

16 JAN, 2020

Property demand to recover slowly

The Sun



Property demand to recover slowly

► Market conditions to remain challenging on affordability issues and weak sentiment, says Affin Hwang

PETALING JAYA: Property demand is expected to see a slow recovery in 2020 given affordability issues and weak market sentiment, said Affin Hwang Capital.

It expects the property sector's core earnings per share (EPS) to rebound 6% year on year (yoy) in 2019 from a low base after an 18% y-o-y contraction in 2018. It said sustained revenue growth and a slow recovery in profit margins should drive core EPS growth of 7% yoy in 2020.

"We believe most property developers' financial positions improved with lower inventories reducing average net gearing to

0.38 time in 2019 from 0.40 time in 2018. The moderate net gearing level will allow most developers to weather the current industry slowdown," the research house said in a report yesterday.

Affin Hwang expects most property developers to report weaker sales in 2019 with fewer new property launches, but noted that most property companies' focus on reducing inventories over the past two years has paid off with the property overhang easing in 2019.

It believes property sales peaked in 2018 and started to ease in 2019 for most property developers. Several property developers

including SP Setia Bhd cut their sales targets due to the challenging local property market conditions like weak demand and stiff competition. However, the Home Ownership Campaign's (HOC) stamp duty waiver extension to end-2019 supported the recovery in housing demand.

"We believe the Budget 2020 measures to liberalise foreign ownership of condominiums and serviced apartments, introduce a government-supported Rent-to-Own scheme and recalibrate the Real Property Gains Tax will sustain the recovery in 2020."

The residential property overhang fell 3.8% to 31,092 units in the first nine months of 2019, representing 25.7% of total units launched, while the total value of overhang units fell 5.5% to RM18.77 billion as at end of Q3 2019. The HOC generated total sales of RM23.2 billion in 2019, surpassing the government's initial target

of RM17 billion.

"We believe overhang units fell further in Q4 2019, driven by last-minute buying to benefit from the HOC stamp duty waiver. Similarly, aggregate inventories for the property developers under our coverage fell 11% year to date to RM19.5 billion at end-Q3 19."

Affin Hwang reiterated its neutral call on the property sector as market conditions remain challenging. This is reflected in the current low sector valuations with average 2020 core price-to-earnings ratio of 13 times and price-book of 0.6 times.

"This may spark an industry consolidation or major shareholders taking property companies private. We prefer developers with overseas property exposure and strong financial position," it said, adding that the top buys are Sunway Bhd, IOI Properties Group Bhd and UOA Development Bhd.