15 April 2024

Property | Real Estate

Real Estate

Get Ready For The "Rail" Deal; Stay OVERWEIGHT

Overweight (Maintained)

Stocks Covered	12
Rating (Buy/Neutral/Sell):	10 / 2 / 0
Last 12m Earnings Revision Trend:	Positive

Top Picks	Target Price
UEM Sunrise (UEMS MK) – BUY	MYR1.60
IOI Properties (IOIPG MK) – BUY	MYR2.75
Eastern & Oriental (EAST MK) – BUY	MYR1.38

- **Maintain OVERWEIGHT; Top Picks: UEM Sunrise (UEMS), IOI Properties (IOIPG), and Eastern & Oriental (E&O).** We expect the property sector to continue to be driven by: i) Positive news flow on potential infrastructure projects; ii) active land transactions, and iii) influx of investments, especially in the data centre, green energy and manufacturing sectors. Developers with sizeable landbank and industrial segment exposure should see greater benefit from infrastructure developments and rising investment flows. Pump priming across the Klang Valley, Iskandar Malaysia and Penang region should lift the sector's overall valuation.
- **"Swiftonomics" effect in Johor.** Apart from the positive economic impact in Singapore, Johor Bahru (JB) also experienced some spillover from Taylor Swift's concert last month, benefitting the hospitality, retail and F&B sectors. We understand that hotel occupancies were full, F&B outlets enjoyed good business, while transporters were busy fetching concert goers across the causeway during that week. The effect strongly shows the increasing significance of Johor given its proximity to Singapore. Hotels in JB are already enjoying high occupancy rates of 80-90% during normal weekends. Retailers in F&B and golfing services are putting up new stores or expanding their services. Occupancy of certain shopping malls in JB is almost full. We believe many retail brands will now consider JB as an important market for their store expansion in the near term. All these wealth effects are expected to translate to stronger demand for property in Iskandar Malaysia.
- **Higher chance of HSR revival?** Recently, it was reported that three consortia may have been shortlisted for the Kuala Lumpur-Singapore High Speed Rail (HSR) project. While funding plans and construction costs would typically receive closer scrutiny, the latest news seems to be positive on the progress. All eyes are now on the HSR, Johor Bahru Light Rail Transit (LRT) and Johor-Singapore Special Economic Zone. Major landowners are likely beneficiaries.
- **Expect more land transactions by developers, users, and "landbank collectors".** While many developers are still busy looking for new land, there is also a rising pool of end-users intensifying the competition, driven by an influx of FDIs ie manufacturers and data centre players, as well as expansion plans by some E&E companies. Lately, "land collectors" such as Scientex (SCI MK, NEUTRAL, TP: MYR3.85) and Lagenda Properties (DBE MK, NR) have also been buying large tracts of land for long-term development. Land prices are expected to escalate further given such momentum.
- **Penang joining the pump-priming bandwagon.** The Federal Government has recently approved the long-awaited Penang LRT project. Apart from the infrastructure angle, driven by the US-China trade tensions, many local and regional E&E players are also taking the opportunity to expand their operations in Penang. This should also help lift demand for properties in the state in the coming years.

Company Name	Rating	Target (MYR)	% Upside (Downside)	P/E (x) Dec-24F	P/B (x) Dec-24F	ROAE (%) Dec-24F	Yield (%) Dec-24F
AME Elite Consortium	Buy	2.05	13.7	13.0	1.3	10.0	2.4
Eastern & Oriental	Buy	1.38	31.8	17.4	0.7	4.3	1.1
IOI Properties	Buy	2.75	23.9	17.3	0.5	3.1	2.5
LBS Bina	Buy	0.82	15.1	7.7	0.8	10.3	4.0
Mah Sing	Buy	1.58	20.4	13.2	0.8	6.4	3.4
Matrix Concepts	Buy	2.02	10.8	8.8	1.0	12.1	5.7
Sime Darby Property	Buy	1.05	10.6	15.6	0.6	4.0	2.9
SP Setia	Buy	1.56	3.0	17.6	0.4	2.4	1.1
Sunway	Buy	3.53	1.7	25.0	1.5	6.0	1.6
Tambun Indah	Neutral	0.91	(15.7)	9.8	0.6	6.3	4.6
UEM Sunrise	Buy	1.60	37.1	67.6	0.9	1.2	-
UOA Development	Neutral	1.86	(1.6)	20.6	0.9	4.3	5.3

Source: Company data, RHB

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Relative performance of KLPRP vs FBM KLCI since Jan 2023



Source: Company data, RHB

Positive News Flow To Buoy Sentiment

Outlook for property sector

Maintain OVERWEIGHT. The property sector has appreciated about 18% YTD, measured by the KL Property Index. While it is no longer as cheap as before, we think positive news flow ahead should continue to support valuation. Investors should also focus on laggard plays that have the right market exposure.

In our view, the broader equity market should stay healthy as the political landscape stabilises. We expect the property sector to continue to be driven by: i) Positive news flow on potential infrastructure developments (eg the HSR, JB LRT and Penang LRT), ii) active land transactions (particularly in Iskandar Malaysia), and iii) influx of FDIs and expansion by local manufacturing players. Developers with sizeable landbank and exposure to industrial developments should benefit more, in our view.

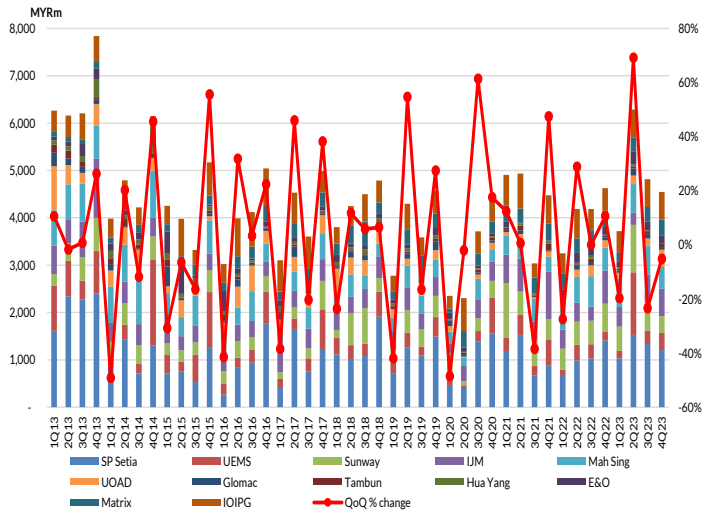
Key risks to our call: i) A severe weakening of the MYR and ii) political turbulence.

Developers turning more optimistic

10-15% higher for most developers' FY24 sales targets. Most major developers – except for UEMS, Sime Darby Property, and SP Setia – are guiding for sales targets that are 10-15% higher YoY for FY24, with most turning more positive on this year's property market outlook. Although UEMS has set a lower sales target of only MYR1bn vs the MYR2.1bn achieved in FY23, we think the company may have something more exciting ahead, as management just revealed its revised masterplan for Gerbang Nusajaya, which saw a significantly higher proportion of industrial development.

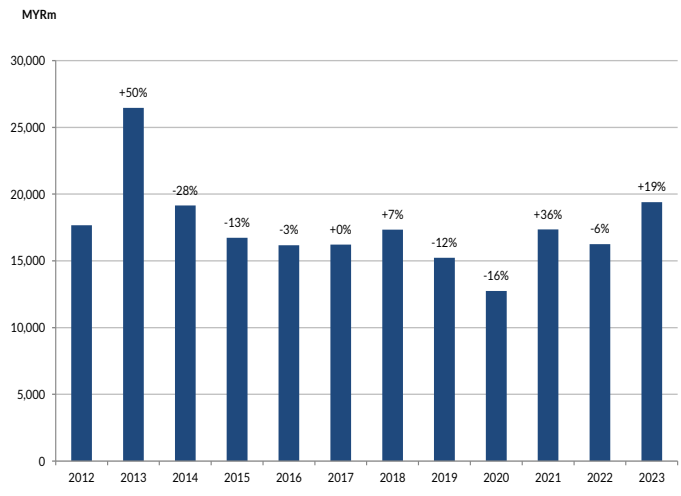
Recap: Aggregate property sales in 4Q23 were flat YoY but down by only 5% QoQ – this was because 2Q and 3Q property sales were much stronger during the year. On a full-year basis, aggregate property sales amounted to MYR19bn vs MYR16bn in 2022 (+19% YoY). IOIPG, Mah Sing, and Sunway all saw encouraging growth in property sales from the Johor region last year. This very much reaffirms our bullish view on the property sector – demand is expected to pick up strongly as interest rates stabilise and economic growth improves, supported by favourable government policies (eg easing requirements for the Malaysia My Second Home (MM2H) programme) as well as new infrastructure projects that are concentrated in Johor.

Figure 1: Aggregate quarterly property sales



Source: Company data, RHB

Figure 2: Aggregate annual property sales



Source: Company data, RHB

Higher chance of HSR revival?

Recently, it was reported that three consortia may have been shortlisted for the HSR project. While funding plans and construction costs would typically receive closer scrutiny, the latest news seems to be positive on the progress.

If the project receives the green light from the Government, many industry players have indicated that they will be even more bullish at Malaysia property sector's overall outlook as the HSR project is expected to benefit the real estate sector in the Klang Valley more significantly. Given the development opportunities and potential re-rating in land values, major landowners should be the winners. These include UEMS, Sime Darby Property, SP Setia, IOIPG, and Sunway.

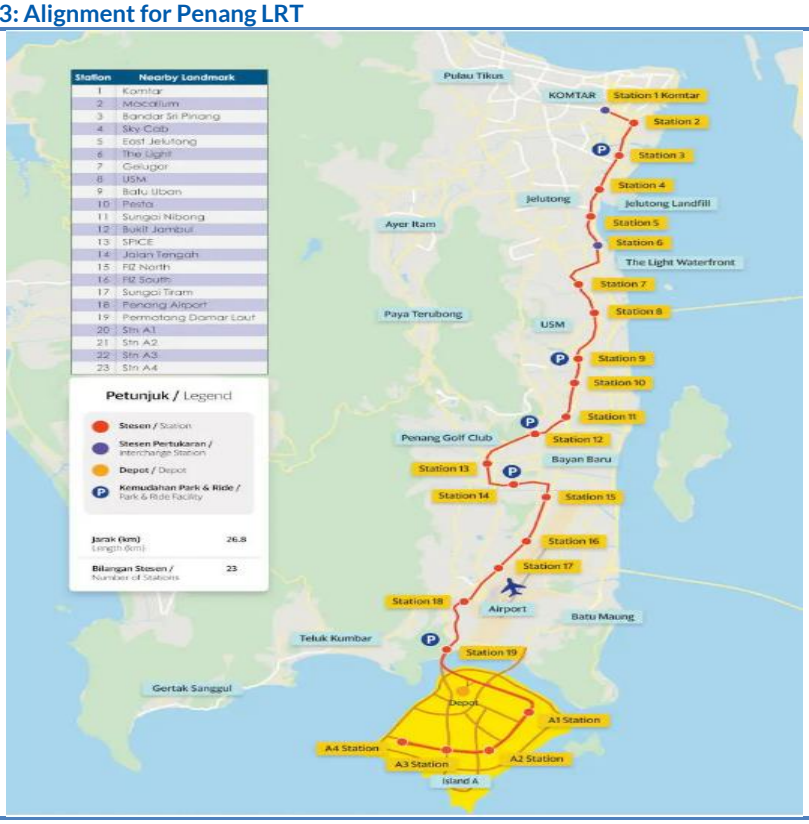
All eyes are now on the update of HSR, JB LRT as well as the Johor-Singapore Special Economic Zone. We believe the state and federal governments will likely make some progress update in mid-2024.

Penang joining the pump-priming bandwagon

Since the Sultan Abdul Halim Muadzam Shah bridge (second bridge) completion in 2014, Penang had not seen a major infrastructure project on the island, until now. At end-March, the Cabinet approved the Penang LRT project – Segment 1 of the Penang LRT Mutiara Line project will connect Komtar to Silicon Island. Apart from the infrastructure angle, upcoming expansion plans by Penang-based and regional semiconductor players, together with the MM2H programme's easing requirements should have a positive demand spillover to the property sector.

The LRT project is expected to ease traffic congestion and enhance connectivity. Based on the alignment, a few projects are expected to benefit from the railway network. These include Gamuda's (GAM MK, BUY, TP: MYR6.30) Silicon Island (2,273 acres to be reclaimed), Mah Sing's Southbay City in Batu Maung (51 acres) as well as IJM Corp's (IJM MK, BUY, TP: MYR2.76) The Light Waterfront project (119 acres). Although there was no mention on the potential line extension to Tanjung Bungah, E&O as a major asset and landowner in Penang Island (710 acres excluding 365 acres in Gertak Sanggul) should also benefit from the wealth effect.

Figure 3: Alignment for Penang LRT



Source: Penanginfra.com

Figure 4: Major landowners in Penang

Developers	Landbank in Penang (acres)	% of portfolio
Tambun Indah	420	100%
Eastern & Oriental	1,075	56%
AME Elite Consortium	176 (50% JV)	50%
SP Setia	1,274	17%
Eco World	214	6%
Sunway	180	6%
Mah Sing	51	2%

Source: Company data, RHB

Expect more land transactions by developers, users and "landbank collectors"

While many developers are still busy looking for new land, we expect the end-users – ie industrial players or manufacturers and "landbank collectors" – to also join the competition for landbanking, particularly in Iskandar Malaysia. AME Elite Consortium, Mah Sing, and Eco World Development Group (ECW MK, NR) are the major developers that have been on a lookout for land for industrial as well as residential developments (for the latter two developers). However, in recent years, the rising pool of end-users driven by the influx of FDIs – ie manufacturers and data centre users/players, as well as expansion plans by some E&E companies – have also intensified the competition for land. In early April, Crescendo (CCDO MK, NR) sold another parcel of land in Pulai, Johor to Microsoft Payments (Malaysia). All in, the company has sold a total of four parcels of land measuring 3.72m sqf in Johor to data centre operators and users in less than a year, and the lands were transacted at MYR120-125 psf.

Lately, "land collectors" such as Scientex and Lagenda Properties have also been buying large tracts of land for long-term development. Land prices, in our view, are expected to escalate further given such momentum.

Major landowners to benefit more from asset price reflation

Developers that own sizeable landbank with industrial segment exposure are the winners, in our view. These developers will not only be able to capture the asset price reflation driven by mega infrastructure projects (eg the roll-out of the HSR), but also the flexibility to convert their landbank for industrial use if strategic opportunities arise.

Under our coverage, major landowners include Sime Darby Property, IOIPG, UEMS, SP Setia etc. We understand that a few of these developers are currently in talks with various parties for industrial developments, and we do not rule out the possibility that some data centre players have also approached these players to set up their facility. Given such strong demand, developers with sizeable landbank are more likely to benefit from the escalation of land prices especially when land parcels are sold.

Figure 5: Remaining landbank of major developers

Developers	Total landbank (acres)
Sime Darby Property	13,600
IOI Properties	8,000
UEM Sunrise	7,984
SP Setia	7,310
Eco World	3,453
LBS Bina	2,916
Sunway	2,467
Mah Sing	2,378
Matrix Concepts	2,000

Source: Company data, RHB

Valuation and stock picks

We maintain our OVERWEIGHT call for the property sector. It is currently trading at a 46% discount to RNAV, close to the +1SD level (compared to peak cycle valuation of around 30% discount to RNAV). Although no longer as cheap as before, we think the positive news flow should continue to buoy market sentiment and lift the valuation even higher.

Investors should stay invested in the Johor theme. While Iskandar Malaysia is already seeing an influx of investments, the Government has yet to make any official announcement and decision on major developments such as the Johor-Singapore Special Economic Zone, JB-LRT and potentially the HSR. We believe these few catalytic projects are important to spur demand for property, as rising industrial and commercial activities, and higher job opportunities should lead to a higher income level for the state.

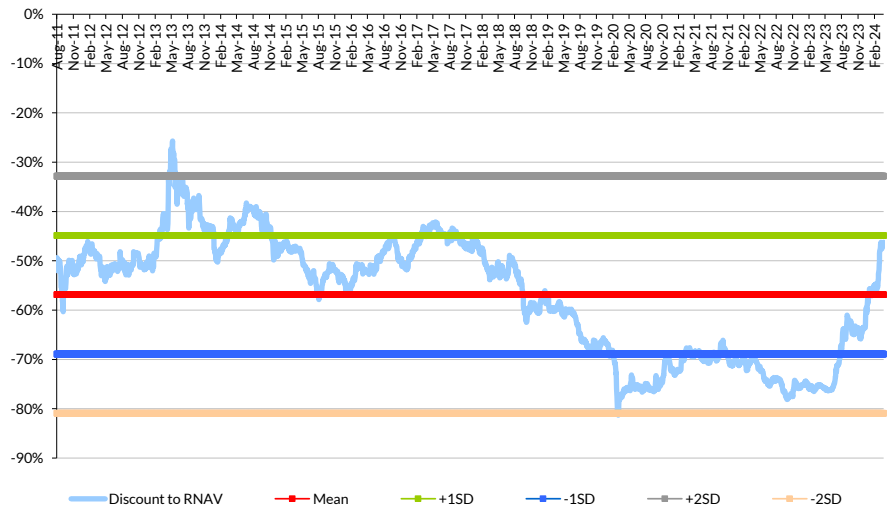
Our Top Picks are:

UEMS – The best proxy for Johor thematic play. The revised masterplan of Gerbang Nusajaya saw the industrial component making up 28.3% of total new GDV of MYR45bn, from only 1.6% of MYR42bn. The immediate conversion of its 361 acres could suggest that some proposals are already on the table for some strategic development, and we are hopeful that some deals may materialise in a few months. Given its strategically located landbank in Iskandar Malaysia, growth opportunities could provide earnings upside.

IOIPG – The company will likely see the commencement of rental from its IOI Central Boulevard office towers by mid-2024, which will be a major earnings kicker from FY25F (Jun). IOIPG is also a Johor play given its sizeable landbank at Kulai (3,474 acres) and 404 acres of its non-core land in Kulai was sold to ECW for industrial development. Property sales from the Johor region made up almost 40% of FY23 total sales (MYR1.96bn). Lately, IOIPG also acquired a few hospitality assets. We believe this is in preparation for the listing of its investment properties into a REIT.

E&O – E&O is the key Penang property play. The Federal Government has recently approved the Penang LRT project. This major infrastructure project on Penang Island should help lift Seri Tanjung Pinang land prices, especially given management is now exploring JV opportunities to develop the commercial component at Andaman Island. Apart from the infrastructure angle, upcoming expansion plans by Penang-based and regional E&E players, together with MM2H programme's easing requirements should have a positive demand spillover to the property market in Penang.

Figure 6: Historical sector discount to RNAV



Source: Company data, RHB

Figure 7: Property valuation table (as at 12 Apr 2024)

	FYE	Price (MYR/s)	Target (MYR/s)	Mkt Cap (MYRm)	P/E (x) FY24F	P/E (x) FY25F	EPS Growth (%) FY24F	EPS Growth (%) FY25F	P/BV (x) FY24F	ROE (%) FY24F	DY (%) FY24F	RNAV / share (MYR)	Discount to RNAV	Rec
Sunway	Dec	3.47	3.53	19,217	25.0	24.2	1.1	3.2	1.5	6.0	1.6	4.46	-22%	Buy
Sime Darby Property	Dec	0.95	1.05	6,427	15.6	14.8	2.2	5.2	0.6	4.0	2.9	2.23	-58%	Buy
UEM Sunrise	Dec	1.17	1.60	5,918	67.6	64.7	23.1	4.6	0.9	1.2	0.0	2.18	-46%	Buy
Mah Sing	Dec	1.31	1.58	3,267	13.2	11.8	12.4	11.8	0.8	6.4	3.4	2.37	-45%	Buy
Matrix Concept^	Mar	1.82	2.02	2,277	8.8	8.6	4.9	2.1	1.0	12.1	5.8	2.82	-35%	Buy
AME Elite Consortium	Mar	1.80	2.05	1,150	12.7	11.5	11.5	10.7	1.2	10.1	2.5	2.45	-27%	Buy
LBS Bina	Dec	0.71	0.82	1,093	7.7	7.5	2.4	2.7	0.8	10.3	4.0	2.00	-65%	Buy
IOI Prop	Jun	2.22	2.75	12,224	17.4	17.2	(15.4)	1.0	0.5	3.1	2.3	5.61	-60%	Buy
SP Setia	Dec	1.51	1.56	6,934	17.6	17.0	17.1	3.7	0.4	2.4	1.1	3.11	-51%	Buy
Eastern & Oriental^	Mar	1.05	1.38	2,099	16.6	12.7	23.2	30.4	0.7	4.5	1.4	2.38	-56%	Buy
UOA Dev	Dec	1.89	1.86	4,707	20.6	18.0	36.1	14.2	0.9	4.3	5.3	3.16	-40%	Neutral
Tambun Indah	Dec	1.08	0.91	474	9.8	9.6	17.7	3.0	0.6	6.3	4.6	3.03	-64%	Neutral
Sector Avg					**18.7**	**17.7**	**1.2**	**4.6**						

Note: ^FY24-25 valuations refer to those of FY25-26
Source: Company data, Bloomberg

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