 on 31 Dec 2021. Also, sales are seasonally weaker in 1Q. Developers have designed their marketing packages according to project salability and we understand that these packages are comparable/could be more attractive than those under the HOC.

Figure 8: Developers expect flat/lower sales in 2022

Developer	FY21 sales (MYRm)	FY22 sales target (MYRm)	(%) growth
Eco World Development	3,523	3,500	-0.7
Eco World International	1,380	2,000	44.9
Sime Darby Property	2,950	2,600	-11.9
SP Setia	4,260	4,000	-6.1
Sunway	2,400	2,000	-16.7
Tambun Indah	298	130	-56.4
UEM Sunrise	1,459	1,500	2.8

Source: Companies

Several strategies to cushion the impact of higher raw material costs

Margin outlook remains challenging as most developers' focus remains on cash flow recovery (which includes clearing their completed stocks at huge discounts/rebates). While developers can pass on/price in the additional costs (i.e. higher raw material/labour costs) to new or more saleable projects, they may have to absorb some/all of these extra costs (especially for those launched projects that have not been tendered out) depending on the marketability and marketing packages for each project.

Various strategies have been adopted to cushion the impact of higher raw material prices including the switch to alternative materials, cutting marketing cost by using more digital marketing platforms and/or switching to higher-end/better margin products.

Valuation and recommendation

Maintain NEUTRAL; Sime Darby Property is our top pick

KLPI has outperformed the KLCI by 1.6% (KLPI's +2.5% versus KLCI's +0.9%) YTD as at 18 Apr 2022. We however think the positives (economic recovery) have been priced in at current valuations and hence, we maintain our NEUTRAL stance on the property sector.

In our view, the sector lacks strong re-rating catalysts and the fragile recovery in the sector could be derailed by rising raw material costs and political uncertainties ahead of GE15. As such, we stay defensive in stock picking and advocate investors to be selective.

We like SDPR for its healthy balance sheet (0.31x in net gearing as at 31 Dec 2021) and its huge exposure in landed properties and industrial parks. With the re-opening of Malaysia's borders on 1 April, SDPR is set to benefit from strong foreign demand for its industrial properties while demand for its bread-and-butter township projects remains resilient, hence, providing a strong foundation for earnings.

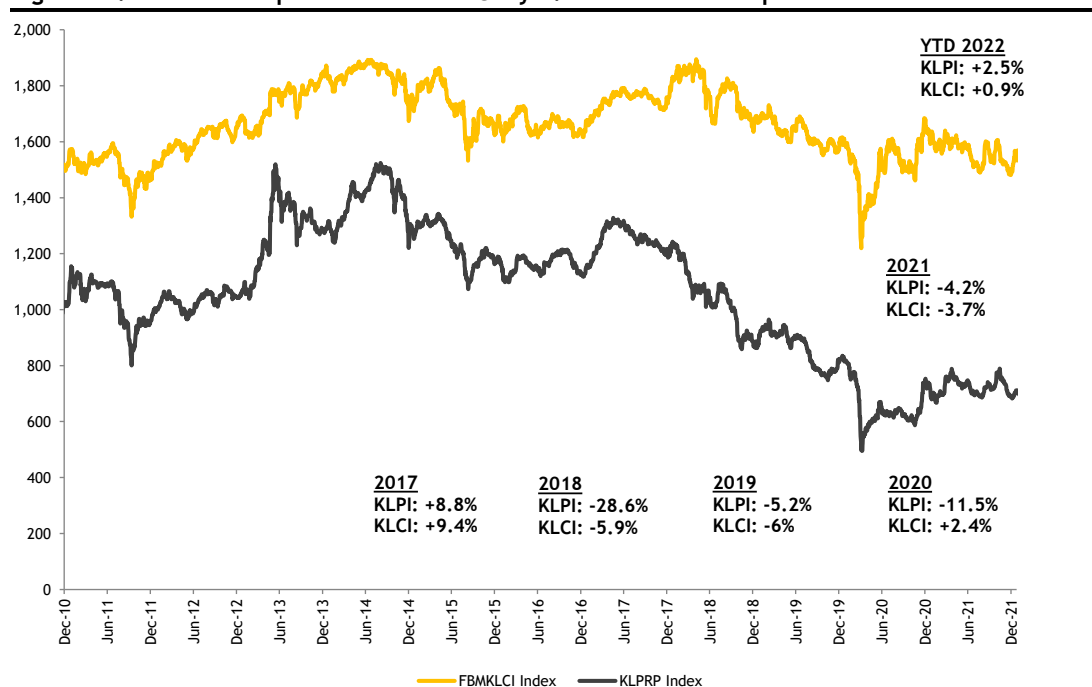
Figure 9: Our valuation basis

Stocks	Price (MYR/sh) *	RNAV (MYR/sh)	Current P/RNAV (x)	BV (MYR/sh) (a)	Current P/BV (x)	Our valuation basis - PBV (b)	TP (MYR/sh) (a) x (b)
ECW MK	0.95	2.31	0.4	1.7	0.6	0.6	0.93
ECWI MK	0.44	1.41	0.3	1.1	0.4	0.4	0.43
SPSB MK	1.22	4.00	0.3	3.6	0.3	0.4	1.42
SDPR MK	0.59	1.97	0.3	1.3	0.4	0.5	0.69
SWB MK	1.79	2.43	0.7	2.1	0.8	0.8	1.79
UEMS MK	0.35	1.46	0.2	1.3	0.3	0.3	0.35
TILB MK	0.90	2.29	0.4	1.7	0.5	0.5	0.84
Average			0.4		0.5		

*20 Apr 2022

Source: Maybank IBG Research

Figure 10: The KLPI outperformed the KLCI by 1.6% YTD as at 18 Apr 2022



Source: Bloomberg

Risks to our calls

Risks: i) Stronger-than-expected property sales driven by better economic outlook amid a low interest rate environment, ii) policy risks and iii) easing of lending measures by the banks, iv) politic risk and v) worse-than-expected Liquidated Ascertained Damages (LAD) compensation due to the latest ruling by the Federal Court Content Text.

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