Property Developers

NEUTRAL

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Weathering Through Tough Times

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Maintain Neutral. Since our last strategy report in April, the numerous MCOs imposed have further pushed back the sector's recovery trajectory. In addition, due to our relatively slower recovery from Covid-19, Malaysia's House Price Index (HPI) growth is severely lagging other nations'. That being said, we think Malaysia's HPI will continue to remain subdued even if we recover from Covid-19 due to the long-standing oversupply issue that started since 2015. In such a challenging environment where affordability, overhangs and policy issues still persist, we prefer developers that showcase nimbleness and capability to deliver earnings and sales numbers. In our experiment to purchase a property virtually, we found that ECOWLD stands out in terms of online integration against other developers making them our preferred pick for the sector.

What changed since our last strategy in April 2021? (1) MCO3.0 was imposed in early May 2021; followed by (ii) FMCO imposed at the start of June 2021, and (iii) the Housing Ownership Campaign was extended to Dec 2021 (from May 2021). Arising from the numerous and extended MCOs which limited productivity, we anticipate further earnings and sales risks for most developer under our coverage for the remainder of the year. Consequently, we adjust our earnings and sales downwards for companies that we have yet to factor in the FMCO impact as tabled below.

Figure: Earnings Estimates

Earnings	1yr fwd	2 yr fwd	1yr fwd	2 yr fwd	1yr fwd	2 yr fwd	Comments
Stock	**Old**	**Old**	**New**	**New**	**Change**	**Change**	
Ecowld	181	223	181	223	0%	0%	Already factored in FMCO impact previously
Ioipg	683	691	599	637	-12%	-8%	Lower earnings on slower construction, weaker investment prop and lower China's share of contribution for FY22
Mahsing	186	248	186	241	0%	-3%	Lower earnings on lower FY21 sales of RM1.5b (from RM1.7b)
Mrcb	11	40	11	40	0%	0%	Already factored in FMCO impact previously
Simeprop	286	391	200	391	-30%	0%	Lower earnings on slower construction
Spsetia	246	509	195	509	-20%	0%	Lower earnings on slower construction
Sunway	200	396	200	396	0%	0%	Already factored in FMCO impact previously
Uems	38	61	-33	52	-187%	-13%	Lower earnings on slower construction and sales
Uoadev	151	185	141	185	-7%	0%	Lower earnings on slower construction

Source: Kenanga Research

Figure: Sales Targets

Sales	1 yr fwd	1 yr fwd	1 yr fwd	YTD sales reported		% of sales achieved YTD against our new targets	Comments
Stock	**OLD target**	**NEW target**	**Mgmt's target**	**Actual**			
EWINT	1500	1500	2200	7M21	753	50%	Unchanged
Ecowld	3200	3200	2875	7M21	2530	79%	Unchanged
Ioipg	1900	1900	n.a.	9M21	1558	82%	Unchanged
Mahsing	1700	1500	1600	3M21	400	29%	New target at RM1.5b (from RM1.7b)
Mrcb	250	250	600	3M21	52	21%	Unchanged
Simeprop	2100	2100	2400	3M21	630	30%	Unchanged
Spsetia	3800	3800	3800	3M21	1190	31%	Unchanged
Sunway	1900	1900	1600	3M21	1160	61%	Unchanged
Uems	1000	850	1200	3M21	272	32%	New target at RM0.85b (from RM1.0b)
Uoadev	350	350	n.a.	3M21	81	23%	Unchanged
Total	**17700**	**17350**					

Source: Kenanga Research

Malaysia's HPI growth is one of the worst. Based on Knight Frank's Global House Price Index (HPI) tabled below, out of the 56 countries being surveyed, Malaysia ranks the 4th worst when it comes to house price growth in 1QCY21*. We believe this is attributable to two key reasons: - (i) Malaysia's relatively slower Covid-19 recovery pace and (ii) the oversupply issue.

*in this study, Knight Frank had used Malaysia's 4Q20 HPI due to the absence of 1Q21 HPI then.

Figure: Global HPI 12-month growth

	Country	12M Change		Country	12M Change		Country	12M Change
1	Turkey	32.0%	20	Germany	8.1%	39	Taiwan	4.0%
2	New Zealand	22.1%	21	Finland	7.7%	40	Brazil	4.0%
3	Luxembourg	16.6%	22	Portugal	6.8%	41	Ireland	3.7%
4	Slovakia	15.5%	23	Mexico	6.6%	42	Greece	3.1%
5	United States	13.2%	24	Switzerland	6.5%	43	Latvia	3.1%
6	Sweden	13.0%	25	Croatia	6.4%	44	Romania	2.4%
7	Austria	12.3%	26	France	6.4%	45	Malta	2.3%
8	Netherlands	11.3%	27	Singapore	6.1%	46	Hong Kong	2.1%
9	Russia	11.1%	28	Jersey	6.0%	47	Hungary	1.8%
10	Norway	10.9%	29	South Korea	5.8%	48	Chila	1.7%
11	Canada	10.8%	30	Japan	5.7%	49	Italy	1.6%
12	United Kingdom	10.2%	31	Belgium	5.7%	50	Indonesia	1.2%
13	Peru	10.0%	32	Bulgaria	5.4%	51	Cyprus	0.8%
14	Lithuania	9.1%	33	Slovenua	5.2%	52	Colombia	3.2%
15	Czech Republic	8.9%	34	Estonia	4.8%	53	Malaysia	-0.9%
16	Poland	8.9%	35	South Africa	4.5%	54	Morocco	-1.2%
17	Iceland	8.5%	36	China	4.3%	55	India	-1.6%
18	Australia	8.3%	37	Ukraine	4.1%	56	Spain	-1.8%
19	Denmark	8.3%	38	Israel	4.1%			

Source: Knight Frank, Kenanga Research

Besides the ample liquidity coupled with the low interest rate shared globally, the countries that showed strong HPI growth had (i) a shift in buyer preference for bigger homes to suburban areas post pandemic and (ii) a tight property supply situation prior. In our view, these idiosyncratic scenarios cannot be applied in a Malaysian context – **hence, even if the Covid-19 situation does improve, we do not foresee a blanket re-rating for property prices.**

We will continue to face an oversupply problem that emerged six years ago. Based on NAPIC's data, we believe the oversupply issue started in 2015 when serviced-residences started to flood the market in masses despite cooling measures being imposed by the government starting 2014. Overhang[1] units for serviced residences grew at a whopping CAGR rate of 192% since 2015 till 1QCY21 currently (refer table below highlighted in Orange). We opine this issue is unlikely to abate in the near term given the large amount of overhang and unsold-under-construction[2] units still in circulation today (refer table below highlighted in Green). Table below illustrates the growing overhang and unsold-under-construction units since 2015.

[1] **Overhang units** are unit that has been launched for >9months, have finished construction, and remain unsold
[2] **Unsold Under construction units** are units that have been launched for >9months, have NOT finished construction, and remains unsold.

Figure: Number of overhang and unsold under construction residential and serviced apartments

UNITS	Residential Overhang	Service apartment Overhang	Total overhangs	Residential Unsold under construction	Service apartment Unsold under construction	Total Unsold under construction	Total units overhang + Unsold Under construction
2015	10285	906	11191	49568	18530	68098	79289
2016	14792	3912	18704	64077	31278	95355	114059
2017	24738	6364	31102	61882	45955	107837	138939
2018	32313	11371	43684	80984	37285	118269	161953
2019	30664	17142	47806	72692	33827	106519	154325
2020	29565	23606	53171	71735	35258	106993	160164
1Q21	27478	23533	51011	67445	36267	103712	154723

Source: Kenanga Research

Sector Update

We prefer developers that show differentiation. In a buyers' market where margins will inevitable be squeezed, we prefer developers that can quickly adapt to the changing landscape to maintain sales and earnings. Based on the past year when the pandemic first hit, the developer which stood out among the rest when it comes to online integration was ECOWLD. Below we table out our **online integration scoring** (based on 10 criteria) for developers in our experience in trying to purchase a property online.

Table : Online Integration Score for developers under our coverage from

Criteria	1	2	3	4	5	6	7	8	9	10	
Company	Able to Book unit Online?	Able to choose exact units?	Exact price provided?	Exact Unit location provided? (Ie where it faces)	Unit Floor plans provided?	Virtual tour of units available?	Can live chat?	Can register?	Social Media reach (as of 23/6/21)		Online integration score (out of 10)
									Facebook followers	Instagram followers	
Ecowld	Yes	Yes	Yes	Yes	Yes	Yes (but not fully integrated with booking platform)	Yes	Yes	387k	15.4k	9.31
Spsetia	Yes	Yes	Yes	Yes	Yes	Yes (but not fully integrated with booking platform)	Yes	Yes	367.3k	17.6k	9.25
Ioipg	Yes	Yes	No	No	Yes	Yes	Yes	Yes	132k	10.4k	6.81
Mahsing	No	No	No	No	Yes	Yes	Yes	Yes	291k	17.2k	5.50
Uems	No	No	No	No	Yes	Yes	Yes	Yes	82.3k	9k	4.50
Simeprop	No*	No	No	No	Yes	Yes	No	Yes	253.6k	21.2k	4.44
Sunway	No*	No	No	No	No	No	Yes	Yes	191.3k	9.5k	2.94
Mrcb	No	No	No	No	No	Yes (but platform hard to navigate around)	Yes (But not all)	Yes	6.9k	2.1k	2.25
Uoadev	No	No	No	No	No	No	No	Yes	2.7k	0	1.00

Need to register, wait for sales consultant to call back before can make online booking - not seamless in our opinion.

Source: Kenanga Research

Maintain Neutral. Overall, the sector still remains fundamentally challenged. However, we do see opportunities given the sectors' value proposition (from a PBV perspective). Hence, we expect rotational plays into the sector every once in a while. Our preferred pick for the sector is ECOWLD which have attractively priced product offerings and the capability to deliver sales and earnings in the immediate term. Below we adjust our calls for Spsetia and Uems to MARKET PERFORM (from OP and UP respectively) given its share prices' have approached our TPs.

Table : Updated TP and call post strategy

Stock	Share Price on 23 June 21 (RM)	Before		After		Valuation basis / Remark
		Rating	TP (RM)	Rating	TP (RM)	
Ecowld	0.675	OP	0.85	OP	0.85	No change - based on PBV of 0.51x (-0.5SD)
Ioipg	1.26	MP	1.32	MP	1.32	No change - based on PBV of 0.38x (-1.0SD)
Mahsing	0.865	OP	1.05	OP	1.05	No change - based on PBV of 0.43x (-1.0SD).
Mrcb	0.44	OP	0.65	OP	0.65	No change - based on SoP; 0.4x PBV for Prop (-1.5SD)
Simeprop	0.62	MP	0.605	MP	0.605	No change - based on PBV of 0.44x (-1.5SD)
Spsetia	1.08	OP	1.19	MP	1.19	Downgrade call - on unchanged PBV of 0.41x (-1.5SD)
Sunway	1.78	MP	1.95	MP	1.95	No change - based on SoP; 0.77x PBV for Prop (-1.5SD)
Uems	0.415	UP	0.4	MP	0.4	Upgrade call - on unchanged PBV of 0.30x (-2.0SD)
Uoadev	1.71	MP	1.76	MP	1.76	No change - based on PBV of 0.70x (-1.5SD)

Source: Kenanga Research

Sector risks include: (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.

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Sector Update

Peer Comparison

Name	Last Price (RM) 23/6/2021	Market Cap (RM'm)	Shariah Compliant	Current FYE	PER (x) - Core Earnings Hist.	PER (x) - Core Earnings 1-Yr. Fwd.	PER (x) - Core Earnings 2-Yr. Fwd.	PBV (x) Hist.	PBV (x) 1-Yr. Fwd.	ROE (%) 1-Yr. Fwd.	Net Div Yld (%) 1-Yr. Fwd.	Target Price	Rating
STOCKS UNDER COVERAGE													
ECO WORLD DEVELOPMENT GROUP	0.675	1,987.4	Y	10/2021	8.4	8.4	7.5	0.4	0.4	3.7%	3.1%	0.850	OP
IOI PROPERTIES GROUP BHD	1.26	6,937.7	Y	06/2021	11.3	11.6	10.9	0.4	0.4	3.2%	2.1%	1.32	MP
MAH SING GROUP BHD	0.865	2,100.0	Y	12/2021	61.8	13.1	10.1	0.6	0.6	5.3%	3.5%	1.05	OP
MALAYSIAN RESOURCES CORP BHD	0.440	1,965.7	Y	12/2021	N.A.	33.8	29.3	0.4	0.4	0.2%	2.3%	0.650	OP
SIME DARBY PROPERTY BHD	0.620	4,216.5	Y	12/2021	N.A.	21.4	10.7	0.5	0.4	2.1%	2.1%	0.605	MP
SP SETIA BHD	1.08	4,381.3	Y	12/2021	88.5	22.5	8.6	0.4	0.4	1.4%	3.5%	1.19	MP
SUNWAY BHD	0.430	8,702.3	Y	12/2021	7.0	12.5	6.3	0.2	0.2	2.1%	3.3%	1.95	MP
UEM SUNRISE BHD	0.415	2,099.3	Y	12/2021	N.A.	N.A.	39.9	0.3	0.3	-0.4%	0.0%	0.400	MP
UOA DEVELOPMENT BHD	1.71	3,631.6	Y	12/2021	11.4	12.2	11.4	0.7	0.7	3.0%	7.6%	1.76	MP
Simple Average					**31.4**	**16.9**	**15.0**	**0.4**	**0.4**	**2.3%**	**3.0%**		

Source: Bloomberg, 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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