

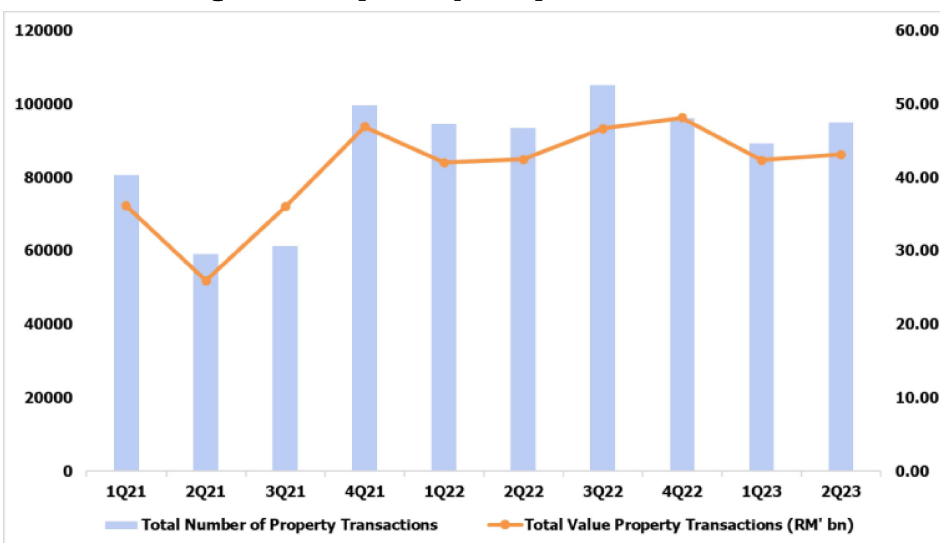
## Property sector

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### Stable demand ensures recovery prospects

- Review.** The property sector raked in a strong quarter in 1H23 with 11,273 (+120% YoY) residential properties transacted, according to Real Estate and Housing Developers' Association (REHDA) Malaysia. Meanwhile, residential property launches also jumped 95.8% YoY to 14,392 units during the period (of which 3,945 units representing 27.4% of new launches were sold), which highlights the optimism of recovery in demand. In 1H23, total property transaction value rose 1.1% YoY to RM85.37bn with more than 184,000 transactions recorded. At the same time, the stability in loan approval rate at 44.1% in 7M23 ensures sustainability
- While 1Q23 unsold properties continues to deliver gradual improvement at 142,000 units (from the high of 174,000 units in 2021), the aforementioned figure is still on an elevated level against historical average. Elsewhere, the 3Q23 property index emerged as the biggest winner (+26.9% QoQ) to close at 875.30 pts. The said improvement was spurred by the prospects of turnaround in Johor property scene amid the on-going Johor-Singapore RTS project, coupled with the prospects of High-Speed Rail (HSR) link resumption.

### Historical Quarterly Property Transactions



Source: NAPIC, Apex Securities

### Historical Monthly Loan Statistics



Source: BNM, Apex Securities

- **Outlook.** We expect challenges to persist in bid to reduce the overhang units due to the mis-match of income and property prices, given that bulk of the overhang high-rise units are priced above RM500,000. Majority of the property players are also now proceeding with their launches on a more prudent, gradual and progressive manner (new residential property launches fell 50.2% YoY to slightly over 16,000 units in 1H23). As at end-2022, we gather that Malaysia household debt-to-GDP ratio moderated to 81.2% – the lowest since 2011. Although the aforementioned ratio bodes well, majority of Malaysians are coping with the rising cost of living due to the low wages and multiple special withdrawals from their retirement funds. Hence, the ability to gear up for big ticket items remains challenging. With Bank Negara taking a pause in OPR hike, we expect loan applications to tick higher in subsequent months as the move could provide some relieve for prospective homebuyers and allowed planned purchases to proceed accordingly.
- **Valuation & Recommendation.** We favour property players that sits on strong balance sheet that is expected to be able to weather the interest rate upcycle environment (holding cost of land banks), coupled with good traction of township developments such as **S P Setia Bhd (NR)**, **Matrix Concepts Holdings Bhd (NR)** and **OSK Holdings Bhd (NR)**. Meanwhile, our top picks are **Lagenda Properties Bhd (BUY; FV: RM1.63)** for its strong exposure in the affordable housing segment which is strongly aligned with the mass market demand and **Skyworld International Bhd (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 current PB for the property sector at 0.5x and 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.** We expect the property sector to operate in a challenging landscape in bid to balance between the rising material and operational costs and delivery of sales. We are **Neutral** on the property sector on the back of the (i) stability in demand for residential properties, (ii) slower rollout in commercial properties to ensure no. of overhang units kept in check and (iii) pent-up demand for industrial properties as a proxy to rising foreign direct investment (FDI) following the US-China trade diversion.

### Top Picks

Company	Price (RM)		P/E (x)		Dividend Yield (%)	Target Price (RM)	Potential Upside / Downside
	as at 29Sep23	2022	2023F	2024F			
Lagenda Properties Bhd	1.29	7.13	7.05	6.02	4.88	1.52	17.8%
Skyworld International Bhd#	0.585	4.07	5.22	4.59	3.83	0.84	43.6%
LBS Bina Group Bhd*	0.56	6.11	7.74	7.53	3.57	0.68	21.4%
Matrix Concepts Holdings Bhd*	1.49	7.36	7.24	7.67	6.71	1.85	24.2%
OSK Holdings Bhd*	1.22	4.66	5.81	5.30	4.92	1.61	32.0%

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

\* Denotes Bloomberg consensus data

Source: Apex Securities Bhd, Bloomberg