Property Developers

4QCY22 Results Review: A Respite, but Not for Long

NEUTRAL

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NEUTRAL maintained. The sector will continue to be weighed down by oversupply and the declining price affordability as rising interest rates and inflation bite into consumers' spending power, let alone high-ticket purchases. The sector's 4QCY22 results of our stocks universe deteriorated slightly against the last quarter, though not alarming. Although all the developers reported healthy sales in CY22, they will face greater challenges in CY23. Players will feel the full brunt of contracts signed at high prices with contractors in CY21-22 during the pandemic (amidst sky-rocketing prices of construction materials and labour shortage), as the delivery of these building contracts accelerates in CY23. With limited room to raise prices amidst the declining price affordability and unabated construction cost inflation, players may have to cut back or hold back on new launches. We pick developers that are able to generate consistent sales and hence sustaining their cash flows to anchor good dividends despite the soft market, namely, ECOWLD (OP; TP: RM0.83) and IOIPG (OP; TP: RM1.60).

Slight deterioration sequentially. There was a slight sequential deterioration in the recently concluded 4QCY22 results season with 14%, 71%, and 14% coming in above, within and below our forecasts vs. 29%, 57% and 14% during the preceding quarter, respectively, but we do not regard this as alarming (see table on Page 2). **SIMEPROP (OP; TP: RM0.55)** was the only company that beat our forecast thanks to bumper billings and high margins in 4QFY22, while **SPSETIA (UP: TP: RM0.38)** was the only company that missed our forecast as the earnings contributions from its Australian developments (which has lumpy contributions upon completion) were lower-than-expected.

Strong sales on economy reopening. On a brighter note, all companies met our expectations in terms of CY22 sales, as loan approval rates improved alongside the economic recovery, with **SIMEPROP** even beating our assumptions. **SIMEPROP** beat expectations with right products launching at the right price within their matured townships coupled with efficient use of various marketing initiatives to reach its target market.

CY23 sales and margins outlook. We believe the sector prospect is likely to be tougher in CY23 amidst higher interest rates and rising inflation resulting in weaker consumers' big-ticket items purchasing power. This could potentially cause developers to defer their planned launches as the inability to raise prices amidst high construction costs could pose earnings risks. Meanwhile, developers' margins which had held up well over the last two years are likely to trend down in CY23. They will feel the full brunt of contracts entered at high prices with their contractors in CY21-22 during the pandemic (amidst sky-rocketing prices of construction materials and labour shortages), as the delivery of these building contracts accelerates in CY23.

Maintain NEUTRAL. With limited room to raise prices amidst the declining price affordability to buyers and unabated construction cost inflation, players may have to cut back or hold back on new launches. On one hand, share prices of property companies could have found the bottom (as most of them only trade at a fraction of their RNAV). On the other hand, there is no re-rating catalyst in sight. Under this highly challenging operating environment, we pick developers with strong cash flows that could anchor good dividends, namely, **ECOWLD** for its strong branding, and **IOIPG** for the hidden value in its prime investment properties in the Klang Valley, Singapore and China that could potentially be unlocked via a REIT.

Quarterly Results Performance

	4QCY22						3QCY22					
	KENANGA			CONSENSUS			KENANGA			CONSENSUS		
	Above	Within	Below	Above	Within	Below	Above	Within	Below	Above	Within	Below
ECOWLD		1		1				1			1	
IOIPG		1			1			1			1	
MAHSING		1			1			1			1	
MRCB		1				1	1				1	
SIMEPROP	1			1				1			1	
SPSETIA			1			1			1			1
ECOWLD		1		1			1			1		
Total	**1**	**5**	**1**	**3**	**2**	**2**	**2**	**4**	**1**	**1**	**5**	**1**
Total (%)	**14**	**71**	**14**	**43**	**29**	**29**	**29**	**57**	**14**	**14**	**71**	**14**

Source: Kenanga Research, Bloomberg

Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core Earnings Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div.Yld. (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
ECO WORLD DEVELOPMENT GROUP	OP	0.665	0.830	24.81%	1,958.0	Y	10/2023	8.3	8.4	2.1%	1.5%	8.3	7.4	0.4	5.0%	5.0	7.5%
IOI PROPERTIES GROUP BHD	OP	1.10	1.60	45.45%	6,057.0	N	6/2023	13.5	14.3	4.2%	5.9%	8.1	7.7	0.3	4.0%	3.0	2.7%
MAH SING GROUP BHD	OP	0.575	0.700	21.74%	1,396.0	Y	12/2023	6.6	7.0	1.9%	6.9%	8.7	8.2	0.4	4.6%	4.0	7.0%
MALAYSIAN RESOURCES CORP BHD	MP	0.305	0.340	11.48%	1,363.0	Y	12/2023	0.7	1.3	-32.7%	84.1%	43.0	23.1	0.3	0.7%	1.0	3.3%
SIME DARBY PROPERTY BHD	OP	0.475	0.550	15.79%	3,230.0	Y	12/2023	4.1	4.6	-16.5%	11.3%	11.5	10.3	0.3	3.0%	2.0	2.7%
SP SETIA BHD	UP	0.595	0.380	-36.13%	2,425.0	Y	12/2023	2.9	2.0	15.5%	-31.9%	20.5	29.8	0.2	1.8%	1.5	6.4%
UOA DEVELOPMENT BHD	MP	1.63	1.75	7.36%	3,926.0	Y	12/2023	10.6	11.7	-2.7%	10.2%	11.6	10.9	0.6	4.5%	10.0	8.0%
Simple Average					**28,250.0**					**-1.2%**	**5.6%**	**15.8**	**14.9**	**0.4**	**3.7%**		**4.9%**

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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