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Affordable residential launches to drive market

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by PRIYA VASU

Pic by Muhd Amin Naharul

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LOCAL property sector's outlook remains challenging in the next 12 months.

AmInvestment Bank Bhd (AmInvest) research analyst Thong Pak Leng said while most developers had achieved their new sales targets, the numbers were lower year-on-year whereby nine-month sales were down by about 22% compared to the previous year due to the lacklustre market and the impact of the Covid-19 pandemic.

"We are maintaining our 'Neutral' view on the property sector as we do not expect to see surprises in earnings over the next 12-18 months," said Thong.

He said instead, developers are more aggressive in clearing unsold units by offering discounts with the inventory levels on a declining trend, which will result in a positive move to realise cashflow.

Thong added that property companies with overseas exposure will perform better in certain segments in the current market condition.

"We believe developers with overseas exposure will do better in the medium term, especially in China and Singapore.

"Sunway Bhd and IOI Properties Group Bhd are well positioned in this area, and their property launches have been generally well received both locally and overseas," said Thong.

The research outfit expects there will be some landbanking activities, especially small pockets of land which have close proximity to the Kuala Lumpur City Centre, major expressways and the mass rapid transit/light rail transit.

"We believe high-rise development around these areas provide good connectivity, hence convenience for homebuyers.

"For example, Sunway and Mah Sing Group Bhd have embarked on landbanking in the past two years, applying such strategy," said Thong.

The affordable property segment is expected to perform well, driven by resilient demand, especially from young professionals and families due to continued urbanisation.

Thong said priority to develop affordable housing is well reflected by the majority of local property developers who have shifted their focus from higher-end products to affordable products.

Mah Sing, for example, has begun building residential properties under RM600,000 for more than three years.

The company rolled out four key projects in the past 12 months with starting prices below RM500,000, Thong noted.

Scientex Bhd has several projects largely in the southern region of Peninsular Malaysia, offering residential properties (landed and high-rise) between RM200,000 and RM350,000.

Crest Builder Holdings Bhd, meanwhile, is planning to build residential apartments in Klang, Selangor, with starting prices below RM300,000, scheduled for launching in the first half of 2021.

Thong added that despite development made in that segment, consumer sentiment towards the market remains weak.

"Most developers remain cautious and are still assessing the economic situation before deciding to continue or defer future launches.

"We believe consumer sentiment shall remain weak for the time being with spending mainly focused on necessities, while big-ticket items, such as properties, will take a back seat," said Thong.

However, on a positive side, AmInvest expects the reintroduction of Home Ownership Campaign and full stamp duty exemptions on both instruments of transfer and loan agreement for the purchase of property worth up to RM500,000 to generate buying interests.

Thong has reduced the discount to revalued net asset value by 10% across the board to reflect the lower risk premium as the availability of effective vaccines will improve the recovery prospects of the property sector.

"Our top picks are: 1) Sunway ('Buy', fair value [FV] RM1.93) as its local and overseas property launches have been generally well received due to good locations, and due to its diversified income base; 2) Scientex ('Buy', FV RM12.69) due to its impressive take-up rates and superior profit margins attributed to its right focus on predominantly landed affordable residential units in secondary suburbs," said Thong.

He also included Mah Sing with FV of RM1.50, underpinned by the strong take-up rates of its recent launches and its upcoming rubber glove business.

"We may upgrade the property sector to 'Overweight' if banks ease lending policies on properties or consumer sentiment is improving significantly," said Thong.