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The Malaysian Reserve

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by S BIRRUNTHA

THE Malaysian property market outlook remains challenging and likely to see a marginal recovery in 2020 on the backdrop of unabated affordability issues and weaker sentiment dragging the market.

Affin Hwang Capital Research, in its latest property report, stated that although residential property prices are expected to remain flat in 2020, gradual price increase experienced in the segment from 2016 to 2018 is expected to shrink affordability in 2020, relative to household incomes growth.

The absence of stamp duty waivers under the Home Ownership Campaign (HOC) that ended in 2019 and tighter bank lending to buyers would further add pressure to the property sector this year.

"We remain cautious about the property sector outlook as market conditions remain challenging.

"We believe the measures stated in Budget 2020 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," it said.

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The recovery will be supported by higher revenue and profit margins with muted sector core earnings per share growth of 6% year-on-year (YoY) in 2019 and 7% YoY in 2020.

The investment bank also stated that several developers such as Gamuda Bhd, Sunway Group and EcoWorld Development Group Bhd have been provided guidance on 2020 target sales and are more optimistic about sales growth.

"Gamuda (mainly Vietnam), Sunway and IOI Properties Group Bhd (Singapore and China) are expecting more overseas project launches and higher proportions of overseas contributions to drive sales growth.

"We gather that most developers remain cautious on the local property sales," it added.

An indication for this is large listed companies that registered negative earnings growth in the past few years are likely to keep tabs on employee salary increments to control cost.

"Weak property price appreciation continues to put pressure on property developers' profit margins as they are not able to fully pass on rising construction and compliance costs.

"Higher inventory sales and new launches will drive revenue and profit growth.

"Property developers with a relatively low land cost for its matured township development projects such as IOI Properties, SP Setia bhd and Sime Darby Property Bhd, should be able to weather the weak market and remain competitive in pricing to sustain sales," the bank said.

However, developers such as IOI Properties, Sunway and UOA Development Bhd are expected to continue seeing top buys in the property market.

"We also like Sunway as it is a conglomerate with half of its earnings contributed by service-oriented businesses such as hospitals and construction.

"IOI Properties and Sunway also have overseas projects that will drive stronger sales and earnings growth from 2020 to 2021," it said.