

2 January 2020

Property Developers

Selective Bottom Fishing Opportunities

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OVERWEIGHT



There could be opportunities for investors to bottom fish selective property stocks that are poised to rebound from their overly depressed valuations. To be sure, the underlying property market outlook will remain challenging as supply continues to overwhelm demand. In essence, the property glut is expected to persist with properties currently under construction coming in progressively to add to the already huge inventory of completed stocks. On the other hand, demand will still be soft amid a slow economic backdrop and low affordability factor. Yet, following the sell-off of property stocks (with the KLPRP Index down 6.0% YTD until 20 Dec 2019), valuations have been beaten down to multi-year trough levels. Reflecting this, the KLPRP Index is currently trading at PBV of 0.49x (1SD below mean) after hitting a four-year low of 0.45x in Oct last year.

We are keeping our OVERWEIGHT sector call (following an upgrade from NEUTRAL post the earnings reporting season for the Jul-Sep quarter). Riding on a probable relief bounce, our top picks are: (i) IOIPG (trading at PBV of 0.35x or 1.5SD below mean), and (ii) SPSETIA (trading at PBV of 0.50x or below minus 1.5SD level), which replaces SIMEPROP as the latter has climbed 16.8% since our sector update in a strategy report dated 03 Dec 2019. Separately, during the recent results season, we have switched our valuation methodology from RNAV to PBV to derive our TPs. We believe this more conservative yardstick represents a better gauge on the trough valuations of property stocks amid the prevailing market down-cycle.



Fundamentals still tough. To put things in perspective, the Malaysian property market will still be struggling with supply dwarfing demand going forward. As property developers continue to launch new properties to keep their business operations going, the balance number of unsold units under construction is expected to add to the already high inventory levels of completed properties. On the demand side, there are fewer property buyers as property prices are perceived to be less affordable relative to the mass market especially against a soft economic backdrop. In response, we expect property companies to ramp up their aggressive marketing efforts to help clear the inventory holdings. To shore up their bottom-line, they may also be looking to monetise their non-strategic assets such as disposing of selected land parcels.

While unbilled sales will provide near term earnings visibility... In terms of earnings visibility, this will be underpinned by property sales secured from new launches in recent years, which typically will be booked in over two to three years according to percentage-of-

completion progress. Based on the latest available data, most property companies within our universe are positioned to lock in their earnings for the next 1-3 years from their existing unbilled sales as follow:

Earnings Visibility From Unbilled Sales		
Stock	Existing unbilled sales (RMm)	Unbilled Sales Cover [^] (x)
Amverton	n.a.	n.a.
EcoWorld	5,158	2.5
Hua Yang	183	0.7
IOI Properties Group	750	0.5
LBS Bina	1,844	2.0
MagnaPrima	n.a.	n.a.
Mah Sing	1,710	0.9
MRCB	1,678	1.6
Sime Property	1,562	1.3
SP Setia	10,520	3.2
Sunsuria	n.a.	n.a.
Sunway	2,100	3.4
UEM Sunrise	2,400	1.2
UOA Development	1,050	0.8

Source: Kenanga Research, Bursa Malaysia, Company websites

[^] Unbilled sales over latest annual property revenue

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... investors' focus will be on inventory levels and balance sheet positions. This comes as inventory levels are expected to remain elevated. On one hand, property companies are offering attractive discounts and incentives to improve cash flows and reduce the number of unsold completed properties. On the other hand, these entities will still have to continue launching new properties to sustain sales and carry on their business activity, as units not taken up from these new launches will subsequently add to the inventory of unsold properties. The following table depicts the latest available inventory of unsold completed properties for stocks under our coverage.

Inventory Of Unsold Completed Properties

Company	Inventory Level		Latest BV/share (RM)
	Latest Avble Value (RMm)	Per share (RM)	
Amverton	88.3	0.24	1.97
EcoWorld	597.1	0.20	1.54
Hua Yang	34.3	0.10	1.61
IOI Properties Group	2,043.8	0.37	3.40
LBS Bina	310.0	0.20	0.87
MagnaPrima	72.1	0.22	1.49
Mah Sing	702.4	0.29	1.43
MRCB	93.5	0.02	1.08
Sime Property	622.4	0.09	1.40
SP Setia	1,466.1	0.36	2.99
Sunsuria	57.6	0.06	1.09
Sunway	176.5	0.04	1.70
UEM Sunrise	666.2	0.15	1.58
UOA Development	1,077.2	0.55	2.52

Source: Kenanga Research, Bursa Malaysia, Company websites

In addition, against a backdrop of intense competition amid the property glut, cash flows will be essential especially for property companies with relatively high gearing. The following table shows the latest net gearing levels of stocks within our universe.

Financial Position Check

Stock	Latest quarter net gearing
Amverton	Net cash
EcoWorld	0.7
Hua Yang	0.6
IOI Properties Group	0.5
LBS Bina	0.7
Magna Prima	0.4
Mah Sing	0.2
MRCB	0.3
Sime Property	0.3
SP Setia	0.7
Sunsuria	0.1
Sunway	0.5
UEM Sunrise	0.4
UOA Development	Net cash

Source: Kenanga Research, Bursa Malaysia

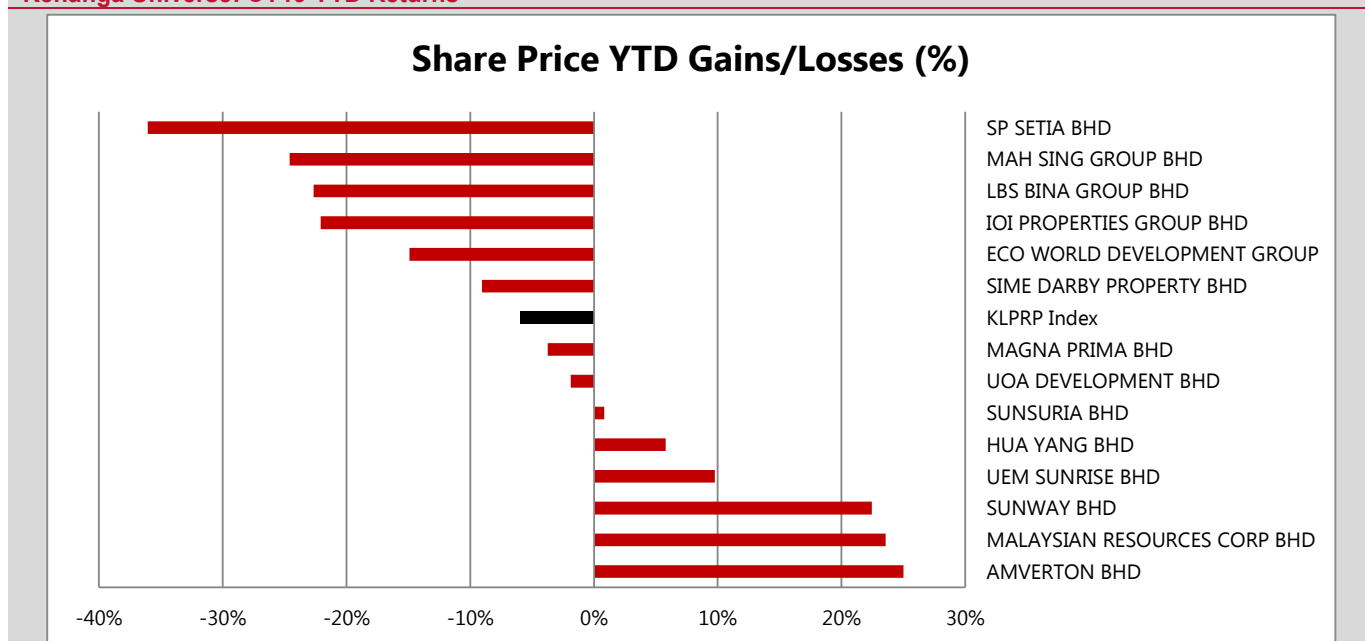
Government support could continue. With the end of the Home Ownership Campaign (HOC) in Dec last year, we reckon the government will continue to encourage home ownerships to stimulate the property market (and the economy indirectly). For example, during Budget 2020, the government has: (i) lowered the threshold of high-rise property prices in urban areas for foreign ownership from RM1m to RM600k, targeting to ease the overhang of high-rise properties and would apply only to unsold completed properties in urban developments, and (ii) widened the financing options to own properties. In particular, they have introduced a Rent-to-Own (RTO) financing scheme to assist first-time prospective buyers of homes below RM500k through a 5-year rent agreement with an option to purchase after the first year at fixed price, with financing of up to RM10b to be provided by financial institutions with support via a 30% government guarantee of RM3b. The government has also allowed pre-retirement withdrawals from the Private Retirement Schemes (PRS) for the purpose of house purchases.

Share price performance check. Capturing the challenging outlook, the KLPRP Index was down by as much as 14.7% last year before recovering partially for a decline of 6.0% (YTD 20 Dec 2019). Among the core stocks under our coverage, leading the losses were SPSETIA (-36.1%), MAHSING (-24.6%) and IOIPG (-22.1%). Consequently, the KLPRP is currently trading at PBV of 0.49x after hitting a four-year low of 0.45x in Oct last year.



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Kenanga Universe: CY19 YTD Returns



Too cheap to be ignored. We have switched our valuation methodology from RNAV to PBV to derive our TPs. We believe this is a more conservative gauge to ascertain the trough valuations of property stocks amid the prevailing market down-cycle. At the individual stock levels, depending on their own fundamental merits, we have applied PBV multiples at various standard deviation levels below their historical means (to reflect the challenging sector outlook) on their adjusted BV (by imputing discounts to the latest available inventory level of completed properties).

Judging by the prevailing depressed PBV valuations, we reckon selective property stocks are unjustifiably oversold. Our OVERWEIGHT sector call is maintained. To ride on a probable relief bounce, our top picks are: (i) IOIPG (OP; TP of RM1.55 based on adjusted PBV of 0.47x or 0.5SD below its historical mean), and (ii) SPSETIA (OP; TP of RM1.80 based on adjusted PBV of 0.63x or 1.5SD below its historical mean). We have removed SIMEPROP as our top pick following its share price increase of 16.8% since our sector update in our strategy piece dated 3rd Dec 2019.

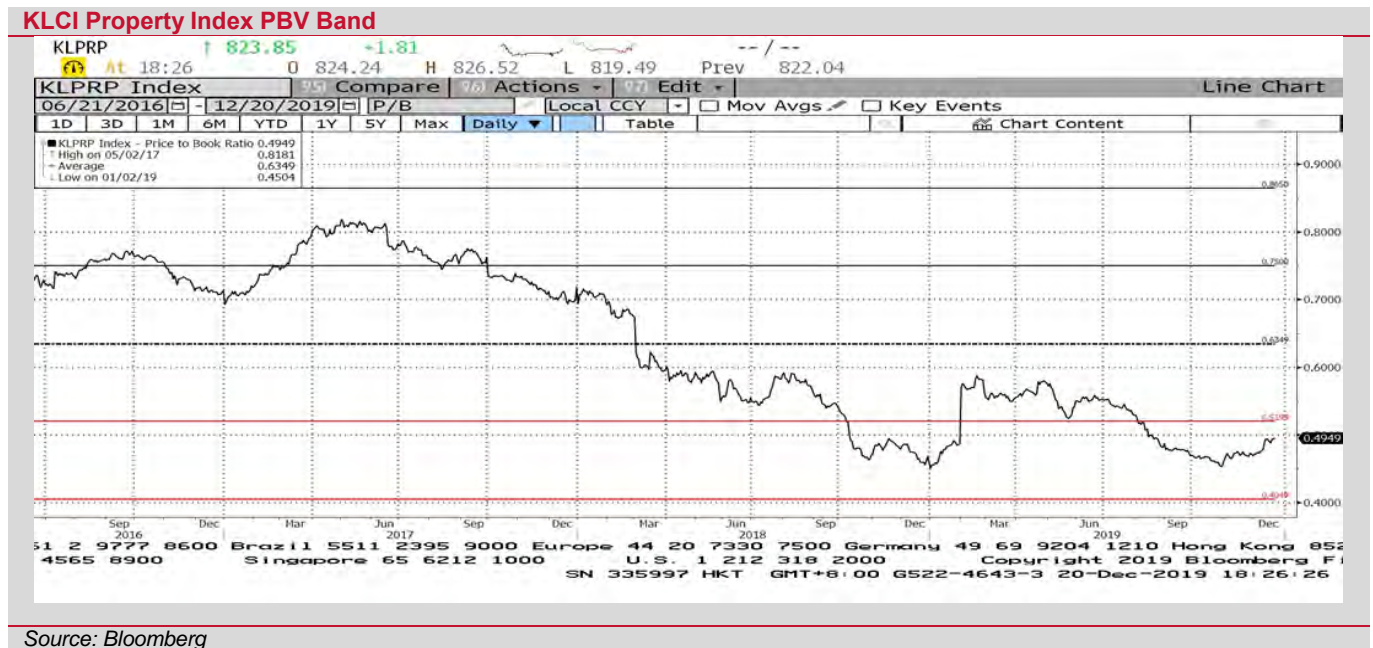
Sector risks. This includes: (i) the domino effects in the event of financial obligation defaults by key property companies, (ii) impairment of receivables / inventories, (iii) falling property prices, and (iv) rising building material costs.

KLCI Property Index Forward PER Band



Source: Bloomberg

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Peer Comparison

Name	Last Price (21/6/19)	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div.Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)		
PROPERTY DEVELOPERS UNDER COVERAGE																		
AMVERTON BHD	1.15	419.8	Y	12/2019	-34.7%	1.3%	-83.6%	30.5%	17.5	107.1	82.1	0.6	0.6	0.5%	0.0%	0.890	UP	
ECO WORLD DEVELOPMENT GROUP	0.770	2,267.2	Y	10/2020	-19.2%	25.6%	8.0%	7.8%	11.3	10.4	9.6	0.5	0.5	4.8%	1.4%	0.750	MP	
HUA YANG BHD	0.365	128.5	Y	03/2020	-11.0%	-1.2%	153.2%	-11.8%	N.A.	15.6	17.7	0.2	0.2	1.4%	0.0%	0.330	UP	
IOI PROPERTIES GROUP BHD	1.20	6,607.4	Y	06/2020	1.4%	2.6%	-3.0%	8.2%	10.0	10.3	9.5	0.4	0.4	3.5%	4.2%	1.55	OP	
LBS BINA GROUP BHD	0.495	765.9	Y	12/2019	34.1%	1.5%	-18.1%	10.6%	9.1	11.1	10.0	0.5	0.5	5.1%	2.1%	0.520	MP	
MAGNA PRIMA BHD	0.900	299.4	Y	12/2019	-19.6%	13.0%	-162.4%	-105.9%	N.A.	N.A.	N.A.	0.8	0.9	-5.2%	0.0%	0.695	UP	
MAH SING GROUP BHD	0.690	1,675.1	Y	12/2019	-17.5%	6.5%	-36.9%	7.0%	10.2	16.2	15.1	0.5	0.5	3.4%	5.8%	0.750	MP	
MALAYSIAN RESOURCES CORP BHD	0.760	3,353.2	Y	12/2019	-41.9%	70.5%	-95.3%	2791.2%	44.2	944.4	32.7	0.7	0.7	1.2%	0.0%	0.700	UP	
SIME DARBY PROPERTY BHD	0.905	6,154.8	Y	12/2019	129.2%	11.0%	9700.0%	-4.4%	905.0	9.0	9.4	0.7	0.6	7.3%	4.4%	1.00	OP	
SP SETIA BHD	1.49	6,023.3	Y	12/2019	5.5%	24.3%	15.6%	57.6%	28.8	25.0	15.8	0.5	0.5	1.7%	2.8%	1.80	OP	
SUNSURIA BHD	0.615	551.0	Y	09/2020	-2.7%	7.3%	-4.0%	4.8%	4.1	4.3	4.1	0.6	0.6	14.5%	0.0%	0.585	MP	
SUNWAY BHD	1.80	8,828.5	Y	12/2019	-2.7%	12.5%	-8.5%	10.6%	15.0	16.4	14.8	1.0	1.0	6.3%	3.3%	1.60	UP	
UEM SUNRISE BHD	0.730	3,312.3	Y	12/2019	37.0%	-14.3%	5.9%	-18.1%	10.2	9.6	11.7	0.5	0.5	4.8%	2.1%	0.850	OP	
UOA DEVELOPMENT BHD	2.08	4,089.3	Y	12/2019	-0.5%	-6.4%	9.2%	-8.7%	11.5	10.5	11.5	0.8	0.8	7.7%	6.7%	2.15	OP	
Simple Average					4.1%	11.0%	677.1%	198.5%	89.7	91.5	18.8	0.6	0.6	4.1%	2.3%			
*SIMEPROP change of FY-end from 30-Jun to 31-Dec. Out historical numbers are based on FY18A while 1-Yr and 2-Yr Fwd are based on FY19E and FY20E figures																		
CONSENSUS NUMBERS																		
GLOMAC BHD	0.370	288.1	Y	04/2020	11.9%	40.2%	22.6%	87.3%	19.6	16.0	8.5	0.3	N.A.	1.7%	2.4%	0.385	N.A	
MATRIX CONCEPTS HOLDINGS BHD	1.88	1,546.9	Y	03/2020	4.4%	18.2%	6.1%	8.5%	7.1	6.7	6.2	1.0	1.0	16.1%	6.8%	2.29	BUY	
PARAMOUNT CORP BHD	1.23	746.2	Y	12/2019	N.A.	N.A.	N.A.	N.A.	8.1	N.A.	N.A.	0.7	N.A.	N.A.	N.A.	N.A.	BUY	
TAMBUN INDAH LAND BHD	0.720	312.1	Y	12/2019	-11.3%	4.0%	-21.2%	-0.1%	5.6	7.2	7.2	0.5	0.5	6.6%	5.6%	0.840	N.A	
TITIJAYA LAND BHD	0.295	372.9	Y	06/2020	-17.3%	15.3%	-34.1%	14.4%	11.2	17.0	14.9	0.3	0.3	2.3%	42.7%	0.285	N.A	
YONG TAI BHD	0.175	155.0	Y	06/2020	132.7%	8.3%	-1802.7%	-356.9%	N.A.	N.A.	N.A.	0.3	0.3	-1.5%	0.0%	0.225	N.A	

Source: Kenanga Research

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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