

03 October 2024

Property

Reliable Cushion In Industrial and Land Sales

UNDERWEIGHT



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We maintain our sector UNDERWEIGHT as this reflects the larger FBM KLCI property names being UNDERPERFORMs in our book, although over 3QCY24 we have turned less negative overall especially in the mid-to-small cap names. This is especially as industrial property and land sales monetisation is proving to be more enduring as a business model. As the sector's challenges remain aplenty including oversupply, high household debt, elevated interest rates and weakened consumer sentiment, affordable housing segment remains a bright spot. Our sector top picks are MAHSING (OP; TP: RM1.88) and MKH (OP; TP: RM1.83). We downgrade MRCB (TP: RM0.62) to MARKET PERFORM (from OUTPERFORM) as its valuations have become fair after the recent share price run up.

Challenges remain, but there are signs of stabilization. While oversupply continues to weigh on the sector, improving economic indicators offer a more balanced outlook. Although household debt-to-GDP ratio has increased, it remains below pre-pandemic levels, suggesting room for recovery in borrowing capacity. Furthermore, with no change in OPR rates for over 1.5 years, the market has adjusted to the current interest rate environment, reducing uncertainty from earlier hikes. Inflationary pressures persist, particularly with the potential rationalization of the RON95 fuel subsidy. If implemented, higher fuel costs could dampen consumer spending power, potentially slowing property demand. However, on a brighter note, the appreciating MYR may alleviate some cost burdens, lifting the outlook for consumer sentiment. Given these factors, the property sector is positioned for improvement.

According to BNM's latest data as of Jul 2024, industry loan approval rates show improvements at 47.2% with YTD average of 44.3% improving against CY23's 43.4% and CY22's 43.5%. This is in line with the gradual rise in overall applications into affordable home products which are more assessable to the wider market and are more easily approved. Should this trend persist, we may see approval readings breach recent years' averages of 40%-45%. Further, household debt-to-GDP readings of 84.2% in 2HCY23 (81.0% in 2HCY22) which is still lower than pre-pandemic levels of c.88% may suggest further appetite for borrowing with the support of stable OPR of 3.00%. That said, we are mindful that inflationary pressures could invite delinquencies should loan approvals become more lenient, particularly on the lower income groups who seek affordable homes at the first place.

A trend towards affordable housing remains. Affordability remains a major issue, with the median house price at RM335k and average monthly salary around RM3k to RM3.5k. This gap challenges many Malaysians, particularly first-time home buyers under 35 years of age. NAPIC's 2QCY24 data shows a 3% increase in overhang units, now at 127,180, concentrated in Johor, Kuala Lumpur, and Selangor (vs. 125,362 in 1QCY24). While 63% of new properties are priced below RM500K, a significant portion of overhang units are priced below RM300K. This suggests that despite the efforts to introduce more affordable housing options, many Malaysians, particularly younger buyers, still face challenges in purchasing homes due to insufficient income levels, difficulty in securing home loans, and rising cost-of-living expenses. The increase in overhang units, particularly those priced below RM300K, highlights the affordability crisis even in this lower price range.

Moreover, the concentration of overhang units in Johor, Kuala Lumpur, and Selangor suggests that the housing demand-supply imbalance is more pronounced in urbanized regions, where land costs and demand pressures are higher. This gap between available housing and what first-time homebuyers can afford may call for more targeted government interventions, such as increasing home ownership subsidies, offering more favourable financing options, or incentivizing developers to produce homes within an even lower price range. They provide some assistance but won't fully resolve the overhang issue.

At the same time, the industrial property sector is gaining traction, driven by the growth of e-commerce and heightened demand for logistics and warehouse facilities. Government initiatives to attract FDI further support this trend. We believe developers, such as **MAHSING** and **SIMEPROP** are shifting their focus towards industrial properties to mitigate their reliance on the residential market, which faces increasing risks from affordability challenges and oversupply issues.

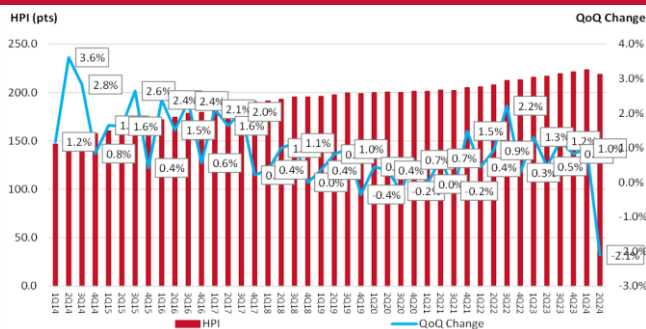
Outlook. Looking ahead, the Malaysian property sector will continue to focus on affordability, as outlined in the challenges seen with the rise of overhang units and affordability gaps for first-time homebuyers. With population growth and urbanization driving demand, transit-oriented developments in key regions like the Klang Valley are expected to gain traction, providing a strategic response to the rising cost of living and household debt pressures. Despite persistent oversupply and economic headwinds, the sector has shown resilience through strategic shifts—such as the monetization of land near developed areas and the growing industrial segment. Developers are adapting by prioritizing affordable housing, aligning with evolving consumer needs in a challenging economic environment.

Maintain UNDERWEIGHT due to big caps having more potential downside. A shift in revenue strategies among developers should keep earnings sustainable. While headwinds like oversupply, high household debt, and affordability concerns persist, developers are increasingly focusing on land sales to capitalise on landbank appreciation to smoothen their respective gearing. Additionally, the industrial segment is becoming a sustainable revenue stream, driven by demand for logistics and warehouse spaces from e-commerce growth. These strategic moves, combining land monetization and industrial property investments, help offset weaker residential demand and suggest a more balanced outlook for the sector despite ongoing challenges.

Our top sector pick is **MKH** and **MAHSING** given their focus on affordable homes priced below RM500k with strong demand from first-time house buyers and its transit-oriented development projects that will benefit from the switching to public transport from private vehicles following fuel subsidy rationalization.

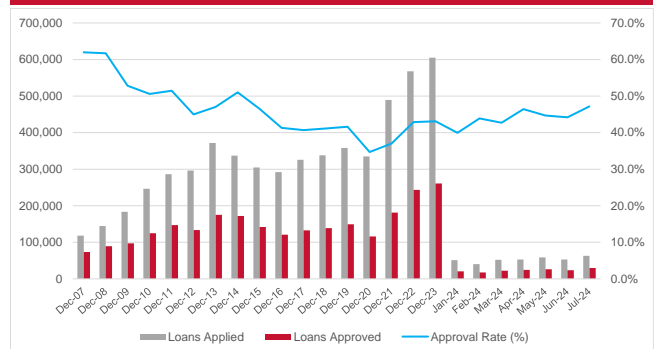
We downgrade our call for **MRCB** to **MARKET PERFORM** (from **OUTPERFORM**), as their valuations have caught up with their prospects for better construction-driven performance, thanks to its strong order book.

Housing Price Index



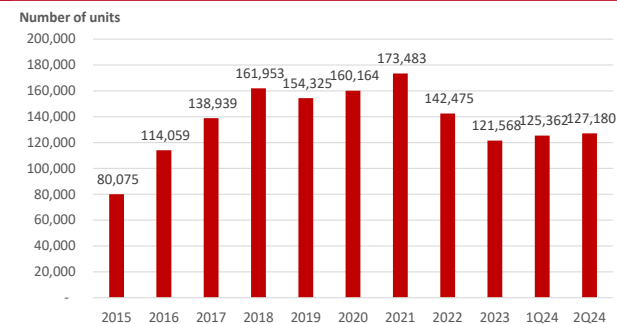
Source: NAPIC, Kenanga Research

Loans Approval Rate



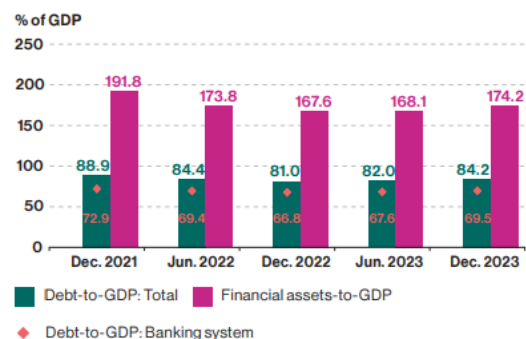
Source: BNM, Kenanga Research

Overhang and Unsold Under Construction



Source: NAPIC, Kenanga Research

Household Debt-to-GDP



Source: BNM

03 October 2024

2QCY24 Property Market Overhang (Units)							
Region	Overhang			Unsold Under Construction			Total Overhang & Unsold Under Construction
	Residential	Service Apartment	Total	Residential	Service Apartment	Total	
Johor	3,219	12,618	15,837	6,305	3,519	9,824	25,661
Kuala Lumpur	3,051	4,505	7,556	5,905	9,072	14,977	22,533
Selangor	2,328	2,177	4,505	7,106	9,287	16,393	20,898
Perak	4,161	125	4,286	10,922	-	10,922	15,208
Penang	2,400	270	2,670	4,288	381	4,669	7,339
Sabah	1,728	-	1,728	4,260	-	4,260	5,988
Negeri Sembilan	1,475	874	2,349	2,362	569	2,931	5,280
Sarawak	1,562	69	1,631	3,743	787	4,530	6,161
Pahang	879	76	955	2,510	1,533	4,043	4,998
Melaka	514	43	557	3,061	298	3,359	3,916
Kelantan	373	225	598	3,407	-	3,407	4,005
Kedah	353	-	353	2,758	-	2,758	3,111
Terengganu	250	92	342	542	-	542	884
Putrajaya	302	84	386	411	-	411	797
Perlis	6	-	6	259	-	259	265
Labuan	41	-	41	95	-	95	136
Total	22,642	21,158	43,800	57,934	25,446	83,380	127,180

Source: NAPIC, Kenanga Research

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03 October 2024

Peer Table Comparison

Name	Rating	Last Price	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS 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.	1-Yr. Fwd.	1-Yr. Fwd.		
PROPERTY DEVELOPERS																					
IOI PROPERTIES GROUP BHD	UP	2.11	1.71	-19.0%	11,618.0	N	06/2025	11.0	11.3	18.6%	2.2%	19.1	18.7	0.5	2.5%	4.5	2.1%				
MAH SING GROUP BHD	OP	1.72	1.88	9.3%	4,403.4	Y	12/2024	10.2	11.0	14.6%	8.5%	16.9	15.6	1.1	6.5%	4.0	2.3%				
MALAYSIAN RESOURCES CORP BHD	MP	0.580	0.620	6.9%	2,591.2	Y	12/2024	1.8	1.4	19.2%	-18.9%	81.7	43.9	0.6	1.7%	1.0	1.7%				
MKH BHD	OP	1.25	1.81	44.8%	710.3	Y	09/2024	13.8	16.2	8.8%	16.7%	9.0	7.7	0.4	4.1%	6.0	4.8%				
S P SETIA BHD	UP	1.28	0.900	-29.7%	6,219.1	Y	12/2024	12.8	5.3	185.9%	-58.5%	10.0	24.2	0.4	4.4%	5.0	3.9%				
SIME DARBY PROPERTY BHD	MP	1.45	1.36	-6.2%	9,861.2	Y	12/2024	6.7	7.0	13.9%	4.9%	21.7	20.7	0.9	4.4%	2.8	1.9%				
SUNWAY BHD	UP	4.13	2.66	-35.6%	23,472.6	Y	12/2024	14.6	14.7	26.0%	1.2%	28.4	28.0	1.6	6.0%	6.0	1.5%				
UOA DEVELOPMENT BHD	MP	1.83	1.79	-2.2%	4,801.5	Y	12/2024	10.6	10.4	19.3%	-2.1%	17.2	17.6	0.8	4.5%	6.5	3.6%				
SECTOR AGGREGATE					63,677.3					42.0%	-9.1%	20.0	22.0	0.8	4.3%		2.7%				

Source: Kenanga Research

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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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