

16 December 2019

Property | Real Estate

Real Estate

Neutral (Maintained)

2020: A Year Of Two Halves

Stocks Covered 4
 Ratings (Buy/Neutral/Sell): 3 / 1 / 0
 Last 12m Earnings Neutral

- **Stay NEUTRAL; Prefer diversified plays.** We expect 2020 market performance to be largely similar to 2019, ie volumes staying resilient but with little upside to property prices. With elections likely by end-1H20, we believe buying sentiment will remain cautious, but potentially see a recovery in 2H20, if the outcome results in a favourable mandate for the ruling party vs the previous term. Amidst uncertainties, we prefer players with well diversified exposure and strong recurring income growth – CapitaLand is our Top Pick.
- **Property cooling measures unlikely to be relaxed in the near term.** While developers have been calling for some relaxation in property cooling measures, we believe it is unlikely in near term as prices remain on an uptrend. Such a move is also likely to be unpopular ahead of the upcoming general elections and could potentially spike-up prices amidst volatile market conditions in neighbouring countries. Any pre-election goodies are likely to be focused on the public housing segment where the government has already announced enhanced grants to support resale market prices.
- **Inventory building up...** Based on the Urban Redevelopment Authority (URA) 3Q19 data, private property supply stands at 50,964 units (excluding executive condominiums) of which about 31,948 units remained unsold (c.3.5 years of demand), well above the 5-year average of 24,581 units. In addition, there is c.4,900 units, which have yet to receive planning approvals. The strong supply pipeline should cap near-term price growth. Vacancy rates, however, are expected to remain low (3Q19-6.1%) as physical completion of units (2020) is on the lower side at 5,122 units (10-year average – 12,289 units) which should support rental market.
- **... limiting developers' margins ahead.** The strong supply from the balance units in existing launches, coupled with upcoming new launches and tighter Additional Buyer's Stamp Duty (ABSD) rules should continue to limit developers' pricing power and thereby squeezing margins (5-15% range). Market remains two-tiered for now – launches with good amenities and closer to the MRT continue to gain much better traction and we expect this trend to continue in 2020. While some developers have made impairments (eg Riviere) in anticipation of challenging market conditions, we do not expect this to be a trend barring a sharp decline in economic conditions.
- **Low interest rates, strong household balance sheet limit downside.** Household balance sheet remains strong with average loan-to-value (LTV) of outstanding housing loans falling from 54% on average in 2017 to 49% in 3Q19 based on the Monetary Authority of Singapore (MAS) statistics. Most of the developers' balance sheets also remain largely prudent (gearing <0.8x). The strong balance sheet, coupled with the current low interest rate environment should continue to support property market and limit downside risk.
- **Volumes to stay resilient; prices to grow 0-3%.** Considering the balancing factors mentioned above, we expect property prices to see limited growth of 0-3% for 2020. Residential sales volumes are expected to remain resilient at 9,000-10,500 units (YTD-Oct 2019: 8,948 units). On the private resale market, we expect a slight (+5-+10%) increase in volumes on bargain hunting.

Top Picks

CapitaLand (CAPL SP) – BUY
 Oxley Holdings (OHL SP) – BUY

Target Price

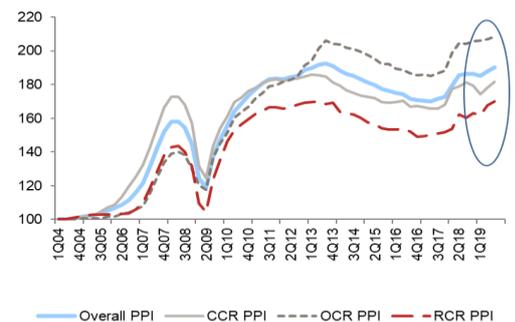
SGD 4.20
 SGD 0.43

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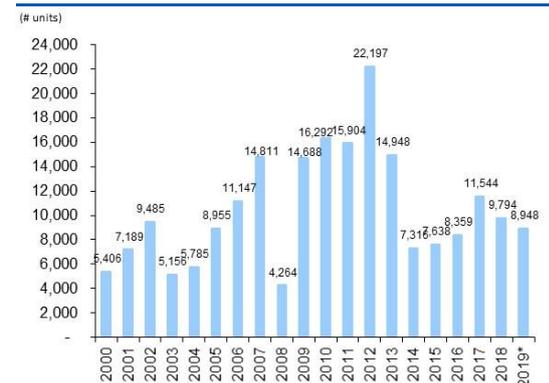


Property price indices by region (1Q04 = 100)



Source: Urban Redevelopment Authority (URA), RHB

Private home sales (excl. EC)



Note: *As of Oct 2019
 Source: URA, RHB

Company Name	Rating	TP (SGD)	% Upside (Downside)	P/E (x) Dec-19F	P/BV (x) Dec-19F	Yield (%) Dec-19F
APAC Realty	Buy	0.60	20.0	12.5	1.2	5.0
CapitaLand	Buy	4.20	13.8	17.6	0.8	3.5
Oxley Holdings	Buy	0.43	19.4	4.0	0.9	8.3
City Developments	Neutral	10.50	0.9	17.6	0.9	1.9

Source: Company data, RHB

Figure 1: Sales By segment

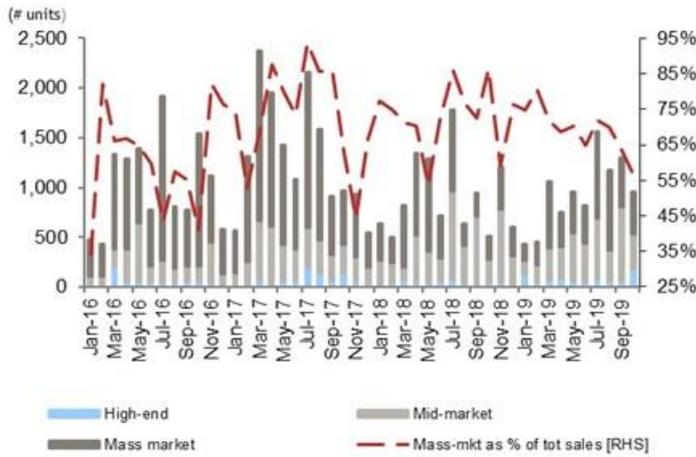
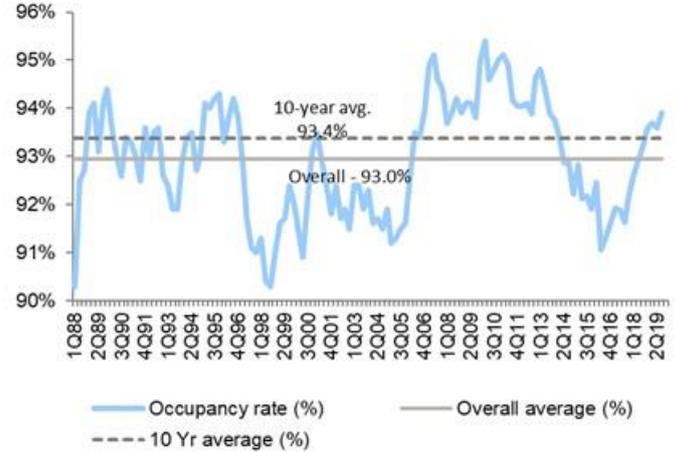


Figure 2: Occupancy rate for private residential property



Source: URA, RHB

Source: URA, RHB

Figure 3: Supply, demand and vacancy rates

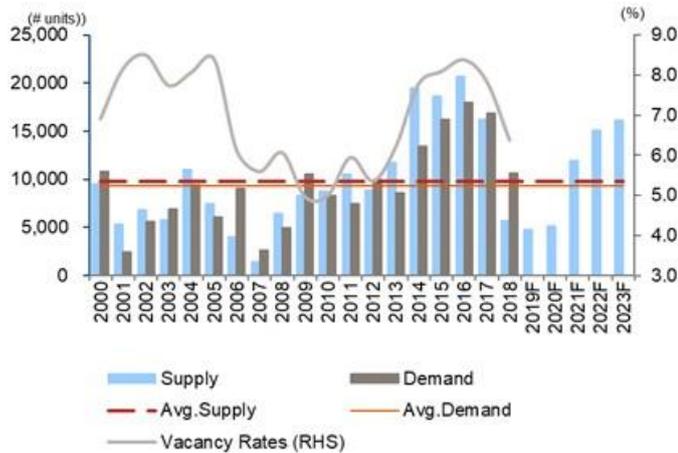
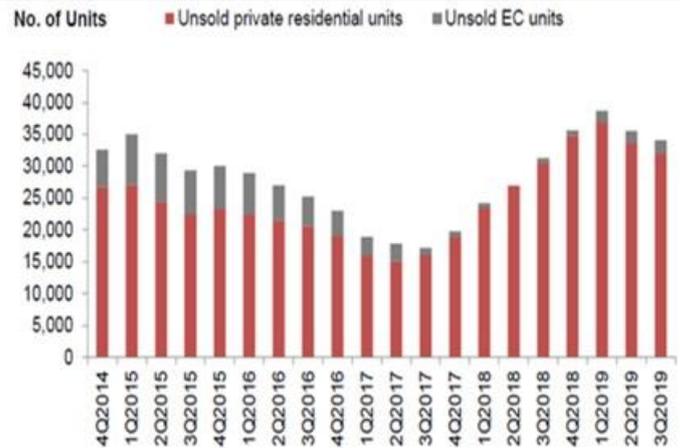


Figure 4: Unsold residential units in the pipeline



Source: URA, RHB

Source: URA

Figure 5: Private home (excl EC) sales/launches/take-up

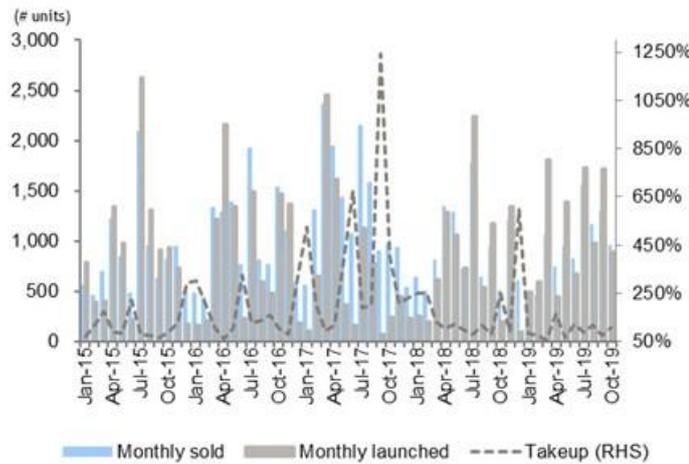
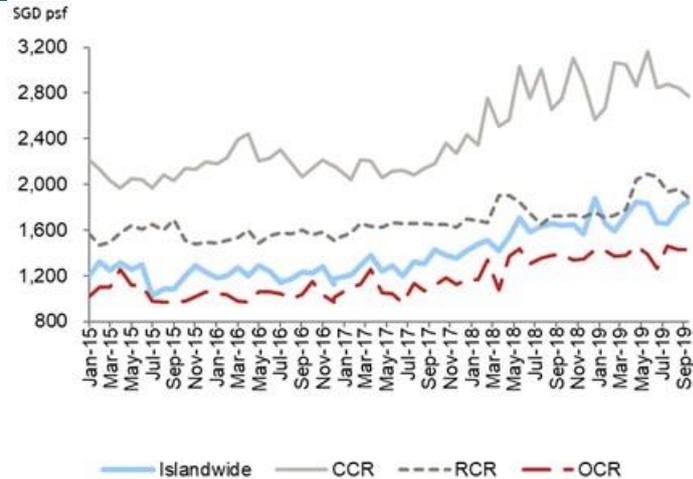


Figure 6: Median price of new homes sales



Source: URA, RHB

Source: URA, RHB

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