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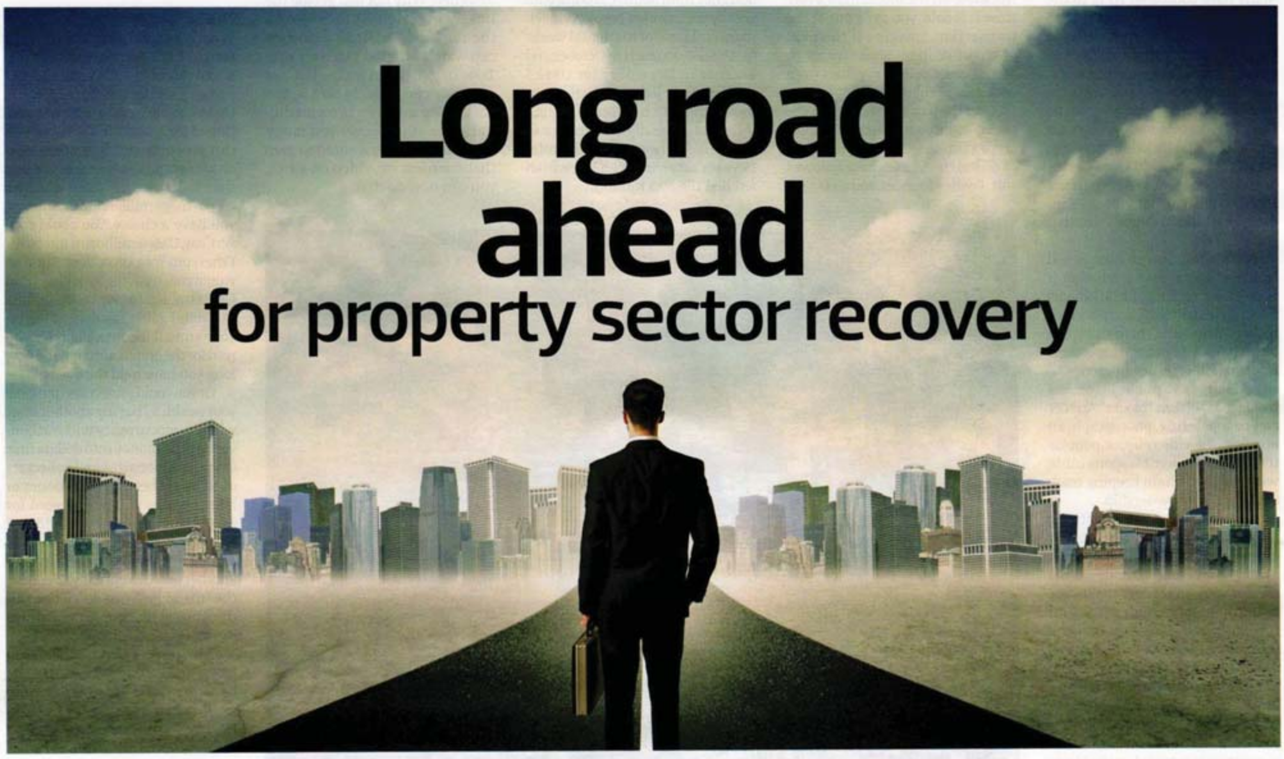

Long road ahead for property sector recovery

BY **CHERYL POO**

Is the property sector back on the radar of investors, given an uptick in property launches and home sales, as well as rotational play based on a recovering economy?

Some indicators point to a return of optimism. They include Melaka-based property developer Teladan Setia Sdn Bhd's listing on the ACE Market last Tuesday, and Chin Hin Group Property Bhd's active acquisition of land.

Property counters have also recorded share price gains, as reflected in the 14% increase in the Bursa Malaysia Property Index to 760.97 points last Monday from 667.08 points on Feb 2. The index, which tracks property sector-linked stocks, is hovering at its highest level over the past year, after hitting 752.78 points on Dec 17, 2020.

Choo Swee Kee, chief investment officer at TA Investment Management Bhd, tells *The Edge* that property stock prices are expected to trend higher, as most companies are trading below their historical levels. He thinks the sector is poised for a rebound as a recovery play, owing to their cheap valuations, following the rotational play on technology, healthcare — excluding gloves — and consumer stocks.

"Fund managers are shifting money into bashed-down sectors that have the potential to recover, as the economy rebounds with the vaccination rollout," he says.

Some analysts and market watchers are adopting a more conservative stance, as they foresee the property play to be short-lived, only benefitting certain counters.

"Such is the rotational interest in the market that investors are always asking, 'What's next?' Currently, market interest has spilled over into the property sector from banking and healthcare, as it is cyclical. We know that the property sector's valuations are relatively cheap, but appetite is relatively weak," explains Pankaj C Kumar, a former head of research and fund manager.

The bigger picture is the prevailing overhang in the property sector, he points out, adding that a recovery play may follow when the supply is more sustainable.

An analyst with a bank-backed research house who requested anonymity observes that the rise in the Property Index began after the relaxation of movement restrictions (Conditional Movement Control Order) on March 5, but says it is not an indication of sustainable growth.

He says: "S P Setia Bhd's revenue rose 30% (in 3Q ended September) as the Short-Term Economic Recovery Plan (Penjana) incentives were rolled out in June 2020. It then tapered back over subsequent months. This is likely to happen again. Similarly, the same may be observed of the rise in the Bursa Malaysia Property Index. I believe it will taper off just like it did last year. As for stock picks, we prefer groups with diversified exposure for sustainability."

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Price performance of selected property counters (as at March 18, 2021)

	LAST PRICE (RM)	YTD CHANGE (%)	MARKET CAP (RM MIL)	BOOK VALUE (RM)	P/B (TIMES)
Sunway Bhd	1.67	3.73	8,165	1.71	0.98
IOI Properties Group Bhd	1.40	-9.68	7,709	3.99	0.35
Sime Darby Property Bhd	0.68	2.26	4,591	1.55	0.44
S P Setia Bhd	1.08	9.09	4,381	2.91	0.37
UOA Development Bhd	1.75	3.55	3,719	2.55	0.69
UEM Sunrise Bhd	0.46	-7.07	2,327	1.55	0.30
Eco World Development Bhd	0.61	29.51	1,796	1.59	0.38
Matrix Concepts Holdings Bhd	1.89	6.78	1,577	2.09	0.90
Chin Hin Group Property Bhd	0.90	71.43	314	0.41	2.20
Hua Yang Bhd	0.36	28.57	125	1.40	0.26

Affordable housing developers in a sweet spot

TA Investment Management's Choo says the excess in general property supply notwithstanding, dynamic developers that are quick to adapt by launching affordable units are now seeing "encouraging sales".

The analyst who requested anonymity, points out that specialist developers of affordable housing are able to generate double-digit margins if their units are priced within the RM300,000 to RM400,000 range. Bigger players rely, however, on mass numbers, and therefore thinner margins are to be expected, he adds.

Not surprisingly, affordable housing developers such as Hua Yang Bhd and Lagenda Properties Bhd have performed better on the bourse. In recent weeks, Hua Yang has hit a 52-week high of 39 sen and Lagenda, RM1.75.

The share price of township developer LBS Bina Group Bhd, which has exposure to the sub-segment, climbed 30.1% to 47 sen from 36 sen on Nov 2, 2020. Its 55.7% subsidiary MGB

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Properties Bhd — a construction-cum-property development company — has also benefitted, thanks to its product offerings under the Selangor State government-mooted Rumah Selangorku Idaman project.

"We deem this market segment as resilient in current trying times, and sales are backed by first-time homebuyers. The affordable housing segment is also less subject to rental pressure and driven mainly by genuine buyers," JF Apex Research head Lee Chung Cheng says in a recent report.

Lee says MGB's competitiveness is not at risk, even though more property developers are jumping onto the affordable housing bandwagon, as the company focuses mainly on product offerings below RM300,000. He has a "buy" call on MGB, with a target price of RM1.15.

Prospects for mass market and niche players

Sentiment on bigger players and township developers such as Eco World Development Group Bhd, UEM Sunrise Bhd and Sime Darby Properties vary.

"There are so many factors affecting the sector. While developers are beginning to sound more optimistic, you will find that they achieved their 2020 targets because they reduced their expectations as they realised that their sales targets were unrealistic in tough markets," says Pankaj.

The analyst who requested anonymity does not expect the bigger property developers to register revenue growth in the near to mid-term, the low base effect of 2020 notwithstanding.

Still, Choo believes Mah Sing Group and Eco World are attractive because of their relatively cheap valuations and strong management team, and they managed to deliver profits every quarter last year even during the Covid-19 pandemic and movement controls.

"Many bigger property companies reported losses for some quarters, owing to impairments that were larger than their operating income. The outlook for both companies appears to be promising as they launch innovative products at affordable prices. The property market is currently very competitive, whether you are big or small. We believe the key to success is a pro-active management and the right products. It helps that the landbank location is good, too," says Choo.

So far this year, the share price of Mah Sing has climbed 167% to 83 sen from 31 sen, while Eco World has more than doubled to 65 sen from 31 sen.

Meanwhile, RHB Research has upgraded its call on IOI Properties Group Bhd to "buy" from "neutral" because, even though it projects property sales growth to remain rather flat in FY2021 to FY2022, other business divisions are expected to see more encouraging recovery in FY2022.

"This is particularly so for the property investment segment, which exhibited strong resilience despite Covid-19. The accumulation of investment properties, stable earnings growth, and potential real estate investment trust listings in two to three years could act as a catalyst for its share price over the medium term," says its analyst Loong Kok Wen, who has a target price of RM1.60 for the stock.

The analyst who requested anonymity is more bearish, as he believes interest in IOI Properties will wane, given that its RMB3 billion China landbank will deplete in about two years, whereas its integrated development Central Boulevard in Singapore may be sold.

"The company has a thin cover ratio of only 0.2 times, and that is mostly from its Malaysian business. However, IOI Properties has inventory to monetise, higher margins compared with many other developers, as well as holding power," he says. He favours companies with diversified businesses, such as Sunway Group Bhd, whose property and property investment portfolio contributes 27.6% to group revenue.

"That said, many of these companies have reached their values already. Therefore, I don't foresee any upside for property giants for at least half a year. What we observe now is investors buying into the laggard play. But once these companies start recording poor results, investors will move to other sectors," he adds.

According to Pankaj, the outlook for niche players such as UOA Development Bhd and Matrix Concept Holdings Bhd is good as these companies continue to deliver sustainable profits and dividends even in trying times.

For the financial year ended Dec 31, 2020, UOA Development proposed a single-tier final dividend of 14 sen per share plus a single-tier special dividend of one sen a share, amounting to RM297.3 million and RM21.2 million, respectively.

For its part, Matrix Concept has already declared three interim single-tier dividends amounting to eight sen a share for the financial year ending March 31, 2021.

In addressing the longstanding property glut that has been compounded by the Covid-19 pandemic, Choo says developers saddled with large inventories of unsold units will have to sell them more cheaply to clear their stocks.

He adds that demand remains robust for affordable units that developers did not want to build previously because of lower profit margins.

"Smart developers will have to adapt and tap demand with the right products. [Although] some analysts may be too negative on the sector, we believe the recovery can be sustained. But we cannot expect huge leaps in business and share price. It will be a slow and steady trend," says Choo. ■

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