SECTOR UPDATE

Property – Malaysia

2022 Ended Strong

The sector recovered strongly in 2022 supported by pent-up demand, border reopening, easing of the labour shortage and higher billings. Raw materials and other operating costs remain elevated, putting pressure on margins. 2023 earnings are expected to be stronger yoy, backed by strong unbilled sales and higher property launches. Developers that have exposure to industrial properties and overseas projects will pull ahead of peers. Maintain MARKET WEIGHT. Top pick: Matrix.

WHAT'S NEW

- **4Q22 results round-up.** Within our coverage, companies' 4Q22 earnings generally came in within expectations, improving 9% qoq and 57% yoy largely due to: a) the pent-up local demand, b) better contribution from overseas projects, c) gradual easing of the labour shortage issue, and d) higher productivity level resulting in better progress billings amid the continued economic reopening. However, sentiment dampeners such as the disappointing Budget 2023 measures, interest rate hikes and ongoing inflation may put pressure on earnings outlook ahead.
- **Our property index outperformed** the FBMKLCI by 6.6% ytd (after underperforming by 3.5% in 2022). EcoWorld (ECW) and Mah Sing are among the best performers ytd (7%) while other big developers are among the worst performers ytd, including SP Setia (SPSB) and UEM Sunrise (UEMS), falling 2-3%.

4Q22 RESULTS SUMMARY

					------------ Earnings Revision ----------		
Company	Revenue (RMm)	Core net profit/(loss) (RMm)	vs. UOB	vs. consensus	+1 YR FWD	+2 YR FWD	+3 YR FWD
MATRIX	363.8	54.4	Within	Within	-	-	-
SUNWAY	1,531.6	167.3	Within	Above	-	-	-
SP SETIA	1,078.0	98.4	Within	Within	-	-	-
MAH SING	670.9	47.6	Within	Within	-	-	-
UEM SUNRISE	336.2	13.1	Within	Below	-	-	-
KERJAYA PROP	81.8	23.5	Within	Within	-	-	-

Source: Respective companies, UOB Kay Hian

ACTION

- **Maintain MARKET WEIGHT.** We expect 1H23 earnings to be stronger yoy, backed by strong unbilled sales and easing of the labour shortage and raw material prices. Pent-up sales may continue to lead earnings recovery this year. However, rate hikes and rising cost of living may remain as headwinds. Uncertain prospects are already reflected with the sector trading at undemanding valuation of 1SD below its five-year mean P/B. Despite the depressed valuation, it will be challenging to further re-rate the sector's valuation without any notable near-term catalysts, given the lingering long-term structural issues (supply gluts and affordability). Companies that have exposure to industrial properties and overseas projects will stand ahead of its peers. Some developers are also focusing on reducing their completed inventories to improve sales and cash flow. Top picks: Matrix and Sunway.

MARKET WEIGHT

(Maintained)

SECTOR TOP PICK

Top pick	Rec	Target Price (RM)	P/B (x)	PE (x)
MCH MK	BUY	1.92	0.7	8.4

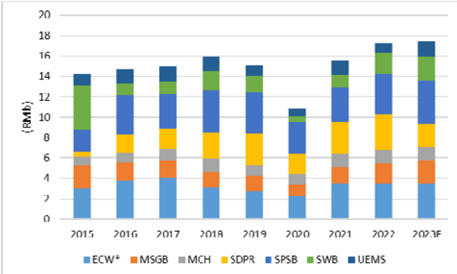
Source: Bloomberg, UOB Kay Hian

3Q22 CORE NET PROFIT

	3Q22 (RMm)	qoq % chg	Results
EcoWorld*	82.2	82.0	In Line
Mah Sing	35.1	(27.1)	In Line
Matrix Concepts^	50.6	7.7	In Line
SP Setia	63.6	(11.5)	Below
Sunway Bhd	143.0	5.5	Above
UEM Sunrise	24.9	2.9	Above
Sector	399.4	7.2	

**Year ended 31 Oct*
^Year ended 31 Mar, reflect Calendar Year net profit
Source: Respective companies, UOB Kay Hian

HISTORICAL SALES ACHIEVED AND 2023 SALES TARGET



Source: Respective companies, UOB Kay Hian

ANALYST(S)

Hazmy Hazin
+603 2147 1934
noorhazmy@uobkayhian.com

PEER COMPARISON

Company	Tickers	Rec	Share Price 13 Dec 22 (RM)	Target Price (RM)	Market Cap (RMm)	P/B FY22 (x)	P/B FY23F (x)	PE FY22 (x)	PE FY23F (x)	Div Yield FY23F (%)	ROE FY23F (%)	Net Margin FY23F (%)
EcoWorld Development	ECW MK	BUY	0.70	0.95	2,050	0.4	0.4	9.6	9.2	6.4	4.3	9.0
Mah Sing Group	MSGB MK	BUY	0.58	0.69	1,470	0.4	0.4	9.7	9.5	3.9	4.4	6.8
Matrix Concepts	MCH MK	BUY	1.50	1.92	1,810	0.6	0.6	7.9	7.0	7.1	11.6	20.3
SP Setia	SPSB MK	BUY	0.70	0.82	2,160	0.2	0.2	7.6	7.0	2.4	2.1	7.5
Sunway Berhad	SWB MK	BUY	1.70	2.38	8,116	0.6	0.6	13.4	12.4	2.4	4.0	10.7
UEM Sunrise	UEMS MK	HOLD	0.25	0.23	1,470	0.1	0.1	13.1	9.4	0.0	1.6	1.6

Source: UOB Kay Hian

- **Top picks:**
  - **a) Matrix Concepts (MCH MK/BUY/Target: RM1.92).** We like MCH for its: a) above-industry margin and ROE, b) resilient earnings base, c) strong balance sheet (0.03x net gearing), and d) sustainable dividend (5-7% yield) that could be a defensive shelter amid market volatility. Our target price is a 30% discount to its fully-diluted RNAV/share of RM2.78, implying a 1x FY23F P/B (close to its five-year mean).
  - **b) Sunway Bhd (SWB MK/BUY/Target: RM2.38).** We expect Sunway to continue seeing earnings recovery in 2023 on the back of the economic reopening that will result in the resumption of international medical tourism. Healthy property sales momentum will result in Sunway seeing positive earnings growth this year. Our target price is based on a 10% discount to our SOTP-based valuation of RM2.63/share (after the dilution of warrants). This implies a 2023F PE of 21x and 2023F P/B of 0.9x (its five-year mean).

ESSENTIALS

- **2023 targets…** We expect 2023 earnings to be stronger yoy, despite growing at a slower pace (we project 14% yoy growth, vs 38% yoy growth in 2022). This will be backed by developers' strong unbilled sales and catch-up in construction work on the back of the improved labour shortage as per our forecasted revenue for 2023 as the economy embraces the endemicity. This is backed by: a) a 13% increase in sector revenue (2022: 16% yoy), and b) better margins from cost discipline and the easing of raw material prices. The absence of the one-off prosperity tax in 2023 also bodes well for earnings growth. Matrix and Sunway may display the most resilient earnings growth going forward. The average take-up rate for companies within our coverage in 2022 stood strong at 80-90%.
- **…reflect a normalisation.** In 4Q22, ECW, Mah Sing and SP Setia successfully exceeded their full-year sales target, while UEMS has the weakest sales momentum, reaching only 62% of its full-year target in 2022. Matrix is on track to hit its sales target as its 9MFY23 sales accounts for 83% of its full-year target. Most companies within our coverage have high unbilled sales that will provide good earnings visibility for the next 2-3 years. As at end-2022, SPSB had the highest unbilled sales (RM7.4b), followed by Sunway (RM4.3b) and ECW (RM3.6b). Sales growth was supported by: a) economic reopening-fuelled pent-up demand, b) stamp duty waivers by the government, and c) inventory clearance by developers via price discount/freebies. However, sales growth in 2023 may be pressured by a lack of supportive measures, ongoing inflationary pressure and interest rate hikes.
- **Mortgage application and approval value declined.** Mortgage application and approval value fell 17.7% qoq and 21.1% yoy in 4Q22. This could be due to the rising rates environment, ongoing inflation and a lack of supportive measures from the government. However, mortgage approval rate remains healthy at 41% in 4Q22, as compared with 36% in May last year. Note that approval rate was at 35% in 2021, the lowest historically despite mortgage application and approval value rising 31% yoy in 2021.
- **2023 may see a jump in number of launches.** Launches are estimated to rise >50% yoy in 2023, given the lack of launches in 2022. Note that last year, the property sector faced challenges in securing approvals due to the delays from the Ministry of Housing and local governments, which impacted planned launches. According to National Property Information Centre (NAPIC), only around 18,000 units of properties were newly launched in 9M22 (-50% yoy). We gather that Singapore was also facing similar difficulties, where there were delays in land acquisition approvals. Some developers like Sunway are also deferring launches in China due to the current weak market condition. Hence, for last year, most companies relied on existing projects and strong unbilled sales to support sales. With the new government in place, the delay in approvals is expected to improve.
- **Challenging rate hike environment**. With the fourth rate hike of 25bp to 2.75% in Nov 22, the overnight policy rate (OPR) has risen by 100bp in total since the first hike in May by Bank Negara Malaysia (BNM), vs the total reduction of 125bp during the peak of the

ANNUAL PLANNED LAUNCHES

	2022 (RMm)	2023F (RMm)	yoy % chg
Mah Sing	1,220	2,000	66.7
Matrix Concepts*	919	1,200	30.6
Sime Prop	2,600	3,000	15.4
SP Setia	3,060	6,170	103.3
Sunway Bhd	1,000	3,500	250.0
UEM Sunrise	517	2,500	383.6

*Reflect FY22/23

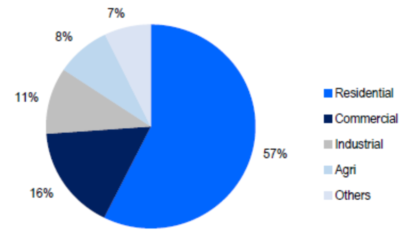
Source: Respective companies, UOB Kay Hian

INDUSTRIAL LANDBANK

Company	Location	Land (Acre)
EcoWorld	Business park 1,2,3 @ Johor, V @ Selangor	1,090
SP Setia	Business Park 1 and 2 @ Johor	800
IJM	Kuantan	664
UEM Sunrise	Nusajaya Tech Park @ Johor	235
AME Elite	Business park 1,2,3 @ Johor, V @ Selangor	200
Sime Darby Prop	Selangor, N.Sembilan and Johor	>2,000
NCT Alliance	Kuala Langat	489

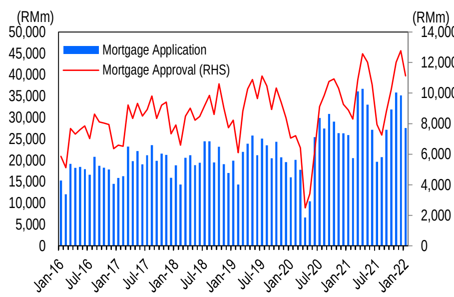
Source: Respective companies, UOB Kay Hian

TRANSACTION VALUE BY PROPERTY TYPE



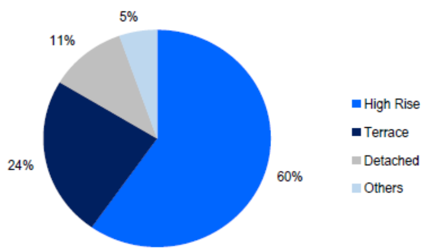
Source: CEIC, UOB Kay Hian

MORTGATE APPLICATION AND APPROVAL



Source: BNM, CEIC, UOB Kay Hian

RESIDENTIAL OVERHANG BY TYPE



Source: BNM, CEIC, UOB Kay Hian

pandemic. Consequently, mortgage rate has increased to around 3.9% from about 2.95% previously. However, BNM has maintained the OPR in Jan and Mar 23 as inflation is expected to ease this year. The next OPR change is expected to be in May 23. We believe the impact on property sales may be more evident in 2023. Historically, residential properties' transacted volume has trended in tandem with mortgage approval value.

- **Underlying fundamentals remain challenging.** In 9M22, 293,206 transactions (+46% yoy) were recorded worth around RM130b (+33% yoy) due to better sales amid the economic reopening. Overhang properties eased slightly in 3Q22 to 29,534 units (-3% yoy) worth RM19.9b. Continued property launches by developers may re-exacerbate the overhang issue, given the lack of organic demand. We believe this may continue to pressure housing prices and could hurt developers' margins and balance sheets.

- **Industrial land gaining traction.** We believe there is growing global demand for industrial land, driven by the electronic devices, healthcare, and e-commerce sectors. The ongoing economic recovery and US-China trade diversion should accelerate multinational companies' production relocation plans, as evidenced by the strong FDI approvals in 2022 of >RM160b. We believe companies like Sime Darby, ECW, SPSB, NCT and AME Elite with large landbanks in the industrial space could benefit from this.

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