

PROPERTY

Upgrade to POSITIVE
(Previously NEUTRAL)

Improving property overhang

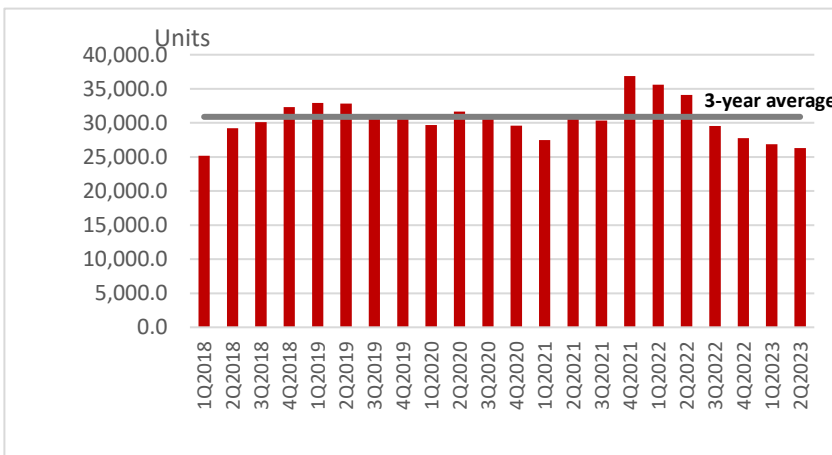
KEY INVESTMENT HIGHLIGHTS

- Residential overhang at lowest level since 2QCY18
- Downtrend in residential overhang in Johor and Penang
- Marginal improvement in serviced apartment overhang
- Lower inventory level of property companies
- Unchanged OPR a boon to the sector
- Upgrade Property sector to POSITIVE from NEUTRAL with positive bias rating previously

Residential Overhang

Residential overhang at lowest level since 2QCY18. According to data released by National Property Information Centre (NAPIC), residential overhang declined to 26,286 units in 2QCY23 from 26,872 units in 1QCY23. Note that residential overhang surged to peak of 36,863 units in 4QCY21 due to Covid-19 pandemic and started to decline since 1QCY22. Residential overhang declined for the sixth consecutive quarter in 2QCY23 and was at lowest level since 2QCY18. The residential overhang in 2QCY23 was below the 3-year average of 31,000 units. The decline in residential overhang was due to renewed buying interest on property after reopening of Malaysia's international borders.

Figure 1: Residential overhang in Malaysia



Source: NAPIC, MIDF Research

Johor has the highest residential overhang in 2QCY23. Among states in Malaysia, Johor has the highest residential overhang of 4,717 units, followed by Selangor at 4,307 units, Perak at 3,333 units, KL at 3,173 units, and Penang at 2,901 units. In terms of price range of residential overhang, properties priced between RM200k-RM300k made up the highest residential overhang at 4,262 units, followed by properties priced above RM1m at 4,045 units and properties priced between RM300k-RM400k at 3,811 units. In a nutshell, affordable properties priced below RM500k made up more than half of residential overhang in 2QCY23, contributing to 52% of total residential overhang.

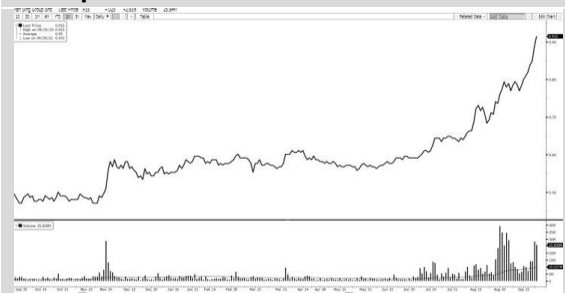
COMPANY IN FOCUS

Mah Sing Group Berhad

Maintain **BUY** | Revised Target price: RM1.01
Price @ 25th Sept 2023: RM0.915

- Higher earnings in 1HFY23 due to higher revenue recognition from ongoing projects.
- Active land acquisition supports new property sales outlook.
- Setting up JV for industrial development due to strong demand for industrial assets in Malaysia.

Share price chart

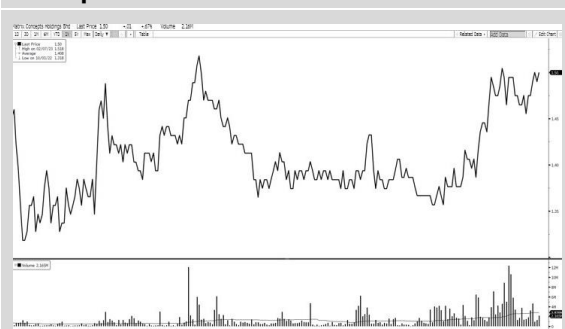


Matrix Concepts Holdings Berhad

Maintain **BUY** | Revised Target price: RM1.86
Price @ 25th Sept 2023: RM1.50

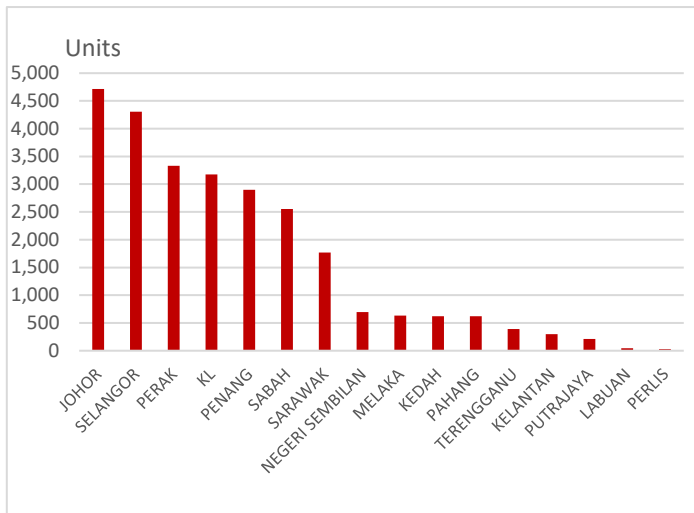
- Encouraging property sales from Bandar Sri Sendayan due to offering of affordable landed homes.
- Better earnings outlook for FY24 and FY25 as construction progress at project sites normalizes.
- Attractive dividend yield of 6.5% based on dividend forecast of 9.8sen.

Share price chart



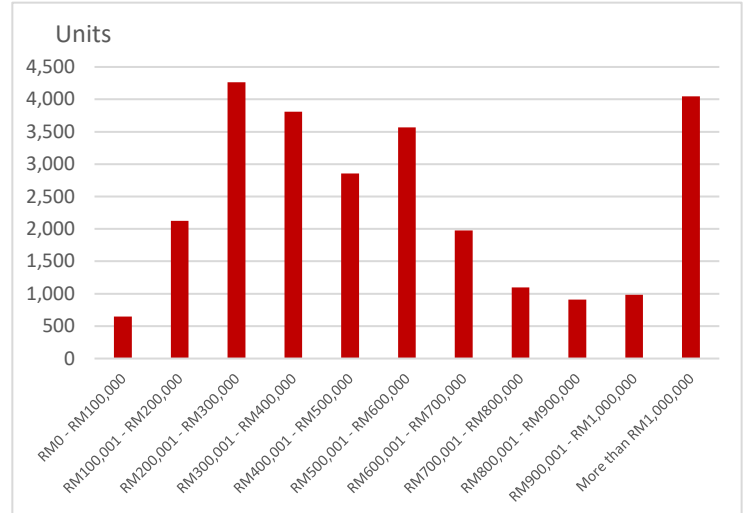
Analyst(s)
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Figure 2: Residential overhang by states



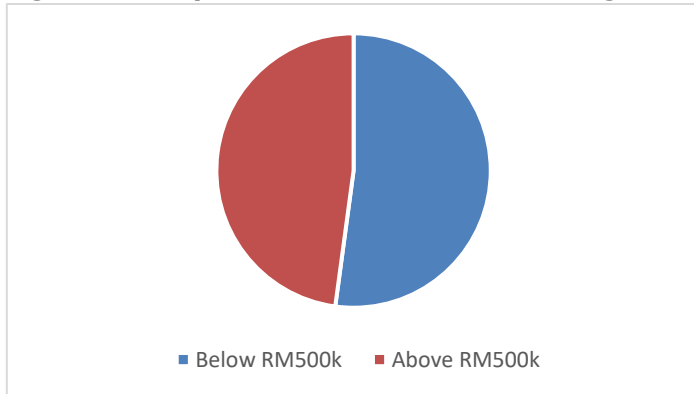
Source: NAPIC, MIDF Research

Figure 3: Residential overhang by property price



Source: NAPIC, MIDF Research

Figure 4: Composition of residential overhang

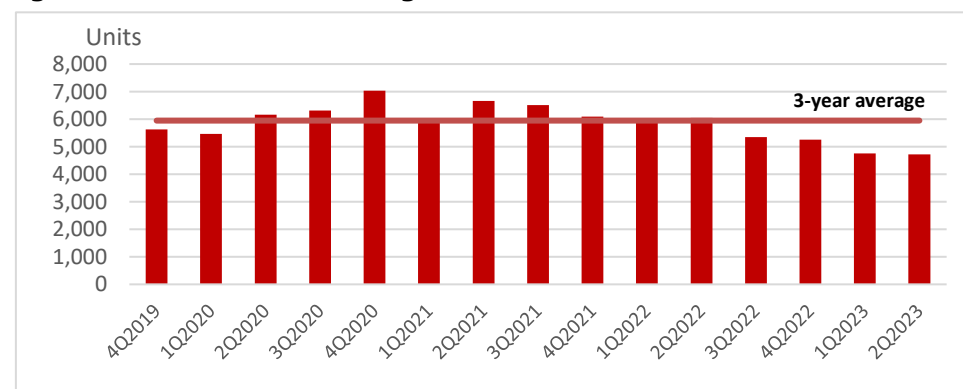


Source: NAPIC, MIDF Research

Residential overhang in Johor

Residential overhang in Johor declined for the fourth consecutive quarter in 2QCY23 to 4,717 units from 4,759 units in 1QCY23 and 6,040 units in 2QCY22. Note that residential overhang spiked to above 7,000 units in 4QCY20 due to Covid-19 pandemic and that sparked the concern of residential oversupply in Johor. Residential overhang in Johor is improving as total overhang units of 4,717 units in 2QCY23 was well below the 3-year average of 5,947 units. Johor Bahru in Johor contributed to the highest number of residential overhangs at 3,597 units which were largely made up by condominium/apartment.

Figure 5: Residential overhang in Johor

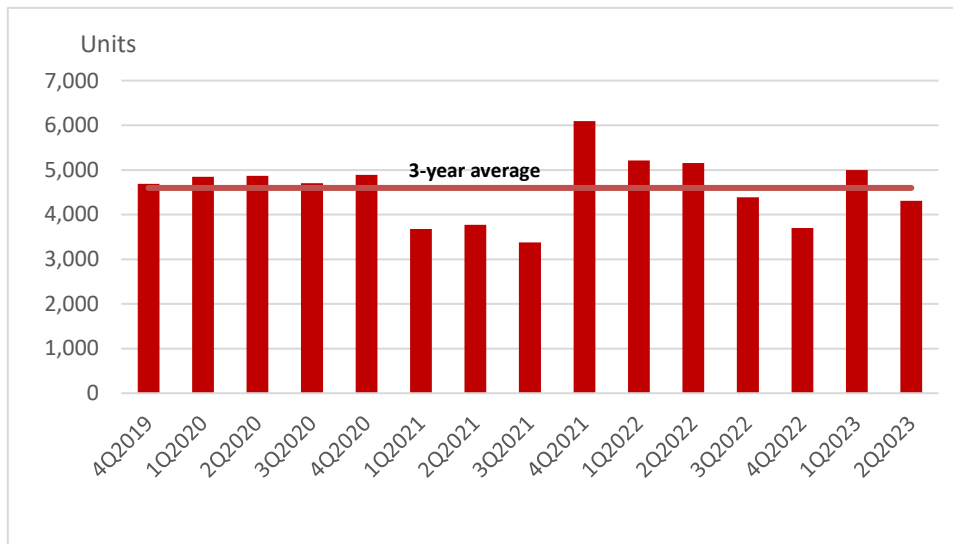


Source: NAPIC, MIDF Research

Residential overhang in Selangor

Residential overhang in Selangor showed patchy recovery in 1HCY23 as residential overhang spiked to 4,995 units in 1QCY23 before tapering to 4,307 units in 2QCY23. Residential overhang in Selangor remains elevated as it stays above 4,000 units level and higher than residential overhang of 3,698 units in 4QCY22. Nevertheless, residential overhang in 2QCY23 of 4,307 units was below the 3-year average of 4,597 units, showing improving residential overhang in Selangor. Gombak in Selangor had the highest residential overhang of 1,452 units followed by Kuala Selangor at 902 units and Petaling at 757 units. Most of the residential overhang in Selangor were condominiums and apartment.

Figure 6: Residential overhang in Selangor

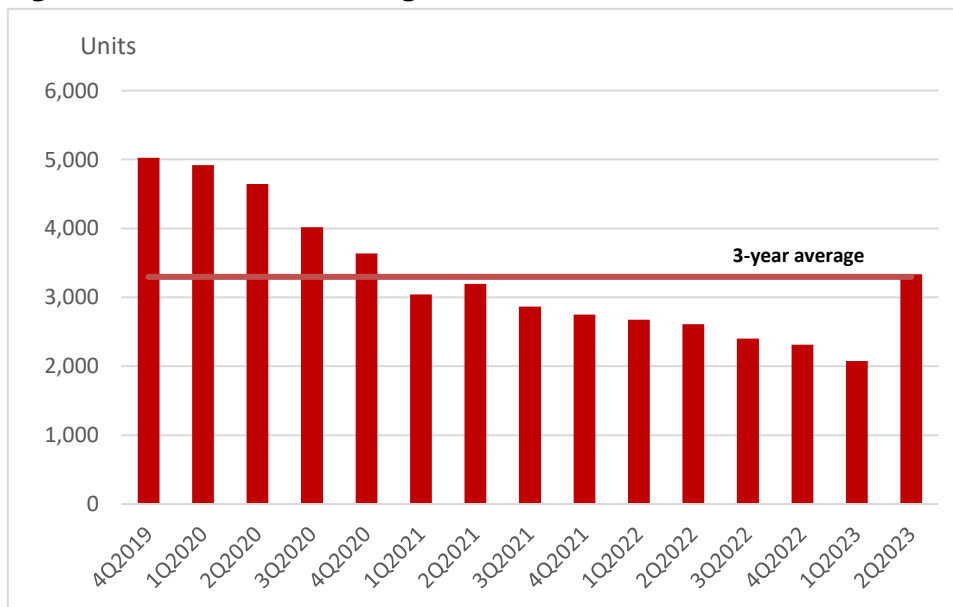


Source: NAPIC, MIDF Research

Residential overhang in Perak

Residential overhang in Perak worsened in 2QCY23 as the residential overhang surged to 3,333 units in 2QCY23 from 2,074 units in 1QCY23. The figure was also higher than 2,611 units of residential overhang in 2QCY22. Residential overhang spiked to the highest level since 2021 and above the 3-year average of 3,297 units due to jump in residential overhang in Manjung. Note that residential overhang in Manjung surged to 1,736 units in 2QCY23 from 467 units in 1QCY23.

Figure 7: Residential overhang in Perak

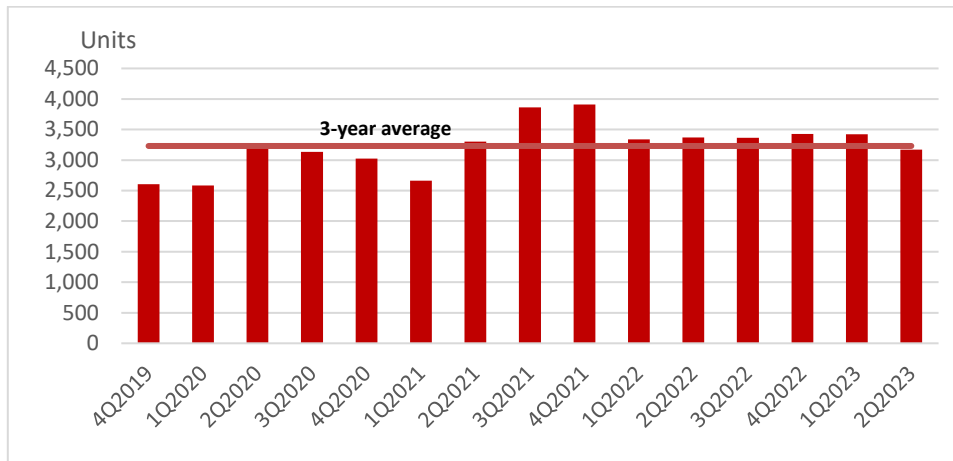


Source: NAPIC, MIDF Research

Residential overhang in Kuala Lumpur

Residential overhang in KL improved marginally to 3,173 units in 2QCY23 from 3,423 units in 1QCY23. Residential overhang in KL came off from peak of 3,908 units in 4QCY21 and subsequently hovered around 3,300 units level in the past few quarters. In short, residential overhang in KL was subdued in the recent years as residential overhang stayed flat and climbed above 3,400 units in 4QCY22. Nevertheless, residential overhang improved marginally to below the 3-year average of 3,231 units which may indicate improving residential overhang in KL. Seksyen 1-100 in KL contributed to the highest residential overhang of 880 units, followed by Petaling at 8,14 units.

Figure 8: Residential overhang in KL

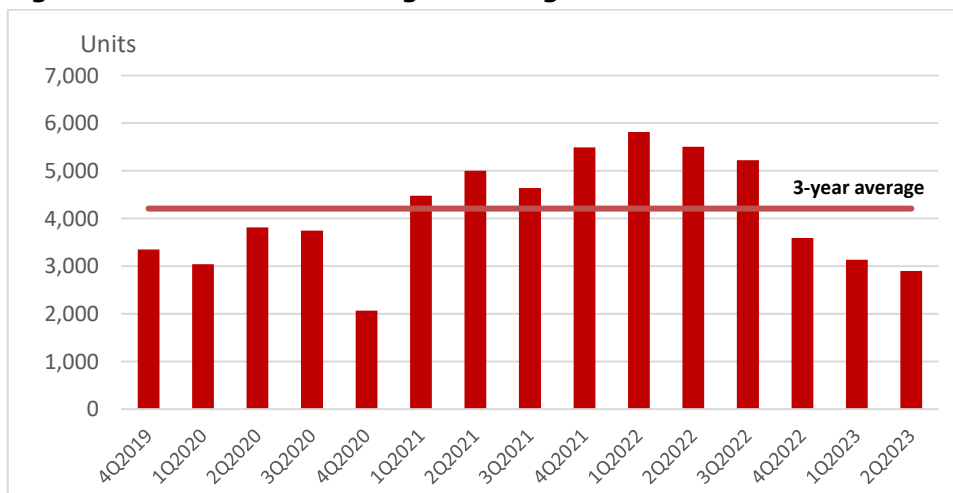


Source: NAPIC, MIDF Research

Residential overhang in Penang

Residential overhang in Penang had improved as residential overhang fell for the fifth consecutive quarter in 2QCY23. Residential overhang in Penang eased to 2,901 units in 2QCY23 from 3,138 units in 1QCY23. Residential overhang in Penang showed significant improvement in 4QCY22 as it dropped sharply to 3,593 units from 5,222 units in 3QCY22 amid reopening of international borders. We see easing concern about residential overhang in Penang as it is well below the 3-year average of 4,208 units. Timur Laut in Penang contributed the highest residential overhang which made up largely by condominium and apartment.

Figure 9: Residential overhang in Penang



Source: NAPIC, MIDF Research

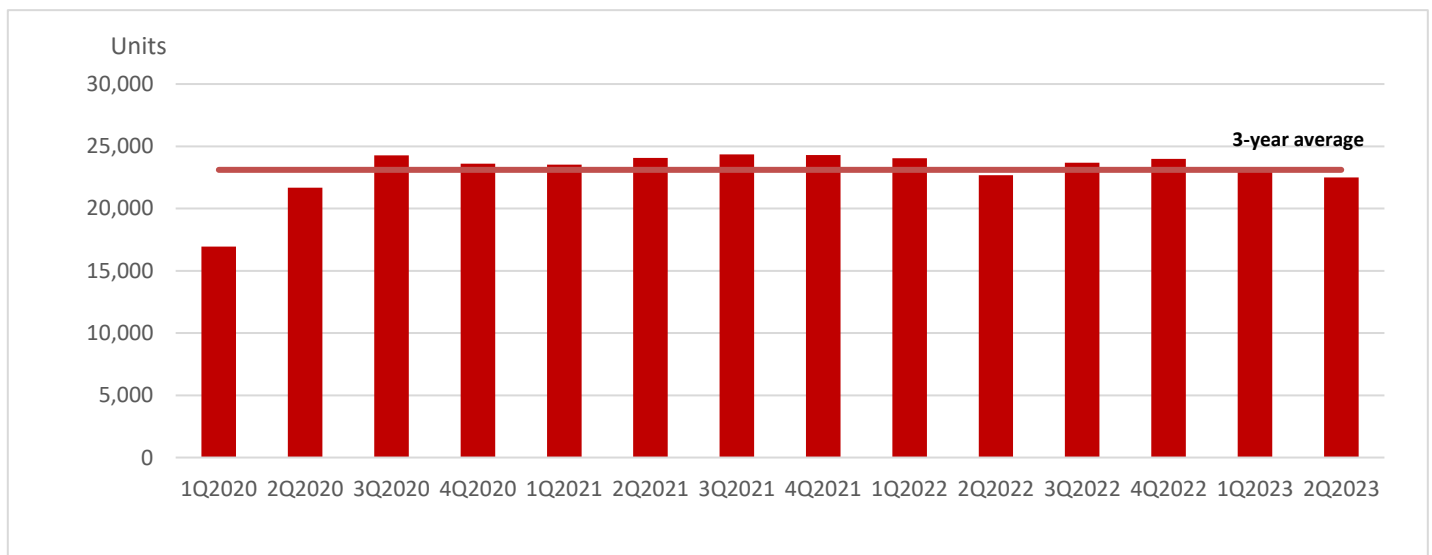
Conclusion

Among the top five states with highest residential overhang in 2Q2023, **Penang and Johor** showed downtrend in residential overhang. Meanwhile, residential overhang in Selangor and KL improved marginally while residential overhang has worsened in Perak.

Serviced Apartment Overhang

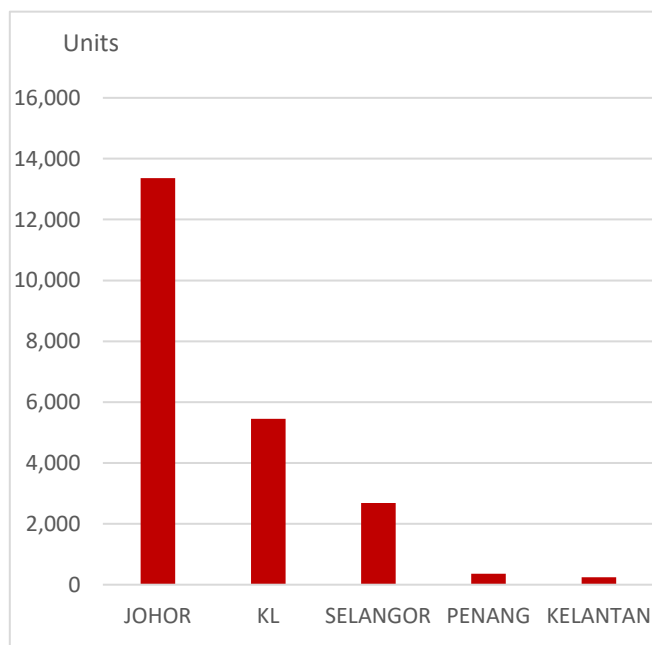
Marginal improvement in serviced apartment overhang. According to data released by NAPIC, overhang in serviced apartment in Malaysia eased to 22,497 units in 2QCY23 from 23,267 units in 1QCY23. Overhang in serviced apartments spiked to peak of 24,267 units in 3QCY20 from 16,942 units in 1QCY20 due to Covid-19 pandemic. Nevertheless, overhang in serviced apartment has not recovered significantly post reopening of international borders as number of overhang units hovered above 20k and around 3-year average of 23k units. Most of the serviced apartment overhang in Malaysia were located in Johor which contributed to 13,366 units, followed by KL which contributed 5,450 units. Meanwhile, serviced apartment priced above RM1m contributed to the highest number of overhangs.

Figure 10: Serviced apartment overhang in Malaysia



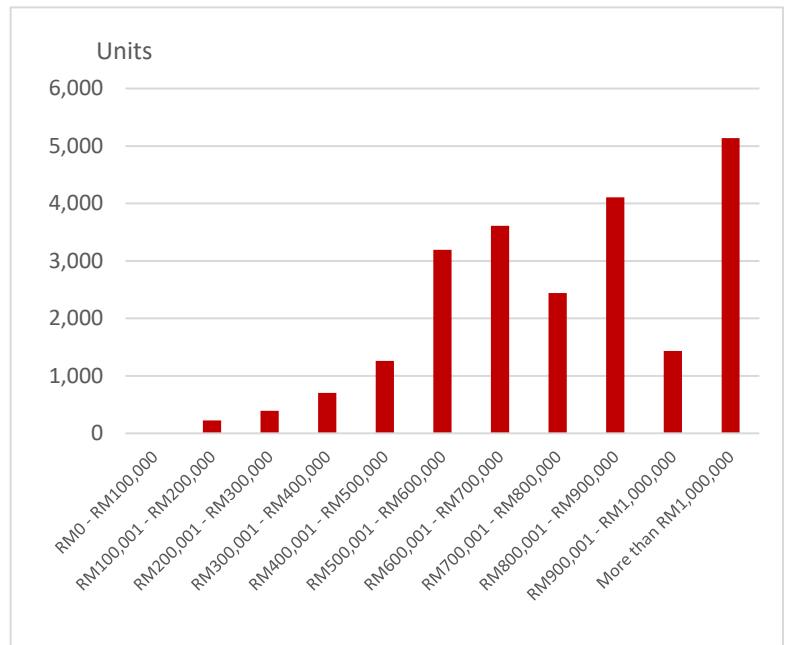
Source: NAPIC, MIDF Research

Figure 11: Serviced apartment overhang by state



Source: NAPIC, MIDF Research

Figure 12: Serviced apartment overhang by price

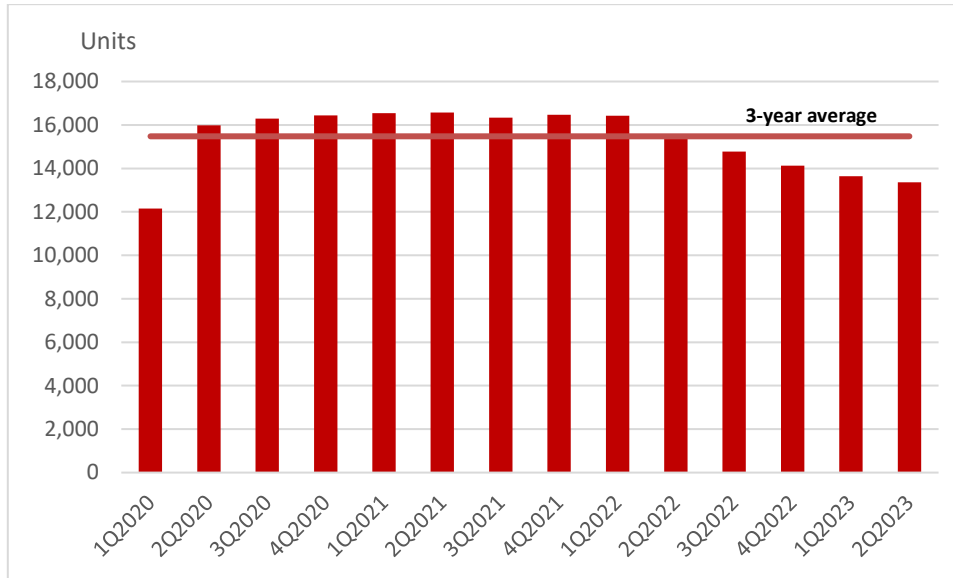


Source: NAPIC, MIDF Research

Serviced apartment overhang in Johor

Serviced apartment overhang in Johor has shown a declining trend as it fell for fifth consecutive quarter in 2QCY23. Serviced apartment overhang in Johor fell to 13,366 units in 2QCY23 from 13,638 units in 1QCY23 and 15,423 units in 2QCY22. Note that serviced apartment overhang hovered around 16,000 units during Covid-19 pandemic and started to ease post reopening of international borders which saw renewed buying interest from foreigners. Meanwhile, serviced apartment overhang remained below 3-year average in the past one year, signaling improving overhang situation for serviced apartment in Johor.

Figure 13: Serviced apartment overhang in Johor

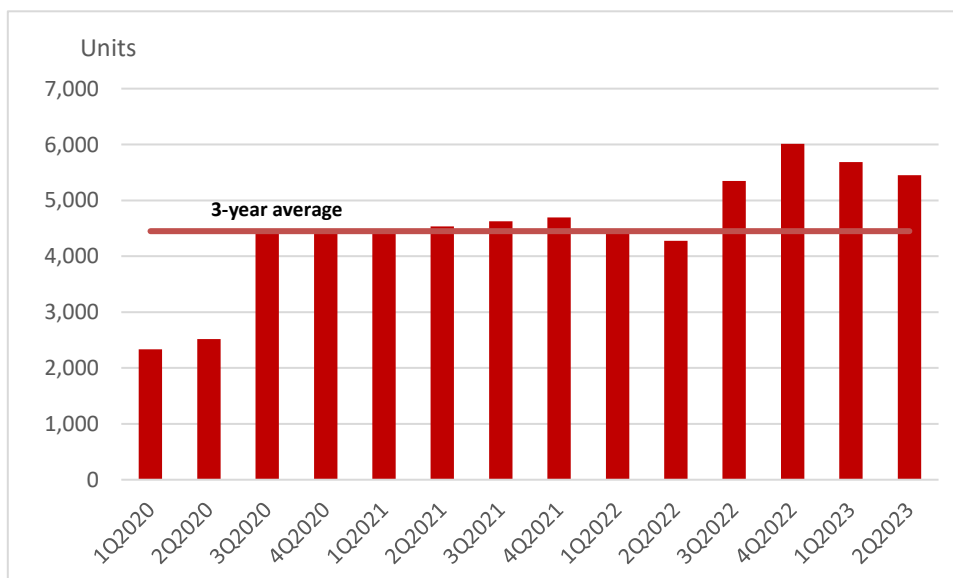


Source: NAPIC, MIDF Research

Serviced apartment overhang in KL

Serviced apartment overhang in KL remained elevated at above 5,000 units in 2QCY23. Serviced apartment overhang in KL spiked to 6,012 units in 4QCY22. Subsequently, serviced apartment overhang eased to 5,450 units in 2QCY23 from 5,686 units in 1QCY23. Overall, we see a challenging outlook for serviced apartment in KL as serviced apartment overhang remained above the 3-year average in the past one year which signal persisting oversupply situation.

Figure 14: Serviced apartment overhang in KL

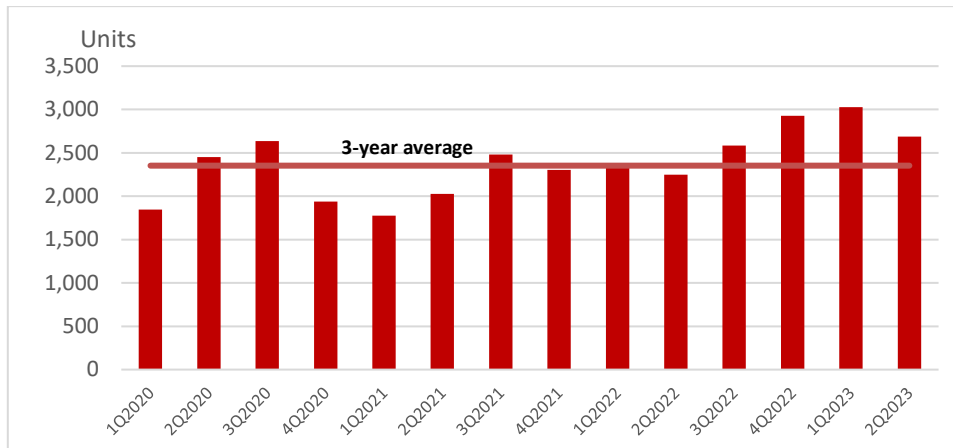


Source: NAPIC, MIDF Research

Serviced apartment overhang in Selangor

Serviced apartment overhang in Selangor eased to 2,689 units in 2QCY23 from 3,029 units in 1QCY23. Serviced apartment overhang in Selangor remains high despite the drop in 2QCY23 as the number of overhang units increased for three consecutive quarters from 3QCY22 to 1QCY23. Meanwhile, serviced apartment overhang remained above 3-year average which signals oversupply of serviced apartment in Selangor.

Figure 15: Serviced apartment overhang in Selangor



Source: NAPIC, MIDF Research

Conclusion:

Despite serviced apartment overhang in Malaysia remained elevated at above 20k units, the marginal declines in the past two quarters indicated marginal improvement. Meanwhile, the flattish figures of serviced apartment overhang in the recent quarters were mainly due to rise in serviced apartment overhang in KL and Selangor which mitigated the lower serviced apartment overhang in Johor.

Inventory level of property companies

Lower inventory level of property companies. The declining residential overhang in Malaysia is in line with the lower inventory level of property companies as property companies had been actively monetize inventories in the past few years. The inventory monetization is to generate cash flows amid challenging operating environment due to Covid-19 pandemic. Notably, inventories of Eco World Development fell significantly by 58% in 2QCY23 since 2019. Similarly, Mah Sing Group, S P Setia and Glomac saw double digit decline in inventory. We think that the declining inventory level of property companies would improve financial position of property companies and give better pricing power to property companies in term of new launches going forward.

Figure 16: Inventory of property companies

Company	Inventory CY19 (RM m)	Inventory 2QCY23 (RM m)	Changes (%)
ECOWLD	583.6	247.1	-58%
GLOMAC	126.1	90.4	-28%
SPSETIA	1469.2	1089.9	-26%
MAHSING	763.3	579.3	-24%
MATRIX	661.8	625.0	-6%
UOADEV	1451.3	1374.1	-5%
IOIPG	2133.5	2413.5	13%
SUNWAY	2102.1	3330.9	58%

Source: Company, MIDF Research

Overnight Policy Rate (OPR)

Unchanged OPR a bone to sector. Bank Negara Malaysia (BNM) kept OPR unchanged at 3% in July and September 2023 meeting. Unchanged OPR is positive to the sector as that will keep buying interest on property supported. Recall that property market was hit by four consecutive OPR hikes in 2022 which dampened buying sentiment on properties. We estimate that every 25bps increase in interest rate to increase monthly instalment by RM60-RM70 for house loan of RM500k. Looking ahead, our in-house economist forecasts that OPR to remain unchanged for the rest of this year which is positive to property sector. We think that the unchanged OPR should bode well for recovery in demand for property for the rest of 2023 and 2024.

Sector Call


Upgrade to POSITIVE from NEUTRAL (with positive bias) previously on property sector. We upgraded our call on the property sector to **POSITIVE** from **NEUTRAL (with positive bias)** previously due to the improving outlook for property sector amid downtrend in property overhang and inventory level of property companies. Besides, unchanged OPR is positive to property companies as that supports recovery in demand for property. In view of the improving outlook for the property developers, we are narrowing our RNAV discount and target prices for property companies under our coverage (refer to figure 17). Post adjustment to valuation, our calls for property companies remained unchanged. **Our top picks for the sector are Mah Sing Group (BUY, TP: RM1.01) and Matrix Concepts (BUY, TP: RM1.86)** as we remain sanguine on property developers that focus on mid-market and affordable segment amid resilient demand for affordable homes. **We also like S P Setia (BUY, TP: RM1.25), Glomac Berhad (BUY, TP: RM0.52) and IOI Properties Group (BUY, TP: RM1.94)** as its valuation remains undemanding. 

Figure 17: Stock calls and revised target prices

Stock	Rec.	Price @ 25-Sept-2023	Previous Target Price (RM)	Revised Target Price (RM)	RNAV discount	Core EPS (sen)		Core PER (x)		Net DPS (sen)		Net Dvd Yield		P/NTA (x)
						FY23F	FY24F	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F	
MAHSING	BUY	0.915	0.90	1.01	55%	8.5	9.7	10.8	9.4	3.4	3.9	3.7%	4.3%	0.61
SPSETIA	BUY	1.02	1.04	1.25	70%	7.0	8.1	9.2	7.9	1.6	1.7	2.5%	2.6%	0.29
IOIPG	BUY	1.69	1.79	1.94	62%	12.7	16.0	13.3	10.5	5.0	5.0	3.0%	3.0%	0.42
GLOMAC	BUY	0.39	0.47	0.52	70%	4.1	5.3	9.5	7.4	1.3	1.5	3.2%	3.8%	0.25
MATRIX	BUY	1.50	1.81	1.86	23%	17.6	20.4	8.5	7.3	8.50	9.80	5.7%	6.5%	0.94
ECOWLD	NEUTRAL	1.07	1.07	1.14	50%	9.1	9.0	11.8	11.9	6.0	6.0	5.6%	5.6%	0.65
UOADEV	NEUTRAL	1.73	1.65	1.79	35%	8.8	9.0	19.7	19.2	30.0	10.0	17.3%	5.8%	0.74
SUNWAY	NEUTRAL	1.99	1.71	1.81	20%	10.2	10.5	19.5	19.0	5.5	5.5	2.8%	2.8%	0.95

Source: Company, MIDF Research

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
HOLD	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% 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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology