

9 November 2020

Property | Real Estate

## Real Estate

**Neutral** (from Overweight)

### New Spike In Cases To Delay Demand Recovery

- **Downgrade to NEUTRAL; our Top Picks remain Sime Darby Property and Mah Sing.** We believe the resurgence of COVID-19 cases will delay the property market recovery. In line with encouraging car sales, although the property market did pick up post MCO, as COVID-19 cases are still staying high since end-September, we think sentiment on the ground is dampened once again. In addition, the lack of property market stimulus in Budget 2021 is also a disappointment. However, business diversification and privatisation moves could now be the key angle for the sector.
- **Resurgence of COVID-19 cases delays sector recovery.** As the property market started to pick up post the Movement Control Order (MCO) in June, the country saw a third wave of COVID-19 cases from end of September. This has, unfortunately, hit market sentiment again and we believe property buyers will likely hold back their property purchases and in the meantime, banks will remain stringent on their mortgage lending policies. We now expect the property market to only see a meaningful recovery in late 2021.
- **Renewed concerns on unemployment and economic growth outlook.** The recent surge in COVID-19 cases has exerted immense stress particularly on the retail market. The closure of Robinsons as well as temporary shutdown of cinemas highlighted a weak retail spending pattern. The high unemployment rate at around 5% has added uncertainties to the economic growth outlook for next year.
- **Lack of goodies in Budget 2021, a disappointment.** The budget has concentrated on home ownership over the long term, but ignored the near-term survival and recovery of the property market. The budget only saw the extension of stamp duty waiver for properties priced below MYR500,000. This, to a certain extent, also overlaps with the ongoing Home Ownership Campaign (HOC), which will expire in end-May 2021. We previously thought that the real property gains tax (RPGT) could be adjusted for both locals and foreigners, so that buying activities can be stimulated – given the current ultra-low interest rate. However, this did not materialise.
- **Business diversification and privatisation are key drivers.** We are positive on developers that are seeking business diversification at this time to mitigate the volatility in property earnings. Some developers that have exposure to construction, healthcare and investment properties are good examples and they have been able to demonstrate relatively resilient earnings trend. In addition, as we believe the sector valuations will likely stay depressed, we continue to think that privatisation remains an attractive option particularly for those family-run property development companies.
- **Valuations.** The sector is still trading at beyond -2SD level. Value has emerged given the very low P/BV and deep discount to RNAV. Yet, we consider value is trapped when the companies have no value-unlocking effort or earnings drivers ie strong property sales, monetisation of assets, new business opportunities, or M&A/privatisation exercise.

Stocks Covered 7  
Rating (Buy/Neutral/Sell): 4 / 3 / 0  
Last 12m Earnings Revision Trend: Negative

#### Top Picks

Sime Darby Property (SDPR MK) - BUY  
Mah Sing (MSGB MK) - BUY

#### Target Price

MYR0.88  
MYR1.28

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#### Relative performance of KLPRP vs FBMKLCI since Jan 2019



Source: Company data, RHB

Company Name	Rating	Target Price(MYR)	% Upside (Downside)	P/E (x) Dec-21F	P/B (x) Dec-21F	Yield (%) Dec-21F
Mah Sing	BUY	MYR1.28	30.6	9.2	0.7	4.1
Matrix Concepts	BUY	MYR2.22	37.0	6.5	0.7	6.3
Sime Darby Property	BUY	MYR0.88	53.0	17.3	0.4	3.1
Eastern & Oriental	NEUTRAL	MYR0.45	25.0	11.6	0.3	2.8
IOI Properties	NEUTRAL	MYR1.01	15.4	9.4	0.2	2.3
Tambun Indah	NEUTRAL	MYR0.59	1.7	6.9	0.4	5.2
LBS Bina	TRADING BUY	MYR0.60	57.9	10.2	0.4	1.3

Source: Company data, RHB

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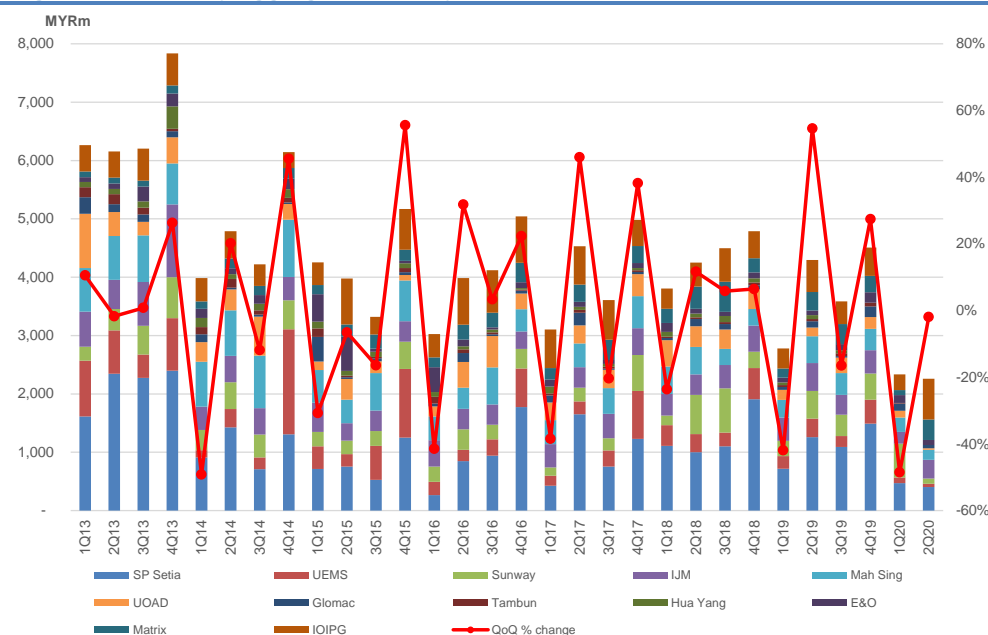
Market Dateline / PP 19489/05/2019 (035080)

## Not Out Of The Woods Yet

### Property market did recover post MCO

Developers such as Mah Sing and Sime Darby Property managed to secure an encouraging amount of bookings since the re-opening of economy. As at end-June, Mah Sing has raked in MYR1.6bn bookings (vs MYR1.1bn sales target), while Sime Darby Property has a bookings backlog of MYR1.1bn (vs MYR1.4bn sales target). The recovery was quite in line with the strong rebound in local car sales, which is also a big-ticket item, as well as the residential property sales in Singapore.

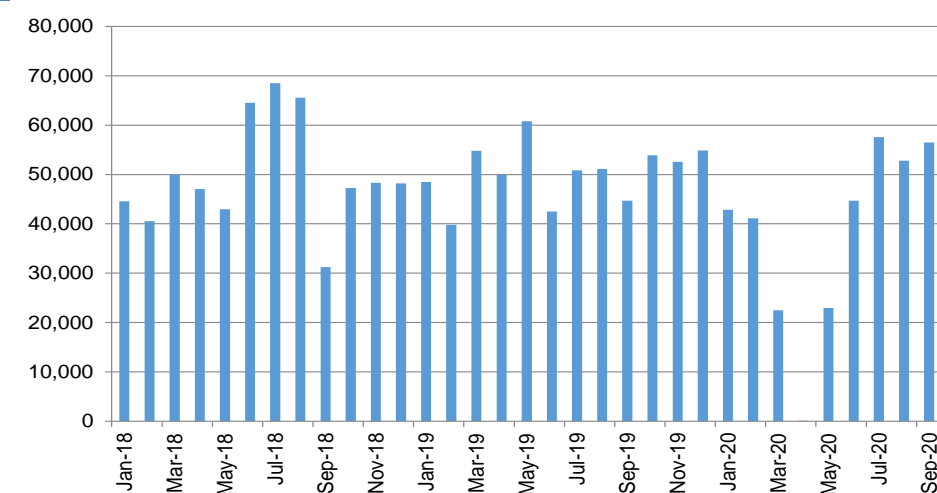
Figure 1: Quarterly aggregate property sales



Source: Company, RHB

**Car sales sustained above 50,000 units.** After the lockdown was lifted, car sales rebounded strongly in June and the TIV exceeded the 50,000 mark for three consecutive months in July, August and September. Malaysian Automotive Association (MAA)'s TIV achieved 56,444 units in September vs 52,800 units in August. The pick-up was largely driven by the sales tax exemption as well as improved consumer sentiment as businesses returned to normal since the end of the MCO. In the meantime, demand was also supported by new model launches. The new Proton X50 has also garnered significant interest from the market, with >20,000 bookings in the first two weeks post its soft launch.

Figure 2: TIV (car sales volume) growth



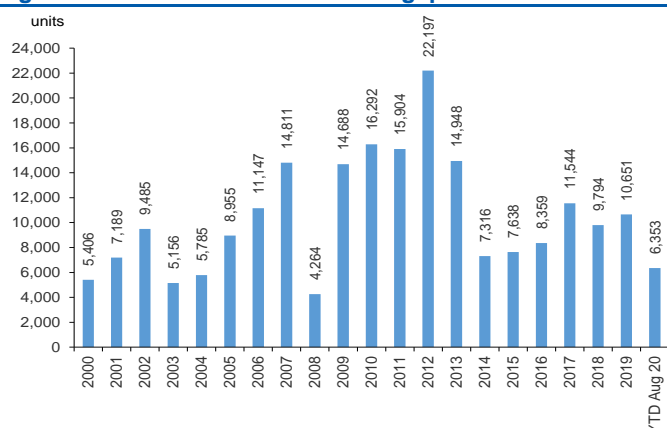
Source: MAA

### Strong rebound in the Singapore property market

**Money looking for home?** Since the re-opening of the Singapore economy in June, private home sales have rebounded back to pre-COVID levels, with monthly sales in August rising 16% MoM and 12% YoY. YTD sales volumes are now just 5% below last year's sales.

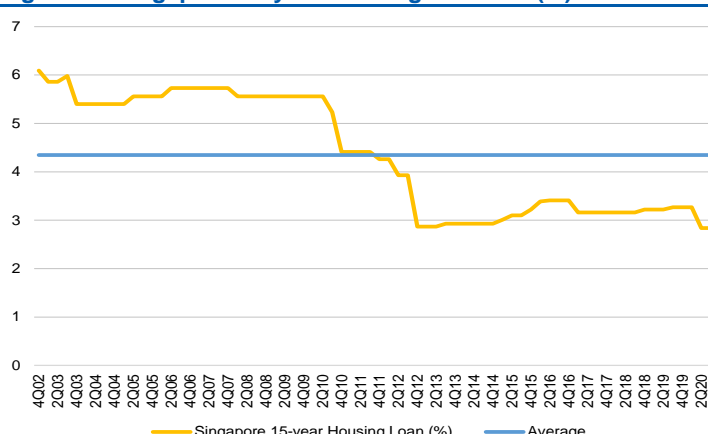
We believe the strong rebound very much reflects the strong liquidity in the market, driven by an ultra-low interest rate environment, Government's economic stimulus as well as a surge in demand from HDB upgraders. Attractive new project launches and aggressive marketing have also partly contributed to the uptick in demand. Singapore's 15-year housing loan rate (tracked by Bloomberg) has already fallen by another 43bps to 2.83%, and it is 150bps below the long-term average. We understand that the demand is mainly concentrated on the mass market segment (below SGD2,000 psf), while the high-end segment remains weak due to the slowdown in foreign purchases.

**Figure 3: Private home sales in Singapore**



Source: URA, RHB

**Figure 4: Singapore 15-year housing loan rate (%)**



Source: Bloomberg, RHB

### But the resurgence of COVID-19 cases delays the recovery trajectory

As the demand for property in Malaysia has just recovered somewhat in June-September, the country is hit by a new wave of COVID-19 cases, which has dampened market sentiment again. As the number of cases stays elevated over the past one month, we think potential property buyers will likely hold back their purchases in 4Q, and developers will slow down their launches. Also, in the meantime, banks will remain tight on their mortgage lending activities. Some bookings that developers secured earlier may not be able to be converted into contractual sales successfully.

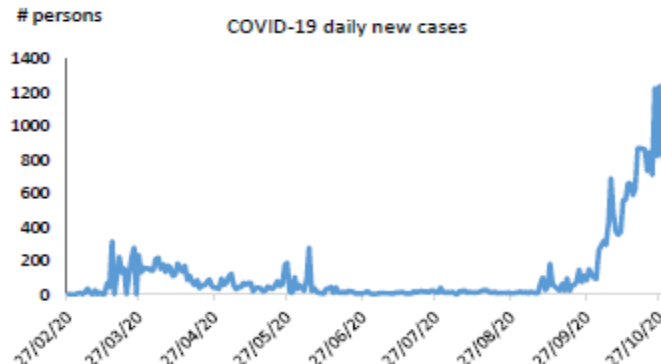
Job security has become a major concern again as retail, tourism, airline are amongst the industries that have been hit badly. The closure of the two Robinsons departmental outlets in Malaysia as well as a temporary shutdown of cinemas highlighted the weak retail spending and consumer sentiment. We think the property market will take time to recover this round as sentiment will remain cautious as long as the COVID-19 cases are not reduced significantly for a sustainable period of time, and pop up from time to time.

**Figure 5: Unemployment rate reached a record high in 2Q20**



Source: CEIC, RHB

**Figure 6: The number of COVID-19 cases reached new highs**



Source: CEIC

### Lack of goodies in Budget 2021 for the property sector

The extension of the stamp duty waiver for first-time home buyers, for another five years, is only mildly positive/neutral to the property sector. As the country is now fighting against the COVID-19 pandemic, we think buyers for properties priced MYR500,000 and below, which are typically the mid- to low-income group, will be very likely to hold back on buying real estate due to the uncertain economic outlook and rising concerns on job security.

Meanwhile, the Rent-to-Own scheme is already ongoing, and may now be extended to PR1MA houses. Therefore, the direct impact to developers should be rather minimal. Currently, in order to unwind their unsold inventory and boost sales for new launches, developers already have their existing marketing schemes in place.

Overall, we are rather disappointed that Budget 2021 offers very few benefits to the property sector. Measures to spur demand for property are lacking. The budget has concentrated on home ownership over the long term, but ignored the near-term survival and recovery of the property market. We previously thought that the real property gains tax (RPGT) could be adjusted for both locals and foreigners, so that buying activities can be stimulated, leveraging on the current ultra-low interest rate. However, this did not materialise. Recall, in June 2020, the Government announced a RPGT exemption for disposal of up to three residential properties per individual from 1 June 2020 to 31 Dec 2021. We deem this as a short-term measure and it is only meaningful for disposals of properties over the next 12-14 months.

In addition, the stamp duty waiver will unlikely boost demand, as property buyers can already enjoy the same benefit under the existing Home Ownership Campaign (HOC), which will end on 31 May 2021. We also thought the Government would announce the extension of HOC until 31 Dec 2021.

**Figure 7: Current RPGT regime**

Category of disposal	Effective from 1st Jan 2014			Effective from 1st Jan 2019		
	Citizen	Non-citizen	Corporate	Citizen	Non-citizen	Corporate
Disposal within 2 years	30%	30%	30%	30%	30%	30%
Disposal within 3rd year	30%	30%	30%	30%	30%	30%
Disposal within 4th year	20%	30%	20%	20%	30%	20%
Disposal within 5th year	15%	30%	15%	15%	30%	15%
Disposal in the 6th year and subsequent years	0%	5%	5%	5%	10%	10%

Source: RHB

### Business diversification and privatisation: Potential key drivers

**Business diversification to mitigate earnings volatility.** While demand for property is expected to remain sluggish at least over the next six months, we view developers that are seeking business diversification at this time positively. Mah Sing, Titijaya (TTJ MK, NR) and Aspen Group (ASPEN SP, NR) are amongst the developers that have recently explored healthcare-related businesses for diversification in order to reduce their exposure to the cyclical nature of property business. Some developers that have exposure to construction, healthcare and investment properties are good examples and these businesses have successfully grown in size over time, allowing opportunities for value unlocking over the longer term.

**Depressed valuations provide attractive privatisation opportunities.** We think valuations for property stocks will likely stay at depressed levels over the medium term. Many (small cap) property companies have been trading at only 0.2-0.3x P/BV over the last 3-4 years. Thus, privatisation remains an attractive option for many developers, particularly for those smallish/family-run property development companies that own valuable landbank with little debt.

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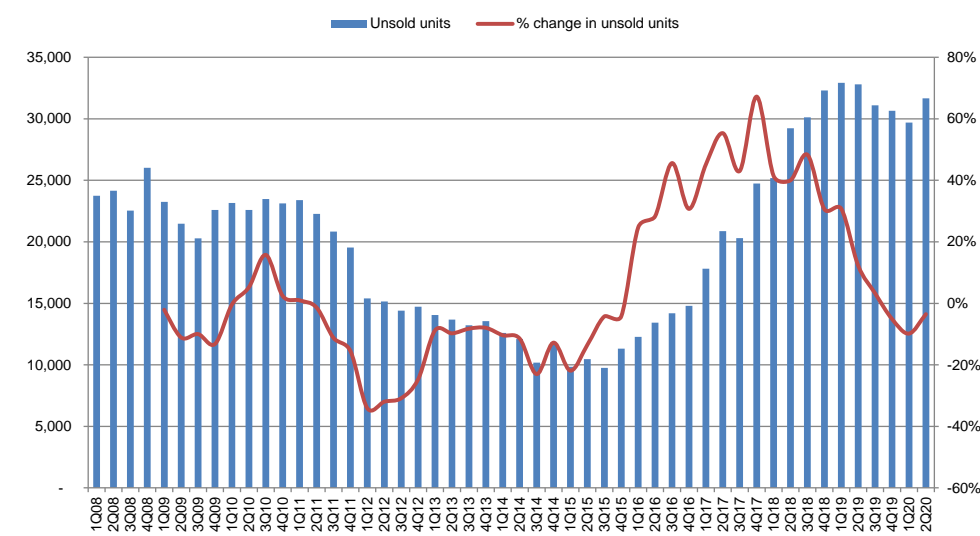
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### Increase in overhang units has started to ease slightly

**Slower growth in overhang units.** Although the market is still concerned over the persistent supply glut, the increase in overhang units seems to have eased marginally. In our opinion, the supply glut may stay and stabilise at around 20,000 units over the longer term (currently at around 32,000 region), similarly to the 2008-2010 levels, as currently about 32% of the overhang units are priced below MYR300,000. Note that these units are mainly the low-cost housing, unreleased bumi units and PR1MA homes, that may be located at less strategic locations and take a long time to clear.

On the ground, we already saw many developers busy unwinding their unsold inventory since 2-3 years ago. At the same time we noticed developers have also slowed down their new launches significantly since the property market started tapering off five years ago. In addition, many developers have written down their unsold stocks, which means that developers could let go these unsold units at lower selling prices (without incurring significant losses). Therefore, we believe these overhang units will be absorbed over time.

**Figure 8: Residential overhang units**



Source: NAPIC

**Figure 9: Pricing distribution of the overhang units**

Price (MYR)	Total number of units		
	2Q19	2Q20	% change
0 - 100,000	2,100	1,284	-39%
100,001 - 200,000	2,083	2,597	25%
200,001 - 300,000	7,328	6,151	-16%
300,001 - 400,000	5,731	4,128	-28%
400,001 - 500,000	3,057	3,865	26%
500,001 - 600,000	2,589	3,672	42%
600,001 - 700,000	2,628	2,740	4%
700,001 - 800,000	1,073	946	-12%
800,001 - 900,000	1,443	1,643	14%
900,001 - 1,000,000	565	669	18%
> 1,000,000	4,213	3,966	-6%
<b>Total</b>	<b>32,810</b>	<b>31,661</b>	<b>-4%</b>

Source: NAPIC

**Figure 10: Geographical distribution of the overhang units**

Kuala Lumpur	3,224	10%
Putrajaya	114	0%
Labuan	69	0%
Selangor	4,865	15%
Johor	6,166	19%
Penang	3,816	12%
Perak	4,644	15%
Negeri Sembilan	959	3%
Melaka	705	2%
Kedah	1,341	4%
Pahang	1,698	5%
Terengganu	445	1%
Kelantan	137	0%
Perlis	44	0%
Sabah	1,530	5%
Sarawak	1,904	6%
<b>Total</b>	<b>31,661</b>	<b>100%</b>

Source: NAPIC

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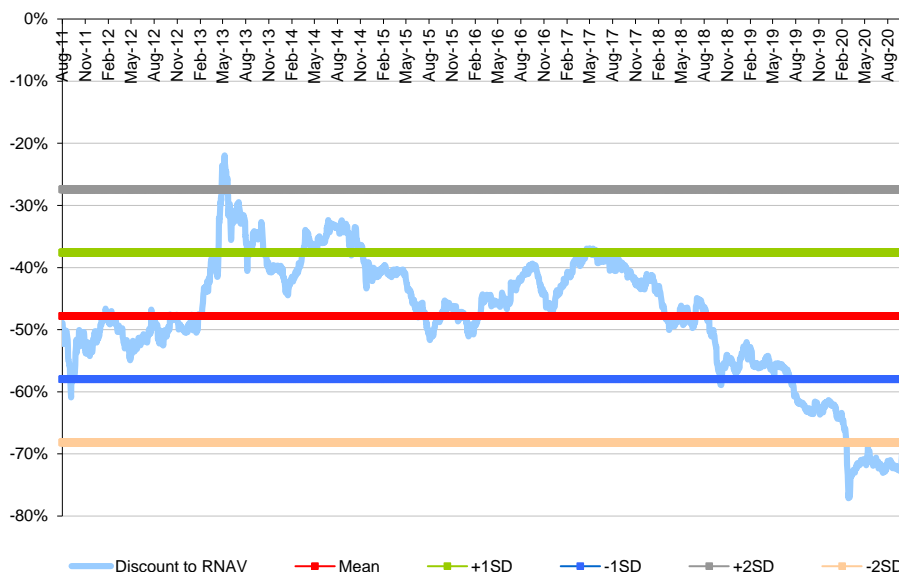
**Downgrade to NEUTRAL; Stock picks: Sime Darby Property and Mah Sing**

**Trough valuations will likely continue.** The sector has been trading at trough valuations of 72% discount to RNAV ie beyond -2SD level since the beginning of 2020. We downgrade the sector to NEUTRAL. The recovery trajectory post MCO was unfortunately interrupted by the new wave of COVID-19 cases, and hence we think a sustainable uptick in demand for property will take a longer period to materialise. Without any value-unlocking effort or earnings drivers such as strong property sales, monetisation of assets, new business opportunities, or M&A/privatisation exercise, we think the sector will continue to underperform.

**Stock picks:**

**Sime Darby Property.** We expect the company to have a fast recovery in property sales, given its strong marketing team and effective marketing campaigns. Although near-term earnings prospects are lacking due to the potential impact of a lockdown in the UK on the Battersea Power Station project, we think property sales and earnings recovery should be on track for Sime Prop after all the impairments and write-downs have been incurred. Apart from this, we think the company is also a potential beneficiary if the KL-Singapore high speed rail (HSR) project is restored, as it has a sizeable landbank in Labu and Pagoh, where the HSR stations may be located, according to the previous proposed alignment.

**Mah Sing.** We like the management's effort to venture into glove manufacturing business. We think the business diversification will likely be able to mitigate the earnings downtrend given the sluggish property development activities over the medium term. With MYR150m capital outlay via internal and debt funding, the company is now building 12 production lines, which will start in May 2021. Earnings are expected to see a quantum leap starting 2H21.

**Figure 11: Sector's discount to RNAV (based on large-cap developers)**

Source: Bloomberg, RHB

**Figure 12: Property valuations table**

	FYE	Price (MYR/s)	Target (MYR/s)	Mkt Cap (MYRm)	P/E (x)		EPS Growth (%)		P/BV (x) P/CF(x)		ROE (%)	DY (%)	RNAV/ share (MYR)	Discount to RNAV	Rec
					FY20F	FY21F	FY20F	FY21F	FY20F	FY20F	FY20F	FY20F			
Sime Darby Property	Dec	0.58	0.88	3,910	51.8	17.3	(78.6)	199.3	0.4	10.0	0.8	0.0	2.50	-77%	Buy
Mah Sing	Dec	0.98	1.28	2,379	16.0	9.2	(29.5)	73.3	0.7	3.6	4.4	2.6	3.06	-68%	Buy
Matrix Concept^	Mar	1.62	2.22	1,351	5.9	6.6	(5.1)	(11.0)	0.8	3.9	13.5	6.8	3.41	-52%	Buy
LBS Bina	Dec	0.38	0.60	593	11.9	10.2	(29.5)	16.3	0.4	(9.6)	3.8	1.2	1.51	-75%	Trading Buy
IOI Prop	Jun	0.88	1.01	4,818	8.5	9.8	(7.5)	(13.1)	0.3	3.0	2.4	1.7	4.04	-78%	Neutral
Eastern & Oriental^	Mar	0.36	0.45	515	14.7	10.9	117.5	34.9	0.3	2.5	2.0	2.8	2.27	-84%	Neutral
Tambun Indah	Dec	0.58	0.59	252	9.7	6.9	(37.8)	39.8	0.4	4.3	4.0	3.4	2.38	-76%	Neutral
Sector Avg					12.3	10.5	(15.3)	17.5							

Note: <sup>A</sup>FY20-21 valuations refer to those of FY2122

Source: Bloomberg, RHB



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<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
<b>Sell:</b>	Share price may fall by more than 10% over the next 12 months
<b>Not Rated:</b>	Stock is not within regular research coverage

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