

Property Sector (Neutral ↔)

INDUSTRY INSIGHT

July 16, 2013

More headwinds than catalysts

Highlights

- **Headwinds galore...** We believe that the current climate offers far more numerous sector headwinds as compared to catalysts, which include:
 - **Waning wealth effect...** Weak CPO prices (Figure #2) and export numbers (Figure #3) have greatly weakened the wealth effect mentality for small holders and SME business owners.
 - **Cloudy economic growth for 2014...** The street is forecasting a modest improvement in GDP growth from 5.0% this year to 5.3% next year, which is unlikely to spur excitement and buying optimism in the property market.
 - **Subdued sentiment...** With these prevalent headwinds in mind, we expect a spillover effect into buying sentiment, which could make it challenging for developers to achieve their ambitious sales targets for 2013.
 - **Risk of BNM raising interest rates in 2014...** With OPR at 3.0%, they have very little scope to reduce rates in the face of sustained GDP growth. We see a rate hike as being more likely to occur, although not likely to be this year.

Catalysts

- **Infrastructure related catalysts...** There are some long-dated, infrastructure-related sector catalysts such as Penang Second Bridge in Sep 2013, Iskandar Malaysia, MRT and high speed rail, but the immediate effect will be limited.
- **Supporting factors** include still-ample systemic liquidity and healthy fundamentals - sales and earnings should still lend support to valuations.

Risks

- Rising NPL ratios and loss of holding power; margin erosion due to raw material price spikes and/or lower selling prices; slowdown in sales / cut back in launches.

Rating

NEUTRAL (↔)

- Given our subdued outlook for the sector in the near term, we opine that it merits a neutral rating at best.
- Accordingly, we trim our TP for UEM Sunrise (increase discount to RNAV from 0% to 20%, TP RM3.23); KSL (increase discount to RNAV from 20% to 40%, TP RM2.04); Mah Sing (increase discount to RNAV from 20% to 45%, TP RM2.38); and YNH (increase discount to RNAV from 50% to 55%, TP RM1.99).
- **Positives:** Asset reflation theme remains intact over the longer term; increased opportunities within the affordable/mass market segment.
- **Negatives:** Slowdown in demand for mid/high end segment and economic growth; tighter lending policies by banks.

Top Picks

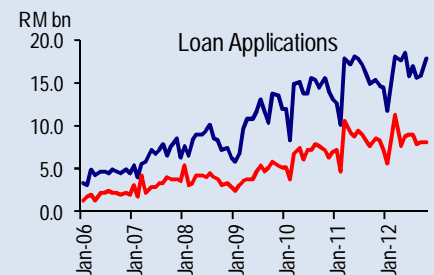
- **Matrix:** Share price has proven resilient recently, due to strong optimism over its township earnings and high DY (10% for FY13, with balance 6.2% DY unpaid). TP: RM2.77.

Sean Lim

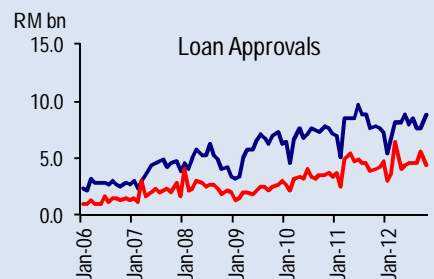
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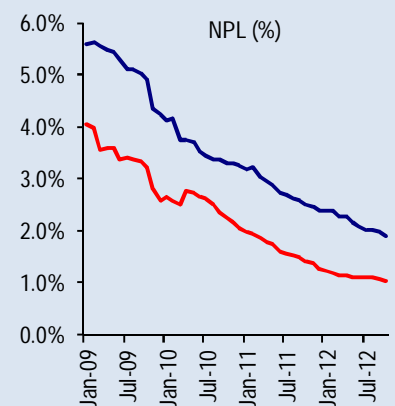
Property loan applications



Property loan approvals



NPL ratio for property loans (%)



— Purchase of residential property
— Purchase of non-residential property

Figure #1 Changes in TP and Recommendation

	Share Price (RM)	New TP (RM)	Previous TP (RM)	Upside / Downside (%)	New Recommendation	Previous Recommendation
Glomac	1.24	1.16	1.16	-3.1	HOLD	HOLD
KSL	2.14	2.04	2.73	-4.5	HOLD	BUY
Mah Sing	2.40	2.38	3.46	2.6	HOLD	HOLD
Matrix	2.57	2.77	2.59	18.0	BUY	BUY
SP Setia	3.39	3.35	3.35	2.7	HOLD	HOLD
UEM Sunrise	3.07	3.23	4.04	6.7	HOLD	BUY
YNH	1.93	1.99	2.21	5.2	HOLD	HOLD

Source: HLIB, Bloomberg

Figure #2 CPO price trend

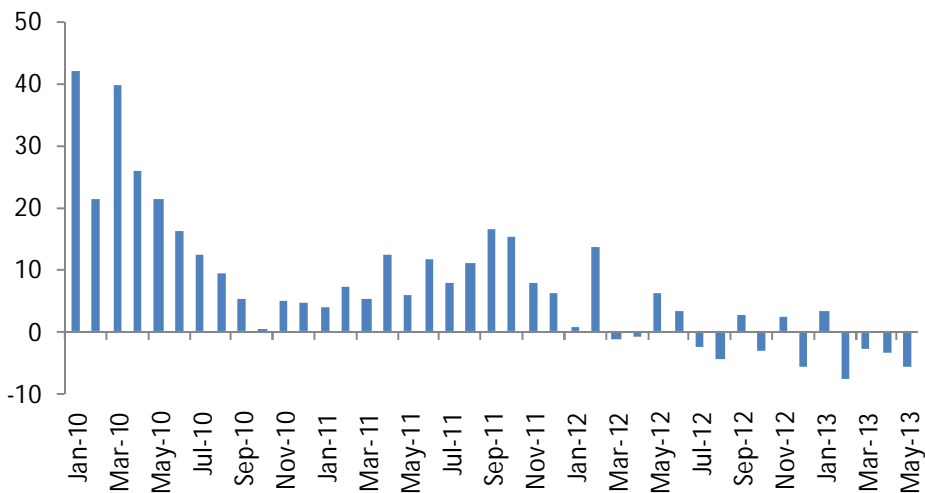
CPO Spot Price (RM / ton)



Source: HLIB, Bloomberg

Figure #3 Malaysia's export trend

Exports (yoy %)



Source: HLIB, Bloomberg

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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
TRADING SELL	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
SELL	Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months.
NOT RATED	No research coverage, and report is intended purely for informational purposes.

Industry rating definitions

OVERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.