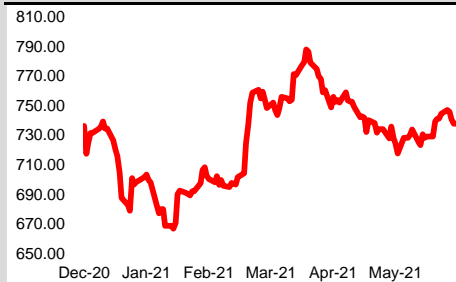




PROPERTY

Overweight

KL Property INDEX



52 Week Range (RM) 583.60 – 788.15  
 3-Month Average Vol ('000) 355,533  
 YTD returns (%) +0.5%

SECTOR PERFORMANCE

	1M	3M	6M
Absolute Returns	1.4	-2.5	-1.4

RECOMMENDATION TABLE

	Current (RM)	Target (RM)	Upside (%)	Call
Sime Prop	0.62	0.79	27	OP
SP Setia	1.09	1.25	15	OP
Ecoworld	0.675	0.98	45	OP
UEMS	0.415	0.55	33	N
IGB	2.15	2.70	26	OP
E&O	0.64	0.50	-22	N
LBS	0.49	0.69	41	OP
I-Bhd	0.30	0.26	-13	N
Yong Tai	0.26	0.31	19	N

\*Ex-offer of IGB Commercial REIT

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Riding on Cyclical Recovery

The property sector's nascent recovery in 2019 was circumvented by the pandemic-induced economic calamity in early-2020 which effectively reduced the sector to 'un-investable', weighed by economic stress, affordability as well as overhang issues. Nevertheless, property players are now on stronger footing with their "kitchen-sinking" of inventories last year, and have proven their resilience despite few months of zero revenue due to lockdown restrictions. Cyclical stocks are starting to see recoveries pick up speed after the Covid-19 vaccination drive started early this year. We believe the property sector has more room to run as the economy starts to recover in 2H2021 with herd immunity expected by end-2021. Notwithstanding sector headwinds, we believe that in the absence of exogenous shocks, property pre-sales and the sales recovery seen in 2019 before the pandemic struck should resume. We upgrade our sector call to **Overweight** on expectation that sector valuations will improve with better pre-sales kicking in.

§ **Sector valuations rebounded slightly.** Property stocks have rebounded from their trough valuations last year. To recap, industry bellwether SP Setia's stock price plumbed to ~0.2x price to book value (worse than ~0.3x book value during the 1997 Asian Financial Crisis). At the pandemic-wrecked low, the KL Property Index also dropped to 0.2x book value. Riding on recovery hopes, the property sector has outperformed the benchmark FBM KLCI by more than 5% YTD, primarily on positive tailwinds on low mortgage rates, impeding economic recovery, Home Ownership Campaign (HOC) initiatives and various stimulus measures by the government, namely Prihatin Rakyat Economic Stimulus Package (PRIHATIN) and Short-term Economic Recovery Plan (PENJANA).

§ **CY20 sales dropped -9% YoY.** CY20 sales dropped by -9% YoY primarily due to pandemic lockdowns. That said, we understand that pent-up demand is driving sales with demand momentum still encouraging despite MCO2.0. As such, most property developers are even expecting better sales in CY2021, as conditions are still conducive for property buying, notwithstanding unemployment risks. We note that residential property sales improved YoY in 1QCY21, with transactions increasing by 26.1% YoY but eased by -6.0% QoQ. Encouragingly, unsold stocks also showed positive signs by decreasing by -0.3% QoQ 1QCY21 due to fewer launches.

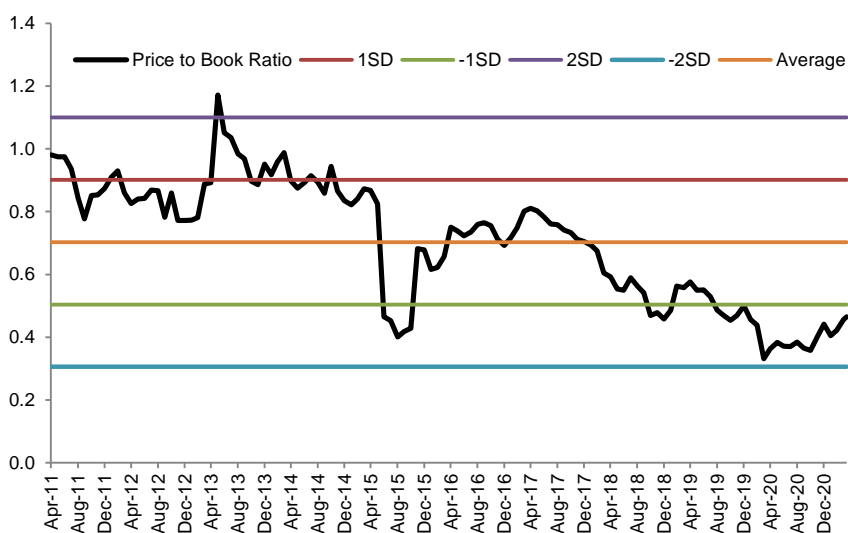
§ **Survived pandemic-wrecked year.** 1H20 was undoubtedly the worst period for property developers as sales ground to a halt due to the Movement Control Order (MCO) which officially started in mid-Mar 2020 and which lasted till June 2020. Due to movement restrictions, non-essential business activities that included sales gallery and building construction works were ordered to close. Activity only resumed when the Recovery MCO (RMCO) was introduced, one that saw economic activity re-opening gradually from June 2020. As such, residential property sales (in value) collapsed -20% QoQ in 1QCY20 and -36% QoQ in 2QCY20. With RMCO relaxations, residential property sales rebounded +93% QoQ in 3QCY20 and a further +7.8% QoQ in 4QCY20 due to pent-up demand and government initiatives such as PENJANA's real property gains tax (RPGT) waiver and HOC 2020. All in, total residential property sales dropped -9% and -8.6% YoY to RM65.9bn and 191,354 units respectively. Developers also mostly wrote down assets in 2020 and could emerge stronger with clean slates this year. It is also worth noting that some developers are expecting higher sales this year, in line with economic recovery.

Sector valuations still attractive at of  $\sim 0.5x$  book value

## Expecting Better Sector Valuations

**Improving valuations.** To recap, share prices in our stock universe were bashed down to new lows in 1H2020 following underperformance over the last few years due to overhang concerns and cooling measures introduced to ease household debt. Correspondingly, the KL Property index plummeted to  $\sim 2$  standard deviations ( $-2SD$ ) below mean at  $\sim 0.3x$  to book value. With vaccination-driven optimism emerging by end-2020, cyclical stocks attracted buying interest, corresponding with the property sector staging a recovery this year. The KL Property index has since outperformed the FBM KLCI by more than 5% YTD driven by initiatives such as the HOC extension under the PENJANA stimulus package (which runs from 1 June 2020 to 31 May 2021), stamp duty exemptions under the Budget 2021 announcement, and the low-interest rate environment.

**Figure 1: Sector Price -to-Book Value**



Source: Bloomberg, PublicInvest Research

Accommodative low interest environment

**Low interest rate environment.** Cumulatively, the Overnight Policy Rate (OPR) was reduced 4 times in 2020 or by a total of 125 basis points (bps) to 1.75%, lessening mortgage burdens and making property more affordable. Bank Negara Malaysia (BNM) stated that the reduction in OPR was to provide additional stimulus to accelerate the pace of economic recovery. Corresponding to the OPR drop, both averages of base lending rate and base rate declined to 5.49% in December 2020 from 6.71% a year ago while the average base rate dropped to 2.43% in December 2020 from 3.68% a year ago. Apart from improving property affordability, we also believe that it would improve properties as an asset class with inflationary fears.

**Painful year.** With MCO-related restrictions, the property market performance understandably posted a significant decline in 2020. Performance-wise, 295,968 transactions worth RM119.08bn were recorded, representing a drop of 9.9% in volume and 15.8% in value YoY. Volume of transactions across the sub-sectors contracted across the board with the residential, commercial, industrial, agriculture and development land sub-sectors recording contractions of 8.6%, 21.0%, 24.0%, 10.7% and 2.6% respectively. In terms of value of transactions, residential, commercial, industrial and development land sub-sectors recorded decline of 9.0%, 32.6%, 14.0% and 34.0% respectively with exception of agriculture recorded otherwise, increased by 0.6%.

2021 could be the bottom year

Residential properties led the overall property market with c.55% of value and c.65% in volume in 2020. Residential property sales (in value) collapsed -20% QoQ in 1QCY20 and -36% QoQ in 2QCY20. With RMCO relaxations, residential property sales rebounded +93% QoQ in 3QCY20 and further +7.8% QoQ in 4QCY20 due to pent-up demand and government initiatives such as PENJANA's RPTG waiver and HOC 2020. The latest released data showed that 1QFY21 residential sales improved by 26% YoY but eased 6% QoQ.

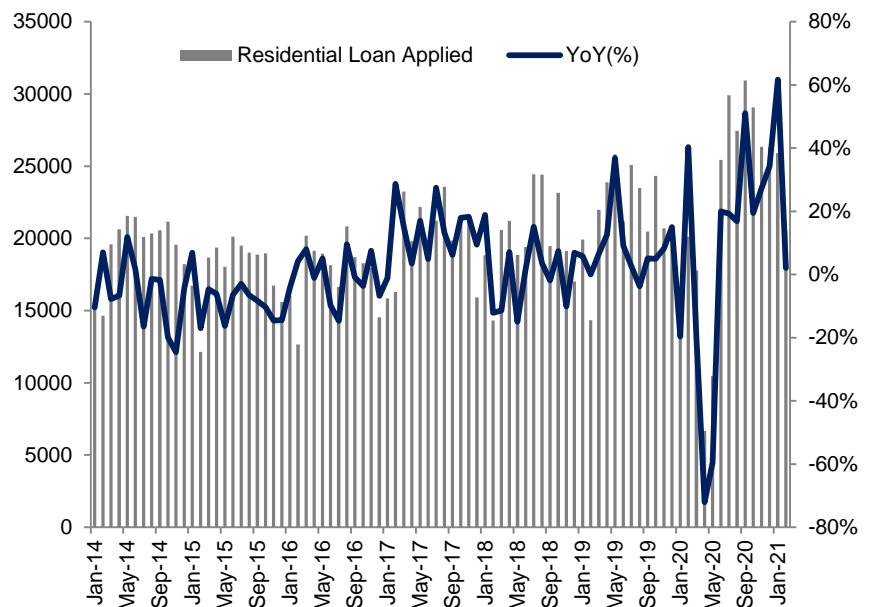
Despite loan approvals dropping by 17% YoY, it is comforting to note that loan applications were steady with a 2% YoY increase, suggesting property demand is still healthy though financing is still difficult given economic stress. The ratio of loan approvals against loan applications for the purchase of residential property stood at 35.0% in 2020 versus 43.2% in 2019. Interestingly, residential loan applications for Jan and Feb 2021 started with increase of 62% and 2% while residential loans approved moved up 26% and 15% respectively indicating positive buying momentum.

**Table 1: Residential Loans**

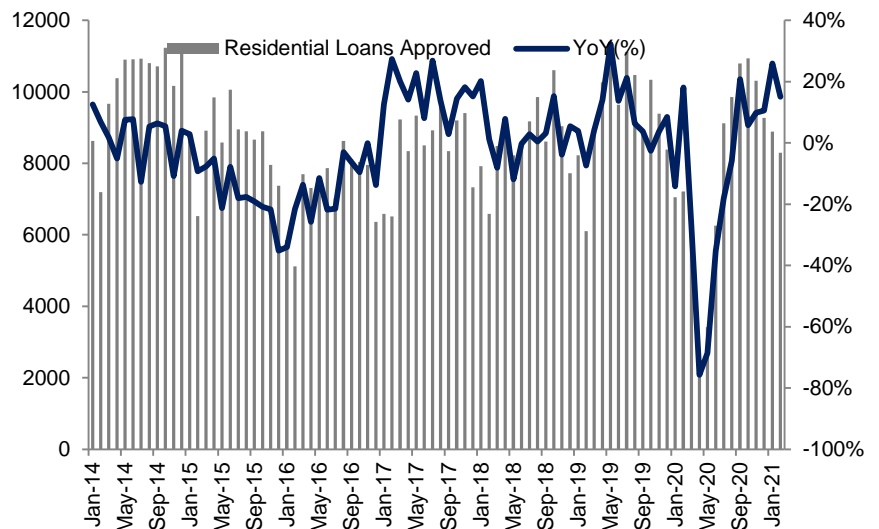
	Loans Applied (RM m)	YoY	Loans Approved (RM m)	YoY	Approval Rate
2007	79,143.43	48%	48,153.08	47%	61%
2008	98,308.25	24%	57,954.30	20%	59%
2009	130,389.42	33%	70,480.59	22%	54%
2010	166,431.50	28%	84,227.92	20%	51%
2011	186,790.70	12%	95,161.82	13%	51%
2012	196,467.27	5%	92,841.19	-2%	47%
2013	251,913.42	28%	120,946.95	30%	48%
2014	233,519.02	-7%	122,895.74	2%	53%
2015	213,767.73	-8%	103,547.08	-16%	48%
2016	212,091.82	-1%	87,564.83	-15%	41%
2017	239,811.40	13%	101,523.29	16%	42%
2018	240,854.85	0%	103,700.50	2%	43%
2019	260,767.17	8%	112,570.97	9%	43%

Source: CEIC, PublicInvest Research

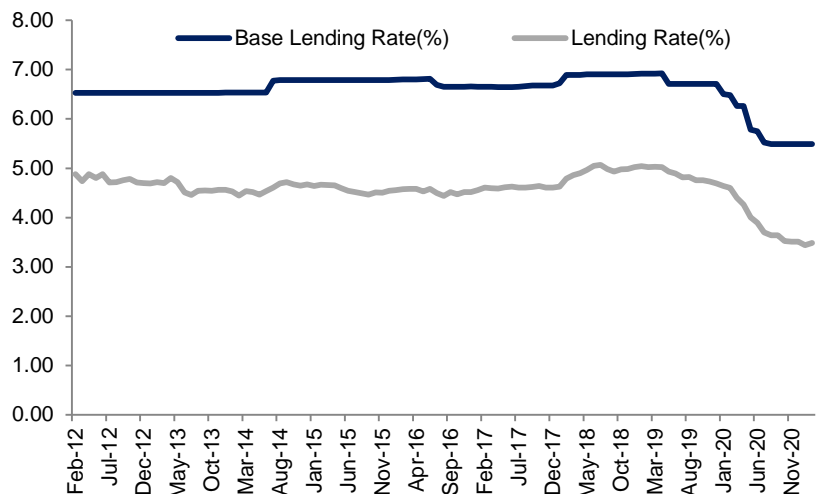
**Figure 2: Residential Mortgage Applications**



Source: Bank Negara Malaysia, PublicInvest Research

**Figure 3: Residential Mortgage Approvals**


Source: Bank Negara Malaysia, PublicInvest Research

**Figure 4: Base Lending Rate and Average Lending Rate**


Source: Bank Negara Malaysia, PublicInvest Research

Property developers are stronger and have proven to be resilient

**Rising from the ashes.** We argue that that property developers have proven their resilience by surviving the pandemic-wrecked crisis which effectively stopped business activities for a few months, and then exacerbated by having to operate with strict standard operating procedures (SOPs). The economic slowdown due to lockdowns had obvious effects of adversely affecting cyclical sectors such as property. Worse, the property sector was just on the cusp of recovery in 2019 before being derailed by the pandemic. Despite the pandemic pains, property developers, especially the bigger names, have proven to be strong and muddled through the crisis. While some developers had written down their assets given the difficult operating environment, this nevertheless puts them on a clean slate to ride on the potential post-pandemic recovery. More importantly, these players had the balance sheet strength to undertake such an exercise despite years of sectoral weakness.

**Competitive industry landscape.** We note that the property sector is now increasingly being consolidated, dominated by a few large property players with land bank that have gross development value (GDV) potentials of almost RM100bn. This is evident by the market share dominated by a few companies that currently focuses on improving quality and cost advantage of scale. Industry concentration is often, although not always, a sign that an industry may have pricing power and rational competition. We estimate that the top 7 developers alone have more than 70% of the market share in Malaysia out of more than 1000 property developers in Malaysia.

**Table 2: Industry Landscape**

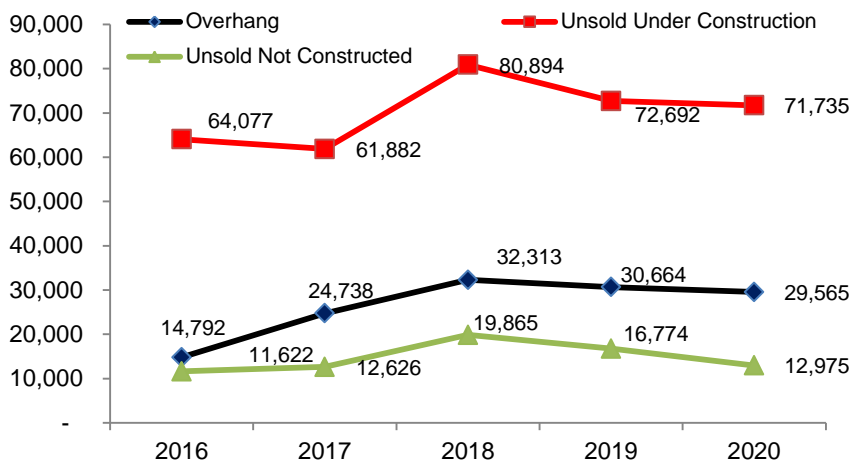
Transactions – Developer and Individual					
	2019	2020			
Residential	15,029	14,710			
Commercial	1,270	1,246			
<b>Total</b>	<b>16,299</b>	<b>15,956</b>			
Yearly Sales (RMm)					
Developer	2019	2020	Avg	Est. market share	
SP Setia	4,012	3,974	3993	24%	25%
Sime Property	3,136	1,981	2559	16%	16%
IOI Property	1,119	1,122	1120	7%	7%
Ecoworld	2,702	2,302	2502	15%	16%
Mah Sing	1,500	1,100	1300	8%	8%
UEM Sunrise	1,134	1,100	1117	7%	7%
LBS Bina	1,630	1,200	1415	9%	9%
<b>Total</b>				<b>86%</b>	<b>88%</b>

Source: NAPIC, PublicInvest Research

Residential overhang situation improved slightly with 29,565 overhang units worth RM18.9bn recorded in Q4 2020, which dropped by 3.6% in volume

**Easing property overhang.** Based on the recent NAPIC data, the residential overhang situation has improved slightly with 29,565 overhang units worth RM18.9bn recorded in 4Q 2020 (with further drop of -0.3% QoQ in 1QFY21), which dropped by 3.6% in volume. Meanwhile the “unsold-under construction” and “unsold-not constructed” numbers also improved, dropping to 71,735 units (2019: 72,692 units) and 12,975 units (2019: 16,774 units), down by 1.3% and 22.6% respectively primarily due to cautious stance by most developers in launching projects. Most were focused on clearing inventories. Separately, 4QCY20 planned supply increased by +0.8% QoQ but -2.6% YoY.

Johor still has the highest number and value of overhang in the country with 7,030 units worth RM5.48bn, accounting for 23.8% and 29.0% respectively of the national total. Meanwhile, Selangor (4,889 units), Perak (3,637 units) and Kuala Lumpur (3,023 units) are among those states with highest overhang. In terms of value, the second highest was Selangor (RM4.29bn), followed by Kuala Lumpur (RM2.92bn) and Perak (RM1.16bn). By type, condominium/apartment formed 51.9% (15,354 units) of the national total overhang, followed by terraced houses (28.1%; 8,306 units).

**Figure 5: Residential Market Status 2016-2020**


Source: NAPIC, PublicInvest Research

**Upgrade to OVERWEIGHT.** We expect the momentum of property sales to continue into 2H2021 (if not better) with the inoculation speed gaining more traction. Based on new launches of late, we note that the appetite for properties is still good, with some launches taken up within days. For example, SP Setia reported that sales for the first quarter of 2021 are encouraging despite the weak market sentiment. Acorus at Setia EcoHill 2, Semenyih was launched via a special online preview which saw its double-storey terrace units (20 ft x 65 ft) fully taken up before the Chinese New Year. Following this success, Acorus 2 was launched in March and we understand that 70% of the units were taken up on the first day of its launch. The latest phase of Setia Alam's Bywater Homes collection in Shah Alam, Plenum, also received overwhelming response from its online launch in mid-March, as all its double-storey units (22 ft x 70 ft) were fully booked within an hour. More recently, Glades of Westlake (RM156m GDV) which is the second last island phase of Setia Eco Glades in Cyberjaya, was launched towards the end of March. The project saw almost 70% of its double-storey semi-detached homes (41 ft x 85 ft) priced from RM1.8m and bungalows (59 ft x 85 ft) priced from RM3.1m booked within just 3 weeks after the launch.

**Undemanding valuations.** The property sector is currently trading at an undemanding 71% discount to book value. Despite generally weaker sentiment in the property market, we believe sentiment toward property stocks will improve once property sales recovers more strongly in 2H2021. We prefer property developers with good sales track record and would benefit more with the established branding to ride on the cyclical recovery. As highlighted earlier, we note that the property sector which used to be fragmented is now getting more concentrated with the big developers such as SP Setia, Sime Property, Ecoworld, IOI Property, Gamuda Land, etc commanding a bigger chunk of the total new sales. These players, we reckon, could benefit the most if the sector rebounds going into next year with their scale advantage and well-located landbank with low holding costs.

For sector exposure, we like SP Setia, EcoWorld, Sime Darby Property, IGB Corporation and LBS Bina. Calls on SP Setia, EcoWorld and Sime Darby Property are upgraded to Outperform. Please refer to the separate company reports for respective investment merits.



**EcoWorld (Outperform, TP RM0.98).** We initiate coverage on Eco World with an Outperform call, ascribing 65% discount to our RNAV estimates of RM2.80. Our TP of RM0.98 effectively prices ECW at 40% discount to its book value and at 11x P/E multiple. We expect the Group to meet its FY21 sales target of RM2.87bn, with sales to recover further to RM3-4bn levels in coming years as the economy recover from the dearth of pandemic-wreaked damage. We do not discount further re-rating of the stock should the Group continues its impeccable track record to scale new heights and ride out of the economic storm.

**SP Setia (Outperform, TP RM1.25).** SP Setia remains the largest property developer in the country with more than 8,500 acres of undeveloped land that has estimated GDV in excess of RM135bn. Earnings visibility is also good, underpinned by unbilled sales of RM10.05bn. Group pre-sales for FY20 was RM3.82bn, surpassing its revised FY20 sales target of RM3.8bn. Our TP is based on an unchanged 0.4x FY21 PBV (-1.5SD of mean). SPSB currently trade at an undemanding valuation of 0.3x/0.3x PBV/PRNAV versus industry's 0.5x/0.4x.

**Sime Darby Property (Outperform, TP RM0.79).** We like Sime Property for its strategically located landbank (at low prices) and its strong balance sheet (net gearing of 0.27x). We believe that after the kitchen-sinking exercise of writing off more than RM550m last year, the Group is emerging stronger with focus on digitalisation and cost & operation efficiency. The Group will also grow its industrial & logistics developments to support new sales for the year. It has total landbank of c.20k acres with GDV in excess of RM80bn.

**IGB (Outperform, TP RM2.70).** We like the company for the long-term attractiveness of its assets. While the proposed listing of its commercial assets have already been approved and is currently underway, other new ventures such as 18@Medini (a mixed development in Iskandar Malaysia), mixed-use development project in Bangkok (6 acres) and the offer for the 1.9-acre land in London are now put on hold due to the current difficult market conditions. Our valuation of RM3.45 is pegged at c.65% discount to our RNAV estimates.

**LBS Bina Group (Outperform, TP RM0.69).** LBS remains an attractive proposition given its entrenched position as a leading player in the domestic mass-market affordable housing segment. Earnings visibility is healthy, underpinned by its strong unbilled sales of RM2bn and its annual sales replenishment rate of ~RM1bn. Our valuation of RM0.69 is pegged at c.50% discount to our RNAV estimates.

## FINANCIAL SUMMARY

Company	Share Price @ 08 Jun (RM)	Mkt Cap (RM m)	EPS (sen)		EPS Growth (%)		P/E (x)		ROE (%)		Div Yield (%)	
			FY21F	FY22F	FY21F	FY22F	FY21F	FY22F	FY21F	FY22F	FY21F	FY22F
Sime Property	0.62	4,216	5.6	4.7	nm	-18	11.1	13.2	3.9	3.2	1.6	3.2
SP Setia	1.09	4,421	10.7	9.5	nm	-11	10.2	11.5	2.7	2.4	2.9	2.9
Ecoworld	0.675	1,987	7.5	8.9	63	19	9.0	7.6	4.5	5.1	4.4	4.4
UEM Sunrise	0.415	2,099	1.5	2.1	nm	37	27.7	19.8	1.0	1.4	1.8	1.8
IGB	2.15	1,946	5.0	14.2	>100	>100	43.0	15.1	1.4	3.6	1.0	1.0
E&O*	0.64	932	1.6	1.9	nm	19	40.0	33.7	1.3	1.6	0.9	1.0
LBS Bina	0.49	769	4.8	4.5	50	-6	10.2	10.9	4.7	4.3	4.4	4.9
I-Berhad	0.30	341	0.2	0.5	197	96	150.0	60.0	0.9	1.7	0.3	0.8
Yong Tai	0.26	350	0.2	0.7	nm	318	130.0	37.1	0.5	1.9	-	-

Source: PublicInvest Research estimates

## RATING CLASSIFICATION

### STOCKS

<b>OUTPERFORM</b>	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
<b>NEUTRAL</b>	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
<b>UNDERPERFORM</b>	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
<b>TRADING BUY</b>	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
<b>TRADING SELL</b>	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
<b>NOT RATED</b>	The stock is not within regular research coverage.

### SECTOR

<b>OVERWEIGHT</b>	The sector is expected to outperform a relevant benchmark over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
<b>UNDERWEIGHT</b>	The sector is expected to underperform a relevant benchmark over the next 12 months.

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