



AmInvestment Bank

Sector report  
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# PROPERTY

Decent 1Q21 performance; still a long way to recovery

**NEUTRAL**

(Maintained)

*Rationale for report: Sector update*

## Investment Highlights

- We remain **NEUTRAL** on the property sector. We are cautious on the sector due to: (1) the generally still elevated home prices (not helping either, is the recent surge in input costs, particularly, steel bars) (Exhibit 3); (2) banks remain cautious in residential property lending as reflected in the low approval rate of 34% as compared with about 51%–53% during the 2011–2014 up cycle (Exhibit 4); and (3) house buyers' inability to qualify for a home mortgage due to their already high debt service ratios (DSR). In addition, the still subdued consumer sentiment and dented job security against a backdrop of the prolonged pandemic are holding consumers back from committing themselves to the purchase of big-ticket items, particularly, a house. However, we do see a bright spot in the affordable segment catering to owner-occupier house buyers vs. property investors/speculators. This basic demand for housing is driven by new household formation backed by a relatively young population demographics, rapid urbanisation and the trend towards single-person households and nuclear families vs. extended families.
- **Mixed 1QCY21 results.** Out of the 7 companies under our coverage, 2 exceeded our expectations, 3 were in line while 2 companies came in below our forecasts (Exhibit 2).
  - The **outperformers, S P Setia** and **Sime Darby Property (SimeProp)** registered better-than-expected 1QCY21 earnings underpinned by higher progress recognition and lower share of losses from their joint ventures (JVs) and associates' projects, particularly, Battersea Power Station in which both have equal stakes of 40% while the EPF holds the remaining stake of 20%.
  - **IOI Properties Group (IOIPG), Mah Sing** and **Lagenda Properties (Lagenda)** are the ones whose profit **came in within expectations**. IOIPG's property segment continued to be supported by its international portfolio where 61% of the sales were derived from Malaysia, 38% in China and 1% in Singapore. Developers targeting the affordable segment have performed well with their savvy execution team. Mah Sing, which focuses in the Klang Valley, delivered a core net profit (CNP) surge of 30% YoY while Lagenda in Perak registered a 20% QoQ increase.
  - As **Sunway**, as a conglomerate, was dragged by lower progress billings in its property development and lower rental income from the Covid-19 affected retail and hotel segments, its earnings **fell short of our forecasts**. **UEM Sunrise (UEMS)** was impacted by **slower-than-expected construction progress**, leading to a loss of RM3mil.
  - **QoQ, IOIPG and Lagenda posted steady earnings growth while S P Setia's earnings doubled**, helped by sharply lower losses in its construction and investment properties segments. UEMS reduced losses on lower finance costs and improved associate/JV contributions. On a negative note, the implementation of MCO 2.0 in the beginning of the year and CNY holidays led to a reduction in property progress billings, resulting in lower QoQ earnings for Mah Sing, Sunway and SimeProp.
- **Improved new sales YoY.** Excluding Lagenda, whose property development business was injected into the company in 3QFY20 pursuant to a reverse takeover by a new controlling shareholder (YoY comparison is therefore not meaningful), new sales achieved by the other 6 companies remarkably rose 62%–179%. This was because most of them recovered significantly from the worst base since 1QCY20, dampened by the onset of the Covid-19 pandemic. New sales secured in 1Q2021 met 21%–73% of the companies' sales target in FY21 vs. 9%–44% in the previous year.
- **Latest lockdown badly hurt sales and property investment segments.** The latest nationwide lockdown from 1–14 June (and possibly longer than that) could potentially dampen seasonally higher 2H sales. All sales galleries and showrooms are currently closed while construction activities, which are still awaiting MITI's approval, may lead to delivery delays and additional charges for liquidated ascertained damages. The earnings for companies with exposure in property investment, particularly the retail and hotel business, will be further hit as shopping malls have to be closed except for shops that fall under the "essentials" category. As such, we downgrade **IOIPG (fair value RM1.45)** to **HOLD** from **BUY** with lower fair value based on a higher RNAV discount of 50% (from 40% previously) to reflect the negative lockdown impact while maintaining **BUY** on **Sunway**, **HOLD** on **SimeProp (FV RM0.64)** and **UEMS (FV RM0.43)**.

- **Extension of HOC until 31 Dec 2021.** We estimate that the 2021 stamp duty exemption for residential homes priced between RM300K and RM2.5mil could save up to 4% of the purchase cost, potentially spurring consumer sentiments. Together with the extension of the home ownership campaign (HOC) until 31 Dec 2021 that could lead to developers offering discounts of up to 10%, this will be positive for developers under our coverage who already target the affordable segments, except for Lagenda which offers housing priced below RM300K. We believe that this could help alleviate the overhang situation while the clearing of unsold stocks will generate cash flows despite the lower margins and reduce financing requirements.
- **We have BUY recommendations** for (1) **Mah Sing (FV RM1.28)** for its strength in offering affordable properties at strategic locations and new glove business and (2) **Lagenda (FV RM1.79)** for its defensive customer profile largely from the public servant segment. We also like **Sunway (FV RM1.98)** for its strong unbilled sales of RM3.3bil (5.5x FY21F property development revenue) and **S P Setia's (FV RM1.26)** hefty RM10.1bil unbilled sales (3x FY21F sales) which are further supported by improving overseas contribution.

We may upgrade the property sector to OVERWEIGHT if: (1) banks ease lending policies on property purchases; (2) higher-than-expected economic recovery which significantly improves consumer sentiment; and (3) the government introduces additional incentives to encourage home purchase.

#### EXHIBIT 1: VALUATION MATRIX

Companies	Recommendation	Price (RM)	FV (RM)	Upside (%)	Mkt Cap (RM mil)	Discount to NAV (%)	FYE	FD EPS (sen)		FD EPS growth (%)		P/E (x)		P/B (x)	ROE (%)	NDPS (sen)	Div Yield (%)
								FY21F	FY22F	FY21F	FY22F	FY21F	FY22F				
Mah Sing Group	BUY	0.90	1.28	42	2,304	40	Dec	6.8	9.4	175.6	36.9	13.2	9.6	0.5	5.5	3.2	3.6
Lagenda*	BUY	1.37	1.79	31	1,121	15	Dec	20.1	25.1	62.2	25.0	6.8	5.5	1.4	29.9	6.0	4.4
Sunway	BUY	1.62	1.98	22	7,944	40	Dec	11.3	13.9	63.6	23.3	14.3	11.7	0.8	5.7	5.6	3.5
SP Setia	BUY	1.1	1.26	15	4,447	40	Dec	2.7	3.6	2.7	3.5	40.7	30.6	0.3	2.4	2.7	2.5
IOI Properties Group	HOLD	1.29	1.45	12	7,103	50	Jun	11.1	12.0	1.6	7.5	11.6	10.8	0.4	3.2	2.0	1.6
Sime Darby Property	HOLD	0.625	0.64	2	4,251	50	Dec	4.1	5.1	96.0	26.0	15.2	12.3	0.4	3.0	0.8	1.3
UEMSunrise	HOLD	0.425	0.43	1	2,150	60	Dec	1.3	1.8	(135.3)	38.8	32.7	23.6	0.3	1.1	0.0	0.0

Source: AmlInvestment Bank Bhd, Company

#### EXHIBIT 2: QUARTERLY REPORT CARD

	Unbilled Sales (RM bil)	1QCY20 CNP (RM mil)	4QCY20 CNP (RM mil)	1QCY21 CNP (RM mil)	QoQ Chg (%)	YoY Chg (%)	Results	1QCY20 new sales (RM mil)	1QCY21 new sales (RM mil)	YoY Chg (%)	FY21 sales target (RM mil)	1QCY21/FY21 sales (%)
Mah Sing Group	1.7	30.3	47.6	39.3	(17.4)	29.7	Inline	247.0	400.0	61.9	1,600	25.0
Lagenda*	0.5	4.4	46.5	55.6	19.6	n/a	Inline	n/a	148.5	n/a	700	21.2
Sunway	3.3	66.4	196.0	57.4	(70.7)	(13.6)	Below	583.2	1,160.0	98.9	1,600	72.5
SP Setia	10.1	(39.0)	52.7	106.3	>100	>100	Above	470.0	1,188.0	152.8	3,800	31.3
IOI Properties Group	0.6	155.2	150.9	181.4	20.2	16.9	Inline	267.0	642.0	140.4	1,800	35.7
Sime Darby Property	1.7	19.5	89.3	62.2	(30.3)	>100	Above	344.6	630.2	82.9	2,400	26.3
UEMSunrise	1.9	(6.5)	(48.0)	(3.4)	(92.9)	(47.7)	Below	97.4	271.7	179.0	1,200	22.6
Total	19.9	230.3	535.0	498.8	(6.8)	116.6		2,009.2	4,440.4	121.0	13,100	

\*Property development business injected into the company in 3QFY20 pursuant to a RTO, yoy comparison is therefore not meaningful.

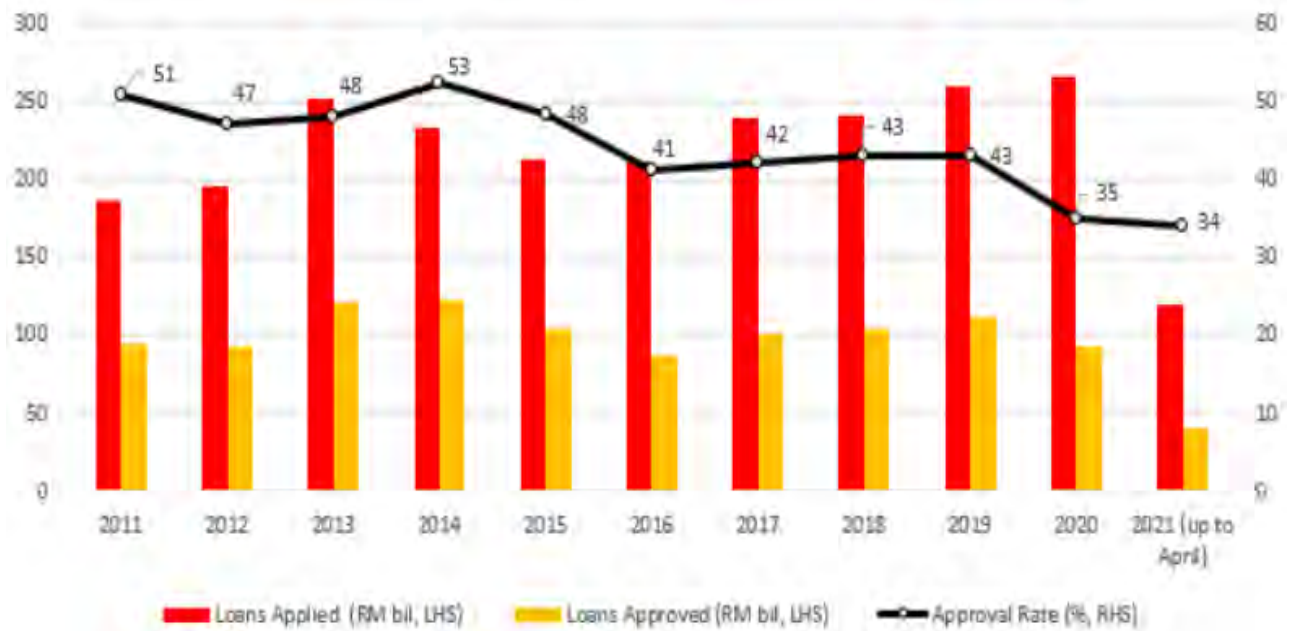
Source: Company, AmlInvestment Bank Bhd

**EXHIBIT 3: HOUSE PRICE INDEX**



Source: NAPIC, AmInvestment Bank Bhd

**EXHIBIT 4: RESIDENTIAL LOANS TREND**



Source: BNM, AmInvestment Bank Bhd

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