



## Greater demand seen for affordable residential property

### Property sector

**Maintain neutral:** Overall, the combined forecasted financial year 2019 (FY19F) new property sales targets for the six property developers under our coverage (based on the companies' sales guidance) were lower than their combined FY18 new property sales targets as well as their combined FY18 actual new property sales.

This signals that the property market outlook remains soft, in our view. We also observe that the bigger developers, except Sime Darby Property Bhd, slightly missed their respective FY19F new sales targets versus smaller mass market players, such as Mah Sing Group Bhd and LBS Bina Group Bhd. This could be due to the higher price points for the products offered by the bigger developers, in our view. As of the third quarter of 2019 (3Q19), total residential property transactions by value rose 2.1% year-on-year (y-o-y), according to National Property Information Centre data.

Transaction value for residential units priced between RM150,000



An artist's impression of Rose Garden residential homes in Eco Spring, Iskandar Malaysia, Johor by EcoWorld. Not much downside risk is seen for the property sector.

and RM200,000 increased the most by around 13% y-o-y, followed by residential units priced between RM250,000 and RM300,000, while residential properties priced above RM1 million recorded a 16% y-o-y decline in transaction value.

This proves that demand for the more affordable properties is greater at the moment. Nonetheless, 3Q19 residential transaction value growth was slower versus 2Q19's 9.5% y-o-y.

As of September, property stocks under our coverage recorded a 47% y-o-y core earnings growth. This was mainly driven by stronger earnings from Eco World Development Group Bhd (EcoWorld), Eco World International Bhd, Sime Darby Property and UEM Sunrise Bhd, where the bulk of the profits was derived from overseas operations, except for Sime Darby Property. However, given the downtrend in new property sales

since FY17, property counters' future earnings performance could be negatively impacted.

We think the sector's upside is capped by affordability issues, slower gross domestic product (GDP) growth and high levels of unsold stock. Our economists have lowered Malaysia's 2019 GDP growth forecast to 4.5% (from 4.7% previously) and retained their projection for a sustained moderation to 4.4% in 2020F as headwinds to investment and in the export-oriented sectors remain formidable. We do not see much downside risk for the property sector either given that the Kuala Lumpur Property Index is currently trading at 0.5 times price-to-book value (P/BV), around two standard deviations (SD) below its historical 10-year P/BV of 0.75 times.

We maintain "neutral". Sime Darby Property remains our top pick for its: i) improving new property sales trend; ii) solid balance sheet (net gearing of 0.3 times as at September); and iii) massive land bank to cater to future demand. — CGS-CIMB Research, Dec 5