

08 September 2017 | Sector Update

PROPERTY**Maintain POSITIVE*****Improved demand to boost developers sales*****KEY HIGHLIGHTS**

- **Seventh consecutive months of yoy increase in approved loan is an indicator that property developers sales should improve against last year**
- **Property transaction value has improved 8% yoy in 1Q2017**
- **Consumer Sentiment Index has improved in 2Q2017**
- **House Price Index growth is stable at 5.3% in 1Q2017**
- **Maintain POSITIVE with SPSETIA (BUY; TP: RM4.13) as our top pick**
- **Other BUY calls are ECOWLD, IOIPG and E&O**

Seventh consecutive months of yoy increase in approved loan. Based on Bank Negara Malaysia Monthly Statistical Bulletin for July 2017, approved loan for the purchase of property (ALPP) has increased 8% yoy to RM11.3b. The increase is mainly driven by the 24% increase in loan application which implies that demand has improved significantly. Note that the ALPP numbers has shown seventh consecutive months of positive growth yoy and hence we believe that the uptrend of better sales for developers remain intact. For the first seven months of 2017 (7M2017), approved loan grew by 10% yoy to RM74.1b. On a monthly basis, ALPP declined 2% mom but we are not concerned on this as we believe it is due to seasonal factor. In our view, the higher approved loan disbursed into the market is a good leading indicator that property transactions value have increased and hence property developers sales should naturally improve.

Property transaction value has improved 8% yoy in 1Q2017. According to the latest Property Market Report released by National Property Information Centre (NAPIC), Malaysia property market transaction value has improved 8% yoy to RM34.5b in 1Q2017. By segment, the increase is from the property with price range of "RM500k-RM1m" (+7%) and "RM1m and above" (+16%). We believe that this is due to better loan approval rate for buyers for property price above RM500k where buyers tend to have sustainable income stream to support their loan application. We believe that the data reflects demand recovery among consumers due to stable Ringgit and employment outlook. Against 4Q2016, there is decline of 30% qoq in property transaction value but we are not overly concerned as it is due to seasonal factor.

Consumer Sentiment Index has improved in 2Q2017. The latest publication from Malaysian Institute of Economic Research (MIER) shows that 2Q2017 Consumer Sentiment Index (CSI) has improved to 80.7 from 1Q2017's 76.6 and 2Q2016's 78.5. We gather that consumer incomes current and expected incomes are steady and improving. For employment, the outlook is still soft but has been inspiring. We believe that the data suggest that the demand outlook for property among the potential buyers has improved and this should translate to better sales in 2017.

House Price Index growth is stable at 5.3% in 1Q2017. HPI growth remains positive as it grew by 5.3% yoy to 180.9 in 1QCY2017 although it is lower than the 5-year average growth of 9.4%. Among the key states, the highest yoy growth was recorded in Kuala Lumpur (+7.9% to 191.5) and Selangor (+7.0% yoy to 183.1). This is followed by Johor's +5.1% yoy and Penang's +5.1% yoy. We believe that the outlook for property price growth is better in Greater KL (KL and Selangor) due to the support from urbanization factor.


Maintain POSITIVE with SPSETIA (BUY; TP: RM4.13) as our top pick. We like SPSETIA as we expect the Company to join FBMKLCI next year and its good dividend yield of 5.2%. Other BUY calls are ECOWLD (BUY; TP: RM1.80), IOIPG (BUY; TP: RM2.41) and E&O (BUY; TP: RM2.37). We like ECOWLD for its excellent sales achievement and strong branding. For IOIPG, we see better prospect for its property development in Singapore and improving balance sheet following establishment of JV with Hongkong Land for the development of Central Boulevard site. As for E&O, we are positive on the long-term prospect of E&O following the entry of KWAP as strategic investor of STP2A. The entry of KWAP as a strategic investor helps to unlock the value of STP2 project and further ensure the execution of STP2A which is an all-important project to E&O. 

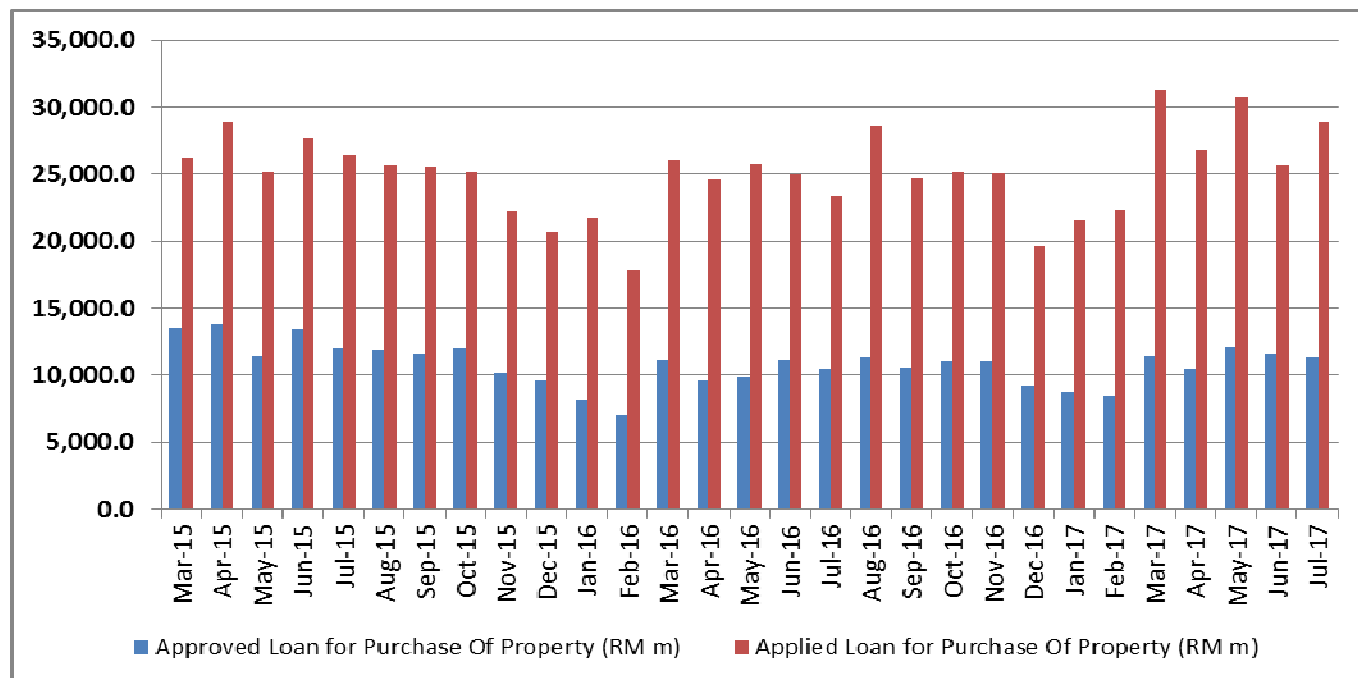
Table 1: Peers Comparison

Stock	FYE	Rec.	Price @ 7-Sep	Tgt Price (RM)	Core EPS (sen)		Core PE (sen)		Net Dvd Yield	
					17/18	18/19	17/18	18/19	17/18	18/19
E&O	Mar	BUY	1.64	2.37	2.64	6.44	62.1	25.5	1.2	1.6
IOIPG	Jun	BUY	2.09	2.41	20.91	15.83	10.0	13.2	2.9	2.9
ECOWLD	Oct	BUY	1.56	1.80	3.06	8.72	51.0	17.9	0.0	0.0
SPSETIA	Dec	BUY	3.63	4.13	27.55	27.01	13.2	13.4	5.1	5.2
MAHSING	Dec	NEUTRAL	1.48	1.59	15.67	16.54	9.4	8.9	3.9	4.1
SUNWAY	Dec	NEUTRAL	4.40	4.26	26.95	29.28	16.3	15.0	2.8	3.1
UEMS	Dec	NEUTRAL	1.19	1.24	5.30	4.39	22.5	27.1	0.9	1.0
UOADEV	Dec	NEUTRAL	2.60	2.80	26.67	29.11	9.7	8.9	5.8	5.8
MAGNA	Dec	NEUTRAL	1.38	1.59	2.16	5.12	63.9	27.0	0.5	1.5

Source: MIDF Research Estimate

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Chart 1: Applied and approved loan for the purchase of property



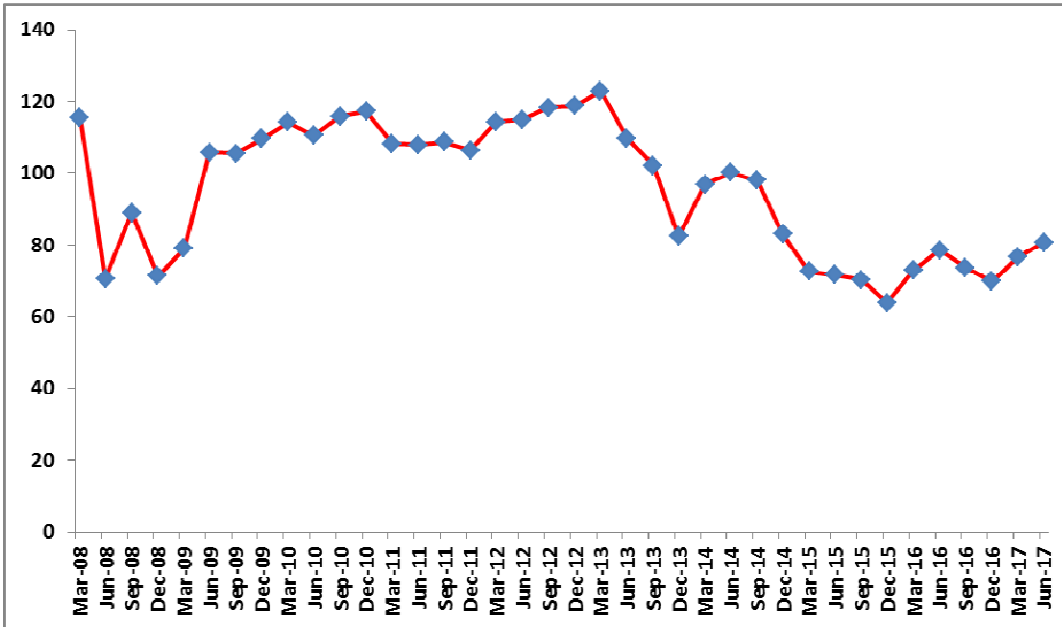
Source: Bank Negara, MIDF Research Compilation

Table 2: Property Transaction Value and Volume

Quarter	Transaction Value (RM m)	Transaction Volume, unit
1Q15	38,956	93,490
2Q15	37,616	92,917
3Q15	37,513	85,889
4Q15	35,813	89,809
1Q16	31,982	80,008
2Q16	32,900	83,516
3Q16	30,968	76,392
4Q16	49,558	80,509
1Q17	34,523	76,163
Change, yoy (1Q17 vs 1Q16)	7.9%	-4.8%
Change, qoq (1Q17 vs 4Q16)	-30.3%	-5.4%

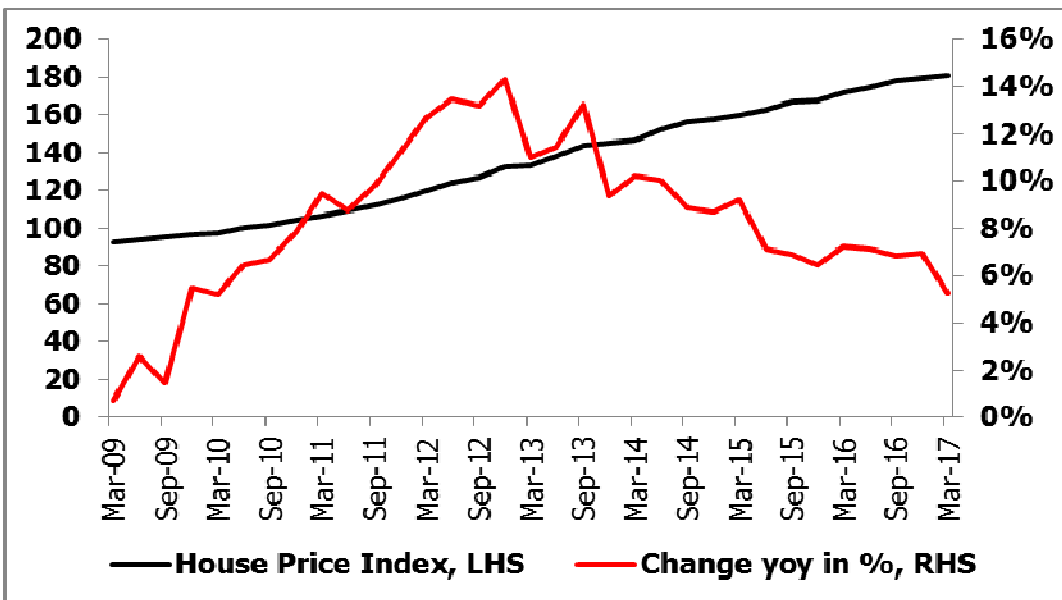
Source: NAPIC, MIDF Research Compilation

Chart 2: Consumer Sentiment Index has improved



Source: Bank Negara, MIDF Research Compilation

Chart 3: Malaysia House Price Index



Source: NAPIC, MIDF Research Compilation

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.