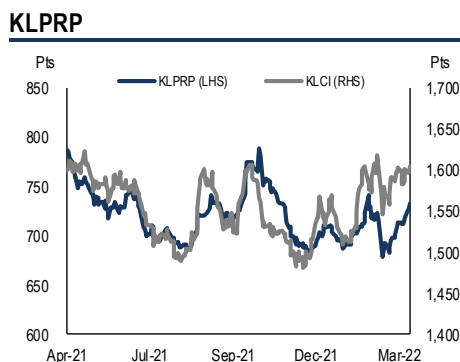


HLIB Research
PP 9484/12/2012 (031413)

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NEUTRAL (Maintain)



Stock Rating

| Stock | Rating | Price | Target |
|----------|--------|-------|--------|
| SUNWAY | BUY | 1.82 | 2.58 |
| IOIPG | BUY | 1.01 | 1.79 |
| SP SETIA | HOLD | 1.29 | 1.26 |
| UEMS | HOLD | 0.35 | 0.37 |
| MAH SING | BUY | 0.72 | 0.87 |
| MATRIX | BUY | 2.33 | 2.54 |
| LAGENDA | BUY | 1.49 | 2.00 |
| SIMEPROP | BUY | 0.60 | 0.78 |

Property

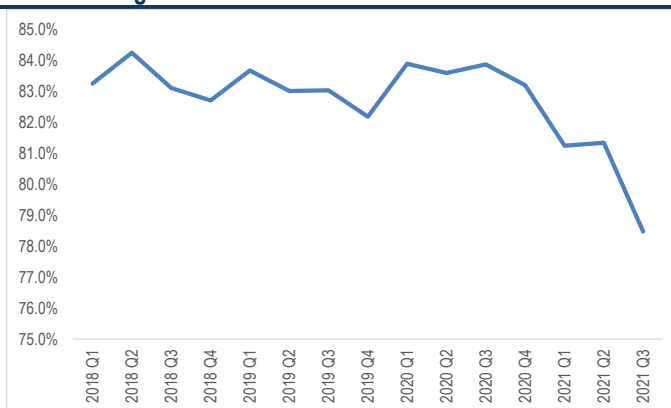
Cherry picking in the property sector

As we navigate through 2022, selective property developers would benefit amid the change in sector dynamics from the previous year. We continue to like the affordable segment as it will benefit from the ending of HOC, rising cost of living and lower income spending power. Besides that, we also favour developers that (i) outsource their construction jobs with healthy cover ratio; (ii) provide decent dividend yield; (iii) have a healthy net gearing ratio; and (iv) have strong ESG profile and ratings. We maintain our NEUTRAL rating on the sector due to an uneven recovery path among the developers. We recommend nibbling in to selective names such as Sunway, Lagenda, Matrix, Mah Sing and Sime Darby Property while the sector valuation is still undemanding.

Shifting sector dynamics will benefit selected property companies. As we navigate through 2022, much of the property sector dynamics have changed compared to the previous year, including: (i) pick up in sales and construction activities (from easing of lockdown restrictions); (ii) ending of HOC in Dec 2021; (iii) rising living cost and lower household income; (iv) inflationary pressures on commodities and building materials cost; (v) border reopening in Apr 2022; (vi) “deglobalization” trend; (vii) anticipated rate hike; and (viii) the return of capital inflow from foreign investors. Against this backdrop, we anticipate an uneven recovery among the property developers, while pockets of opportunities have emerged as some players will stand to benefit more from these factors.

Ending of HOC – the tables have turned. Home Ownership Campaign (HOC) was introduced in 1 Jan 2019 and ended on 31 Dec 2021. Prior to the introduction of HOC, the affordable housing segment enjoyed stamp duty exemption for property value up to RM500k. With the introduction of HOC, the affordable segment loses its comparative advantage as the stamp duty exemption was extended to property value up to RM1m. Referring to Figure #1 below, we see that in 2021, the percentage of residential transactions <RM500k declined, likely due to home buyers rushing to take advantage of the HOC campaign before it ended on Dec 2021.

Figure #1 Percentage of number of residential transactions <RM500k



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With the ending of HOC in Dec 2021, the tables have once again turned in favour of the affordable segment as purchases in this segment will continue to enjoy stamp duty exemption (see Figure #2 below for the current stamp duty structure after the end of HOC). Even during the HOC campaign, the affordable housing segment was still the most demanded segment comprising >75% of the number of residential transactions. Furthermore, according to Department of Statistics Malaysia, in 2020, as much as 20% or c.580k households from the M40 households have shifted to the income limit of the B40 group. The broadening base of the lower income group coupled with the rising living cost from inflationary pressure especially on the food cost will bolster for the

demand in the affordable home segment as home buyers will likely opt for affordable housing due to income constraints. Under our coverage, the three property developers that have their primary foothold in the affordable housing segment (<RM500k) are: **Lagenda** (100% exposure), **Matrix** (>65% exposure) and **Mah Sing** (c.60% exposure). All three companies enjoyed healthy average take-up rate for their products, Lagenda (>90%), Mah Sing (>90%), Matrix (c.78%) signalling positively that their launches are matching the local housing demand. Besides, we also note that while most property developers have set either a flattish or lower sales target for FY22, Mah Sing and Lagenda are setting a higher sales target for FY22 by 25% and 20% respectively compared to previous year, indicating their optimism and confidence in the market (see Figure #3).

Figure #2 Stamp duty percentage

| Property Price | Stamp duty percentage |
|------------------------------------|---|
| First RM100k of the property price | Exempted for SPA executed 1 Jan 2021 to 31 Dec 2025 |
| From RM100k to RM500k | Exempted for SPA executed 1 Jan 2021 to 31 Dec 2025 |
| From RM500k to RM1m | 3% |
| Everything above RM1m | 4% |

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Figure #3 Property developers FY21 sales and FY22 sales target (RM bn)

| Property | FYE | FY21 sales | FY22 sales target | YoY |
|---------------------|------|------------|-------------------|--------|
| Sunway | Dec | 2.4 | 2.1 | -13.9% |
| SP Setia | Dec | 4.3 | 4.0 | -6.1% |
| Sime Darby Property | Dec | 3.0 | 2.6 | -11.9% |
| IOI Property | June | 2.3 | 2.3 | 0% |
| UEM Sunrise | Dec | 1.5 | 1.5 | 2.7% |
| Mah Sing | Dec | 1.6 | 2.0 | 25.0% |
| Matrix | Mar | 1.2 | 1.2 | 0.0% |
| Lagenda | Dec | 0.8 | 0.9 | 20.1% |

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Rising construction cost. Building materials costs have been rising persistently since 2021. From what we gathered, key raw materials such as steel and cement have risen >20% on a YoY basis. Under such a rising cost environment, property developers that will fare relatively better are those that outsourced their construction work to third-party as (i) their construction cost will be locked in at a lower cost (amid rising cost environment) when the job was outsourced; and (ii) for new launches, developers will also likely be able to outsource the jobs at competitive price as new jobs tender among contractors will likely be very competitive due to fewer job tenders available as developers are more cautious in their launches due to the subdued property sentiment. In order to secure jobs to ensure positive cash flow, contractors may be willing to sacrifice some margin to win job tenders from developers. Besides this, developers that enjoy high take-up rate in their launches are also those that are likely to have better pricing power enabling them more flexibility to adjust selling price to sustain their margin. As such, property developers that outsourced their construction job with a healthy cover ratio are likely to fare better, including **Sunway**, **Sime Darby Property**, **UEM Sunrise** and **Mah Sing** (see Figure #4 below).

Figure #4 Property developers construction, unbilled sales and cover ratio

| Property developers | Outsource construction? | Unbilled sales (RM bn) | Cover ratio (x) |
|---------------------|-------------------------|------------------------|-----------------|
| Sunway | Mixed | 3.5 | 5.6 |
| SP Setia | No | 10.2 | 2.9 |
| Sime Darby Property | Yes | 2.4 | 1.2 |
| IOI Property | Yes | 0.8 | 0.4 |
| UEM Sunrise | Yes | 2.4 | 2.0 |
| Mah Sing | Yes | 1.9 | 1.4 |
| Matrix | No | 1.3 | 1.2 |
| Lagenda | No | 0.6 | 0.9 |

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Borders reopening. We view Sunway to be the prime beneficiary from the borders reopening due to its integrated business model. The inflow of tourists should benefit its medical segment from healthcare tourism, while its theme park, hospitality and REIT segments will also see a boost from increased visitations for both business and leisure travels. Other than this, the borders reopening should also facilitate the pickup in economic activities in Johor as Singaporeans travel to the state as well as Malaysians working in Singapore will also travel more frequently to Johor. While this will provide some slight relief to the property developers in Johor, nonetheless, we believe the oversupply situation in Johor is too entrenched, aggravated by the hold back in launches during the pandemic (see Figure #5). Thus, the oversupply situation in Johor will likely persist in the medium term in the absence of significant infrastructure and development spending boost from the state to develop the area.

Figure #5 Number of overhang units in Johor



HLIB Research, NAPIC

De-globalization – SEA a beneficiary? “The Russian invasion of Ukraine has put an end to the globalization we have experienced over the last three decades.” – [Larry Fink](#), CEO of Black Rock. Increasingly we are witnessing the global supply chain becoming more fragmented, starting from the US-China trade war, followed by the pandemic and the ensuing supply chain disruption and most recently the Russian-Ukraine trade war. The Russian-Ukraine war underscored the fragility of the global supply chain where dependence on other countries for manufacturing and raw material could lead to an abrupt collapse, shortage and price hike in the affected raw material and products in the home country. As such, companies that look to mitigate such risks may find the SEA region, a manufacturing hub to be a safe haven to re-shore their manufacturing base as it is largely shielded from the geopolitical risk and trade disputes from the developed countries as well as its attractiveness as a low cost hub due to the weaker local currencies. Thus, we see **Sime Darby Property (SDPR)** as a prime beneficiary from this theme due to its large industrial land of 2.8k acres across its 6 townships. Moreover, this is also in alignment with SDPR’s strategic plan to monetize its industrial lands to generate recurring income for the group. Its JV with LOGOS (51% SDPR, 49% LOGOS) will capitalize on LOGOS expertise in property solutions in the logistic sector to scout for key tenants for SDPR industrial developments. Coupled with the border reopening, we should see the industrial development for SimeProp to expedite and gain traction moving forward.

Anticipated rate hike cycle. HLIB is estimating a 25bps OPR hike in 4Q22 to 2.0%. Based on our analysis (see Figure #6 and Figure #7 below), a 25bps rate hike will increase the monthly instalment of loan payment by 3.2%. While the rate hike will reduce consumer spending and increase the cost of property purchase through loans, we note that the 2.0% OPR will still be well below the levels in 2019 (pre-Covid) at 3.00-3.25%. Other than this, the rate hike is expected to impact developers with high net gearing due to higher interest expense. As such, we favour developers with healthy net gearing level, i.e. **Legenda, Matrix, Mah Sing** and **Sime Darby Property** (see Figure #8), while we also note that **Sunway** has an effective capital management strategy that allows them to enjoy lower average cost of debt. Finally, due to the rate hike anticipation, we have also seen growth stocks de-rated (as cash flows are back loaded in the future, thus, discounted at a higher rate to a lower NPV), while other risks such as geopolitical risk stemming from Russian-Ukraine war, inflationary pressure, recession risk in the US have brought about heightened market volatility. As such, we favour developers that have a high committed dividend payout as (i) investors would

prefer cash in hand (vs. in the future); and (ii) healthy dividend yield will provide downside support to the share price. Coincidentally, the stocks in the affordable housing segment also provide decent dividend payout and yield, i.e. **Lagenda** (payout ratio: >25%, FY22 yield: 5.0%), **Matrix** (payout ratio: >50%, FY22 yield: 5.4%) and **Mah Sing** (payout ratio: >40%, FY22 yield: 4.2%) (see Figure #12 for our peer comparison table).

Figure #6 Impact of increase in OPR on monthly instalment (RM500k property)

| | Current Scenario | Rate hike (+25 bps) | Rate hike (+50 bps) |
|----------------------|------------------|---------------------|---------------------|
| Property Prices (RM) | 500,000 | 500,000 | 500,000 |
| Years | 30 | 30 | 30 |
| Interest Rate | 3.00% | 3.25% | 3.50% |
| Down Payment (RM) | 50,000 | 50,000 | 50,000 |
| Monthly Payment (RM) | 1,897 | 1,958 | 2,020 |
| Impact | | +3.2% | +6.5% |

HLIB Research, ipropery.com

Figure #7 Impact of increase in OPR on monthly instalment (RM1m property)

| | Current Scenario | Rate hike (+25 bps) | Rate hike (+50 bps) |
|----------------------|------------------|---------------------|---------------------|
| Property Prices (RM) | 1,000,000 | 1,000,000 | 1,000,000 |
| Years | 30 | 30 | 30 |
| Interest Rate | 3.00% | 3.25% | 3.50% |
| Down Payment (RM) | 100,000 | 100,000 | 100,000 |
| Monthly Payment (RM) | 3,794 | 3,916 | 4,041 |
| Impact | | +3.2% | +6.5% |

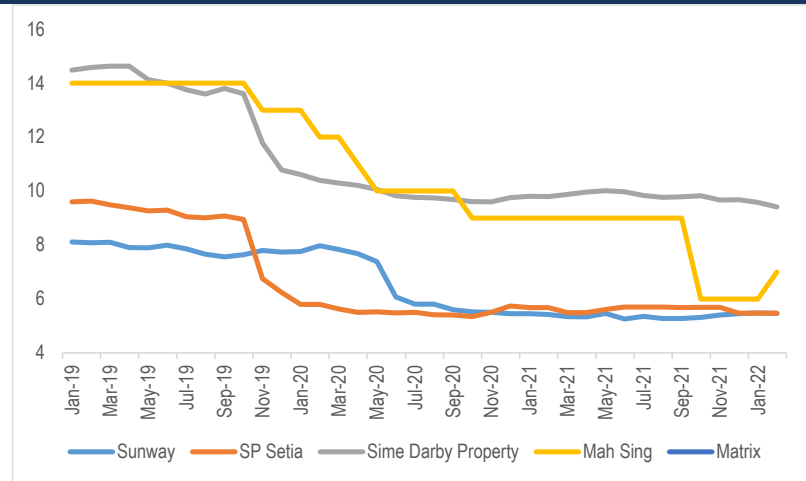
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Figure #8 Property developers net gearing (%)

| Property developers | Net gearing | Net gearing (incl. preference shares) |
|---------------------|-------------|---------------------------------------|
| Sunway | 49.0 | 62.2 |
| SP Setia | 67.2 | 96.6 |
| Sime Darby Property | 32.0 | 32.0 |
| IOI Property | 69.5 | 69.5 |
| UEM Sunrise | 50.1 | 50.1 |
| Mah Sing | 11.9 | 11.9 |
| Matrix | 4.3 | 4.3 |
| Lagenda | Net cash | Net cash |

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Return of foreign shareholders. Since Feb 2022, foreigners have persistently been net buyers on the local bourse with YTD flow of +RM6.90bn vs. -1.82bn SPLY. The foreign fund inflows have so far provided support to the local stock market while benefitting selected sectors such as the plantation sector where its respective index had gained +26.9% YTD. As property sector is currently near its historical low in foreign shareholding, the persistent net foreign buying may eventually flow to the sector. As such, other than looking at the themes that we highlighted above, foreign investors will also likely favour names that have a strong ESG rating and profile. Developers with strong ESG ratings and profile are **Sunway**, **UEM Sunrise**, **Mah Sing** and **Matrix** (see Figure #9 below).

Figure #9 Foreign shareholding of property developers (%)

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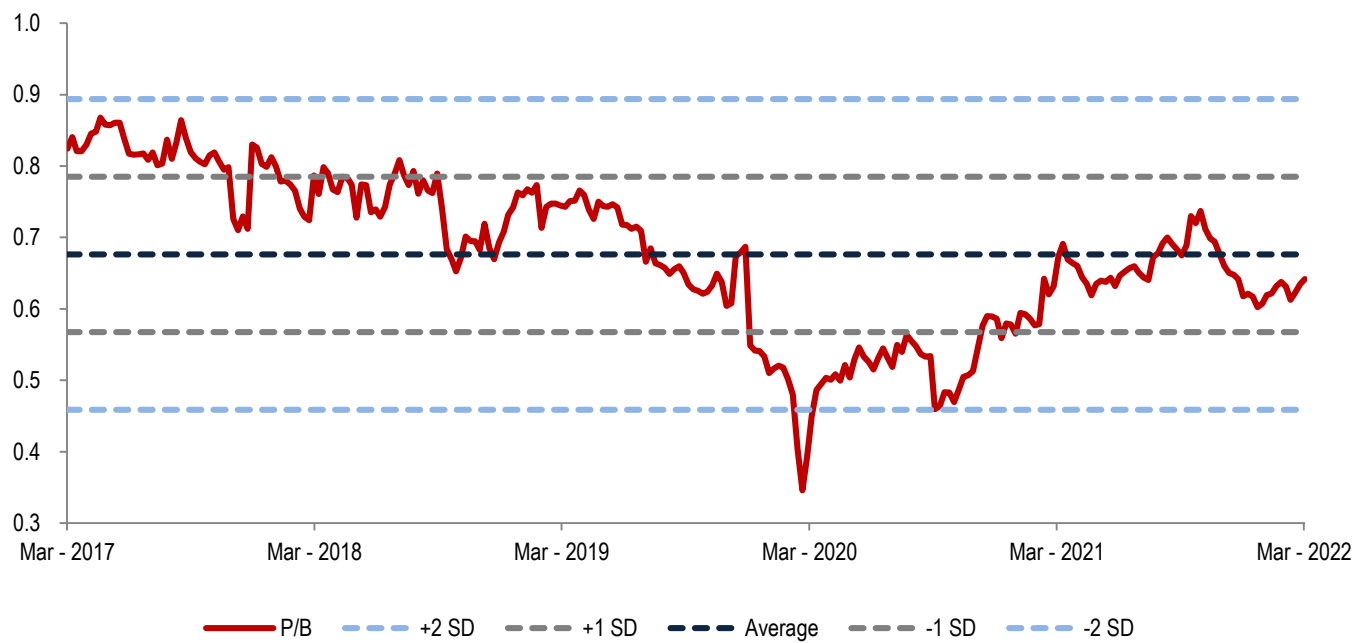
Figure #10 Property developers ESG rating

| Property developers | F4GBM Rating | F4GBM Index member | MSCI Rating |
|---------------------|--------------|--------------------|-------------|
| Sunway | ★★★★ | Yes | A |
| SP Setia | ★★★ | No | NA |
| Sime Darby Property | NA | No | BBB |
| IOI Property | NA | No | BBB |
| UEM Sunrise | ★★★★ | Yes | NA |
| Mah Sing | ★★★★ | Yes | BB |
| Matrix | ★★★ | Yes | BBB |
| Lagenda | NA | No | NA |

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We maintain our **NEUTRAL** rating on the sector as the combination of factors such as economic recovery, ending of HOC, rising building material cost, rising cost of living from inflationary pressure, lower income spending power, anticipated rate hike, borders reopening, 'deglobalization' trend and the return of capital inflow from foreign investors will result in an uneven recovery within the sector. Against such a backdrop, investors would find a sweet spot in the affordable housing segment as the segment will benefit from the ending of HOC, rising cost of living and lower income spending power. Besides that, we also favour developers that (i) outsource their construction jobs amid the current rising building material cost environment; (ii) provide healthy dividend yield amid a rate hike expectation and heightened market volatility environment; (iii) have a healthy net gearing ratio in anticipation of the rate hike cycle; and (iv) have strong ESG profile and ratings which will stand to benefit from foreign fund inflow. Sector valuation (in P/B terms) remains undemanding (see Figure #11), as such we recommend nibbling in to selective property names. Premised on the factors mentioned above, our top picks are the affordable segment developers **Lagenda**, **Matrix** and **Mah Sing**. We also like **Sunway** as it is the prime beneficiary from the economy recovery and border reopening as all of its business segments are expected to benefit from it, thus it is an excellent proxy play for both economy recovery and border reopening themes. Furthermore, it also has the best F4GBM and MSCI rating among all developers. Finally, we also see **Sime Darby Property** as the key beneficiary from the "deglobalization" trend coupled with the border reopening which should expedite and bolster for its industrial development segment.

Figure #11 Property sector P/B Band



Bloomberg, HLIB Research

Figure #12 Peers comparison

| Stock | Mkt Cap (RM m) | Price (RM) | Target (RM) | Rating | FYE | P/E (x) | | P/B (x) | | Yield (%) | |
|----------|----------------|------------|-------------|--------|-----|---------|------|---------|------|-----------|------|
| | | | | | | FY22 | FY23 | FY22 | FY23 | FY22 | FY23 |
| SUNWAY | 8,980 | 1.82 | 2.58 | BUY | Dec | 21.3 | 18.8 | 1.0 | 1.0 | 2.6 | 2.9 |
| IOIPG | 5,561 | 1.01 | 1.79 | BUY | Jun | 8.3 | 8.1 | 0.3 | 0.3 | 2.2 | 2.2 |
| SP SETIA | 5,248 | 1.29 | 1.26 | HOLD | Dec | 20.3 | 19.2 | 0.5 | 0.5 | 1.2 | 1.7 |
| UEMS | 1,770 | 0.35 | 0.37 | HOLD | Dec | N.M. | 33.2 | 0.3 | 0.3 | 0.0 | 0.7 |
| MAH SING | 1,724 | 0.72 | 0.87 | BUY | Dec | 13.0 | 12.1 | 0.5 | 0.5 | 4.2 | 4.4 |
| MATRIX | 1,960 | 2.33 | 2.54 | BUY | Mar | 8.9 | 8.0 | 1.0 | 0.9 | 5.4 | 6.0 |
| LAGENDA | 1,248 | 1.49 | 2.00 | BUY | Dec | 6.0 | 4.8 | 1.2 | 1.0 | 5.0 | 6.3 |
| SIMEPROP | 4,081 | 0.60 | 0.78 | BUY | Dec | 16.9 | 14.0 | 0.4 | 0.4 | 3.6 | 4.3 |

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| | |
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| HOLD | Expected absolute return of -10% to +10% over the next 12 months. |
| SELL | Expected absolute return of -10% or less over the next 12 months. |
| UNDER REVIEW | Rating on the stock is temporarily under review which may or may not result in a change from the previous rating. |
| NOT RATED | Stock is not or no longer within regular coverage. |

Sector rating guide

| | |
|--------------------|---|
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| NEUTRAL | Sector expected to perform in-line with the market over the next 12 months. |
| UNDERWEIGHT | Sector expected to underperform the market over the next 12 months. |

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