

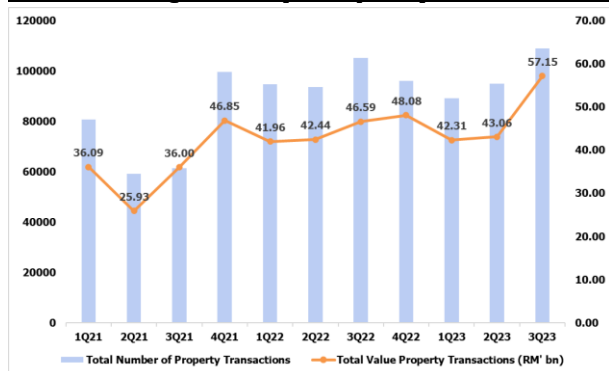
Property sector

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Recovery on the cards

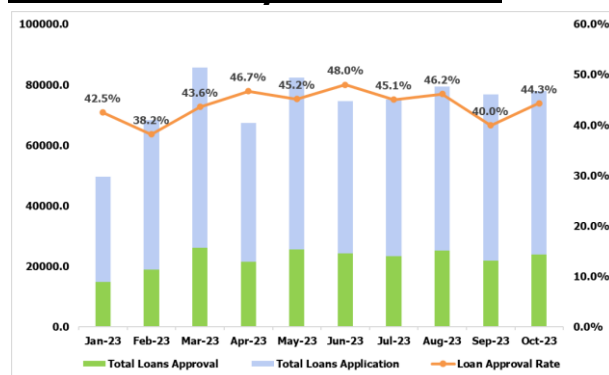
- Review.** The property sector recorded another decent quarter according to Valuation and Property Services Department (JPPH) with total property transactions valued climbed 22.6% yoy to RM57.15bn in 3Q23. Meanwhile, volume transacted also grew 3.7% yoy to 108,955 units. On the breakdown, residential sub-sector registered 62.9% of total transactions, followed by the agricultural subsector (18.5%) and the combination of trade subsector and other subsectors (18.6%). During the quarter, new residential launches rose to almost 6,900 units vs. close to 4,800 units in 2Q23, while sales of new launches increased to 37.6% against 24.7%, highlighting the stability of housing demand. At the same time, average property price to transaction also improved to RM524,528/unit which was the highest since 3Q21.
- Meanwhile, we gather that the stability loan approval rate averaging at 44.0% in 11M23 ensures sustainability. On the overhang or unsold completed houses, we noticed improvement with 3.7% decline in terms of volume to 25,311 units as the cautious approach from property players ensures unsold units gradually absorbed into the market. After anchoring the winners list in 3Q23, profit taking activities emerged with the property index fell (-1.5% qoq) to close at 862.11 pts. The sharp appreciation has led to valuations turning fair as investors locked in recent profits. Still, the property sector delivered a solid performance throughout 2023, registering 34.5% yoy gains

Historical Quarterly Property Transactions



Source: NAPIC, Apex Securities

Historical Monthly Loan Statistics



Source: BNM, Apex Securities

- **Outlook.** The Malaysia property sector may continue to remain stable, driven by healthy loan applications which signals demand remain fairly solid. Property players are expected to remain prudent over future launches in bid to avoid flooding the market and increase the overhang units. We expect interest to pick up within certain states such as Johor, Klang Valley and Penang, mainly driven by improving connectivity.

	Johor	Klang Valley	Penang
Key Catalyst	<ul style="list-style-type: none"> • Construction of Rapid Transit System (RTS) link that is slated for completion in 2026 	<ul style="list-style-type: none"> • Potential revival of High-Speed Rail • Rapid urbanisation 	<ul style="list-style-type: none"> • Development of Penang Transport Master Plan

Source: Apex Securities

- As at 1H23, we gather that Malaysia household debt-to-GDP ratio remained stable at 81.9%, supported by stable employment growth. Still, the aforementioned ratio is worrying as Malaysians will be bracing with the rising cost of living from several tax reformations underlined in Budget 2024. At the same time, wages growth remained fairly stagnant which limits the ability to undertake further gearing. Given that futures OPR hikes remains off the table, prospective purchasers would be able to make long-term plans and quick decisions in regards to loan applications.
- **Valuation & Recommendation.** We continue favour property players that sits on strong balance sheet and is equipped with good traction of township developments such as **OSK (NR)**, **MATRIX (NR)** and **SUNWAY (NR)**. Meanwhile, our top picks are **LAGENDA (BUY; FV: RM1.63)** for its strong exposure in the affordable housing segment which is strongly aligned with the mass market demand and **SKYWOLD (BUY; FV: RM0.94)** for its strong historical take-up rates backed by competitive property pricing and strategic locations. Following the appreciation of share prices in majority of the property players, we gather that forward PB for the property sector is trading at 0.5x for 2024F is now fair against the historical average of 0.4-0.6x.
- **Key Risk.** Difficulty to pass on higher building material cost to prospective purchasers, higher compliance cost and rising utilities cost.
- **Summary.** Although the property sector turns slightly more favourable, the pace of recovery will be measured as the overhang situation remains in the bigger picture as well as rising material and operational costs which may impact bottomline margins. Consequently, we remain **Neutral** on the property sector on the back of the (i) stability in demand for residential properties particularly for units priced below RM500,000, (ii) improved demand for industrial properties as a proxy to rising foreign direct investment (FDI) following the US-China trade diversion and (iii) supportive measures from government to aid first time home buyers.

Top Picks

Company	Price (RM)		P/E (x)		Dividend Yield (%)	Target Price (RM)	Potential Upside
	as at 31Dec23	2023	2024F	2025F			
Lagenda Properties Bhd	1.24	6.65	4.92	4.56	5.08	1.43	15.3%
Skyworld International Bhd#	0.55	3.82	4.87	4.18	4.73	1.07	94.5%
OSK Holdings Bhd*	1.24	5.39	5.17	4.96	5.65	1.77	42.7%
Matrix Concepts Holdings Bhd*#	1.65	8.51	7.75	7.57	6.18	1.87	13.3%
Sunway Bhd	2.06	16.75	14.82	13.83	2.72	2.39	16.0%

Skyworld International Bhd & Matrix Concepts Holdings Bhd data based on FYE Mar

* Denotes Bloomberg consensus data

Source: Apex Securities Bhd, Bloomberg