

Malaysia Property Developers turn cautious

NEUTRAL ,

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Bracing for uncertainty in 2023

External factors such as tightening monetary policy, supply chain disruptions and labour shortage issues will likely linger into 2023 and continue to weight on property stocks. Developers are turning cautious and intend to slow down their property launches. Industrial parks continue to be favoured. We prefer lowly-geared township developers. Our BUYs: ECW, SDPR, TILB. We also have a tactical BUY on ECWI. Maintain NEUTRAL.

Mixed deliveries in 3Q22

Of the 7 developers under our coverage, net profit of three for quarters ended Sep/Oct 2022 were in line (ECW, SDPR, SWB) while two (TILB, UEMS) were above and two (SPSB, ECWI) were below our expectations due to lower-than-expected project margins. Sales wise, 57% of developers' (ECW, ECWI, SDPR, TILB) FY22/9M22 sales were above expectations while 43% (SPSB, SWB and UEMS) fell short. UEMS is unlikely to meet its FY22 sales target of MYR1.5b due to the delay of a few new launches while SPSB and SWB remain confident of achieving their FY22 sales targets.

Slow down to speed up

No indication on FY23 sales targets yet (except for ECW and ECWI) but we expect FY23 target could either be flat or up marginally YoY due to slower launches by the developers as the labour supply issues have persisted and remain unresolved. To avoid higher construction costs and potential delays in 'product' delivery, a few developers plan to slow down their launches. Also, developers are cautious on property demand as higher interest rates would hit buyers' affordability. To recap, mortgage loan applications have declined by -7% QoQ and -15% YoY to MYR33.5b in Oct 2022.

Industrial properties, the saving grace

Industrial properties have gained traction in 2022 especially after the reopening of international borders in Apr 2022. We expect the strong sales momentum to extend into 2023 with rising investment diversion from China on persisting US-China trade war. During the Sep/Oct 2022 quarter earnings reporting season, we have upgraded TILB/UEMS to BUY/HOLD (from HOLD/SELL), respectively, maintained BUY on ECW and SDPR, and HOLD on SPSB and SWB. We have also upgraded ECWI to tactical BUY (from SELL) due to potential distribution windfall via a capital repayment.

Analyst

Wong Wei Sum, CFA (603) 2297 8679 weisum@maybank-ib.com

Figure 1: Net gearing *

Со	Net gearing (x)
ECW MK	0.31
ECWI MK	Net cash
SPSB MK	0.64
SDPR MK	0.28
SWB MK	0.49
UEMS MK	0.50
TILB MK	Net cash

* As at latest reporting quarter Source: Companies

Stock	Bloomberg	Mkt cap	Rating	Price	TP	Upside	P/E (x)		P/B (x)		Div yld (%)	
	code	(USD'm)		(LC)	(LC)	(%)	22E	23E	22E	23E	22E	23E
Sunway	SWB MK	1,773	Hold	1.59	1.63	3	17.8	15.1	0.8	0.7	1.7	2.0
Sime Darby Prop.	SDPR MK	692	Buy	0.45	0.58	29	10.3	7.5	0.3	0.3	4.8	6.6
SP Setia	SPSB MK	571	Hold	0.62	0.72	16	9.1	5.8	0.2	0.2	0.2	3.4
Eco World Dev	ECW MK	446	Buy	0.67	0.81	21	7.7	7.2	0.4	0.4	8.3	7.5
UEM Sunrise	UEMS MK	280	Hold	0.25	0.23	(6)	14.5	12.5	0.2	0.2	1.4	1.6
Eco World Int'l	ECWI MK	217	Buy	0.40	0.66	65	nm	nm	0.3	0.4	0.0	0.0
Tambun Indah	TILB MK	76	Buy	0.77	0.86	12	5.3	5.5	0.5	0.4	7.5	7.3

Sep/Oct 2022 quarter results review

Excluding ECWI (where its sales are derived solely from London and Melbourne), local developers under our coverage delivered mixed sales results in 9M22/12M22 where 50% of them (ECW, SDPR, TILB) reported better-than-expected sales while the remaining 50% (SWB, SPSB, UEMS) reported slower-than-expected sales. While SPSB and SWB remain confident of achieving their FY22 sales targets, UEMS will not be able to meet its FY22 sales target of MYR1.5b due to the delay in launching new projects in the Klang Valley and Melbourne. The company is now negotiating for an enbloc sale for its Melbourne project worth MYR900m in GDV. Elsewhere, ECWI's FY22 (FYE Oct) sales were 8% above its initial FY22 sales target of MYR2b. The company is prioritizing cash flow over profitability and is focusing on clearing its completed inventories. Both ECW and ECWI have set lower sales targets of MYR3.5b (-8% YOY) and MYR1.4b (-35% YOY) for FY23 (FYE Oct), respectively.

While a higher interest rate has yet to hurt property sales momentum in a significant way, our recent conversations with developers revealed that demand on mid-to-low end properties is slowing as low-to-middle income buyers' affordability may have been hit by the interest rate hikes. Recent bank statistics have also shown that mortgage loan applications have declined by -7% QoQ and -15% YoY to MYR33.5b in Oct 2022.

Industrial property developments have gained traction especially after the reopening of international borders in Apr 2022. Developers like ECW is looking to acquire new landbank for industrial properties after its industrial property sales jumped by +1.5x YoY to MYR753m in FY22 while SDPR has acquired 949 acres of agricultural land from SDPL MK (HOLD; CP: MYR4.40, TP: MYR4.42) for MYR618m or MYR15psf in early Dec 2022. The land will then be developed into an industrial park, we understand.

During the Sep/Oct 2022 quarter earnings reporting season, we have made a few changes on our stock ratings for: i) TILB to BUY (from HOLD), ii) UEMS to HOLD (from SELL) and iii) ECWI to tactical BUY (from SELL) while maintaining our BUYs on ECW and SDPR, and HOLDs on SPSB and SWB.

We like ECW, SDPR and TILB for their healthy/clean balance sheet and involvement in the sustainable 'bread-and-butter' landed (ECW, TILB, SDPR) and industrial (ECW, SDPR) properties. ECW/SDPR/TILB are also backed by attractive net dividend yields of 7.4%/5.7%/7.3%, respectively.

As for ECWI, we like the potential distribution windfall of 37.5 sen/sh (which accounts for 90% of its current share price) by end 2023. To recap, ECWI expects to generate more than MYR1b from the sale of inventories in FY23. Setting aside working capital requirements, it aims to distribute excess cash of MYR900m to its shareholders. This will be after the settlement of its MTNs in May 2023 and obtaining the necessary regulatory and shareholders' approvals.

Figure 2: Malaysia: OPR hikes in 2022

2022	Change in OPR (bps)	New OPR (%)
11 May	+0.25	2.00
6 July	+0.25	2.25
8 Sep	+0.25	2.50
3 Nov	+0.25	2.75

Source: BNM



Figure 3: Results summary

Company	FYE	Quarterly results	Latest results: Below/in line/above	FY22 sales target (MYRm)	Latest sales: Below/in line/above	Remarks
ECW	Oct	4QFY10/22	In line	3,500	Above	Unbilled sales stood at MYR3.5b at end Oct 22 (1.1x FY23E revenue).
ECWI	Oct	4QFY10/22	Below	2,000	Above	•
SDPR	Dec	3QFY22	In line	2,600	Above	Unbilled sales stood at MYR3.5b at end-Sep 22 (0.8x FY23E revenue).
SPSB	Dec	3QFY22	Below	4,000	Below	Unbilled sales stood at MYR8.4b at end-Sep 22 (1.5x FY23E revenue).
SWB	Dec	3QFY22	In line	2,200	Below	Unbilled sales stood at MYR3.7b at end-Sep 22 (2.6x FY23E revenue).
TILB	Dec	3QFY22	Above	130	Above	Unbilled sales stood at MYR90m end-Sep 22 (0.4x FY23E revenue).
UEMS	Dec	3QFY22	Above	1,500	Below	Unbilled sales stood at MYR2.2b end-Sep 22 (1.6x FY23E revenue).

Source: Companies

Upside/downside risks to our calls

i) Stronger-than-expected property sales driven by better economic outlook, ii) policy risks, iii) easing of lending measures by the banks, iv) higher-than-expected Liquidated Ascertained Damages (LAD) compensation following latest ruling by the Federal Court and v) rising building material costs and labour issues.



Research Offices

ECONOMICS

Suhaimi ILIAS Chief Economist Malaysia | Philippines | Global (603) 2297 8682 suhaimi_ilias@maybank-ib.com

CHUA Hak Bin

gional Thematic Macroeconomist chuahb@maybank.com

LEE Ju Ye Singapore | Thailand | Indonesia (65) 6231 5844 leejuye@maybank.com

Dr Zamros DZULKAFLI (603) 2082 6818 zamros.d@maybank-ib.com

Fatin Nabila MOHD ZAINI

(603) 2297 8685 fatinnabila.mohdzaini@maybank-ib.com

Brian LEE Shun Rong (65) 6231 5846 brian.lee1@maybank.com

Luong Thu Huong (65) 6231 8467

hana.thuhuong @maybank.com

Saktiandi SUPAAT (65) 6320 1379 saktiandi@maybank.com

Fiona LIM (65) 6320 1374 fionalim@maybank.com

(65) 6320 1378 alanlau@maybank.com

(65) 6320 1371 shaunlim@maybank.com

STRATEGY

Anand PATHMAKANTHAN

ASEAN (603) 2297 8783 anand.pathmakanthan@maybank-ib.com

FIXED INCOME

Winson PHOON, FCA Head of Fixed Income (65) 6340 1079 winsonphoon@maybank.com

SE THO Mun Yi. CFA (603) 2074 7606 munyi.st@maybank-ib.com

PORTFOLIO STRATEGY

CHAN Han Chin (603) 2297 8888 hanchin.chan@mavbank-ib.com

ongsengyeow@maybank.com

MIBG SUSTAINABILITY RESEARCH

Head of Sustainability Research (91) 22 4223 2632 jigars@maybank.com

Neerav DALAL (91) 22 4223 2606

REGIONAL EQUITIES

Anand PATHMAKANTHAN Head of Regional Equity Research (603) 2297 8783

anand.pathmakanthan@maybank-ib.com

WONG Chew Hann, CA Head of ASEAN Equity Research (603) 2297 8686 wchewh@maybank-ib.com

ΜΑΙ ΔΥSΙΔ

Anand PATHMAKANTHAN Head of Research (603) 2297 8783 anand.pathmakanthan@maybank-ib.com

Strategy

WONG Chew Hann, CA (603) 2297 8686

wchewh@mavbank-ib.com

Non-Bank Financials (stock exchange)
 Construction & Infrastructure

Desmond CH'NG, BFP, FCA (603) 2297 8680 desmond.chng@maybank-ib.com

Banking & Finance

LIAW Thong Jung (603) 2297 8688 tjliaw@maybank-ib.com • Oil & Gas Services- Regional

Automotive

ONG Chee Ting, CA (603) 2297 8678 ct.ong@maybank-ib.com · Plantations - Regional

YIN Shao Yang, CPA (603) 2297 8916 samuel.y@maybank-ib.com Gaming - Regional
 Media • Aviation • Non-Bank Financials

TAN Chi Wei, CFA (603) 2297 8690 chiwei.t@maybank-ib.com • Power • Telcos

WONG Wei Sum, CFA (603) 2297 8679 weisum@maybank-ib.com

· Property · Glove

(603) 2297 8687 jade.tam@maybank-ib.com Consumer Staples & Discretionary

Nur Farah SYIFAA (603) 2297 8675

nurfarahsyifaa.mohamadfuad@maybank-ib.com Renewable Energy • REITs

Arvind JAYARATNAM

(603) 2297 8692 arvind.jayaratnam@maybank.com
• Petrochemicals • Technology

Shafiq KADIR, CFA

(603) 2297 8691 msshafiqk.abkadir@maybank-ib.com • Healthcare • Software

LOH Yan Jin (603) 2297 8687 lohyanjin.loh@maybank-ib.com • Ports • Shipping

Eugene HOO Yee Hui (603) 2082 6819 eugene.hoo@maybank.com

TEE Sze Chiah Head of Retail Research (603) 2082 6858 szechiah.t@maybank-ib.com · Retail Research

Nik Ihsan RAJA ABDULLAH, MSTA, CFTe (603) 2297 8694 nikmohdihsan.ra@maybank-ib.com

Amirah AZMI

(603) 2082 8769 amirah.azmi@maybank-ib.com

SINGAPORE

Thilan WICKRAMASINGHE Head of Research (65) 6231 5840 thilanw@maybank.com
• Banking & Finance - Regional

• Consumer

Eric ONG (65) 6231 5924 ericong@maybank.com · Healthcare · Transport · SMIDs

Kelvin TAN (65) 6231 5837 kelvintan1@maybank.com • Telcos • Industrials

LI Jialin (65) 6231 5845 jialin.li@maybank.com

• RFITs

Technology

Jarick SEET (65) 6231 5848 jarick.seet@maybank.com

PHILIPPINES

Jacqui de JESUS Head of Research (63) 2 8849 8840 jacqui.dejesus@maybank.com
• Strategy • Conglomerates

Rachelleen RODRIGUEZ, CFA

(63) 2 8849 8843 rachelleen.rodriguez@maybank.com
• Banking & Finance • Transport • Telcos

Danhne S7F

(63) 2 8849 8847 daphne.sze@maybank.com • Consumer

Miguel SEVIDAL (63) 2 8849 8844 miguel.sevidal@maybank.com • REITs • Property • Gaming

Fiorenzo de JESUS (63) 2 8849 8846 fiorenzo.dejesus@maybank.com
• Utilities

THAILAND

Malcolm LUI, CFA Head of Research (66) 2658 6300 ext 1399 malcolm.lui@maybank.com

Strategy

Jesada TECHAHUSDIN, CFA (66) 2658 6300 ext 1395 iesada.t@maybank.com Banking & Finance

Yuwanee PROMMAPORN (66) 2658 6300 ext 1393 Yuwanee.P@maybank.com
• Services • Healthcare

Wasu MATTANAPOTCHANART

(66) 2658 6300 ext 1392 wasu.m@maybank.com Telcos

Surachai PRAMUALCHAROENKIT (66) 2658 5000 ext 1470 Surachai.p@maybank.com

· Auto · Conmat · Contractor · Steel Suttatip PEERASUB (66) 2658 5000 ext 1430

suttatip.p@maybank.com • Food & Beverage • Commerce Jaroonpan WATTANAWONG

(66) 2658 5000 ext 1404 jaroonpan.w@maybank.com
• Transportation • Small cap

INDONESIA

Jeffrosenberg CHENLIM Head of Research (62) 21 8066 8680

Jeffrosenberg.lim@maybank.com Strategy Banking & Finance

Willy GOUTAMA (62) 21 8066 8500

willy.goutama@maybank.com
• Consumer

Richard SUHERMAN (62) 21 8066 8691

richard.suherman@maybank.com
• Metals & Mining Ftta Rusdiana PUTRA (62) 21 8066 8683 etta.putra@maybank.com

Satriawan, CTA (62) 21 8066 8682

satriawan@maybank.com Chartist

VIETNAM

Telcos

Quan Trong Thanh Head of Research (84 28) 44 555 888 ext 8184 thanh.quan@maybank.com
Strategy • Banks

Hoang Huy, CFA (84 28) 44 555 888 ext 8181 hoanghuy@maybank.com • Strategy • Technology

Le Nguyen Nhat Chuyen (84 28) 44 555 888 ext 8082 chuyen.le@maybank.com Oil & Gas - Logistics

Nguyen Thi Sony Tra Mi (84 28) 44 555 888 ext 8084 trami.nguyen@maybank.com
Consumer Discretionary

Tran Thi Thanh Nhan (84 28) 44 555 888 ext 8088 nhan.tran@maybank.com
• Consumer Staples

Nguyen Le Tuan Loi (84 28) 44 555 888 ext 8088 loi.nguyen@maybank.com • Industrials

Nguyen Thi Ngan Tuyen Head of Retail Research (84 28) 44 555 888 ext 8081 tuyen.nguyen@maybank.com
Retail Research

Nguyen Thanh Lam (84 28) 44 555 888 ext 8086 thanhlam.nguyen@maybank.com Chartist



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Malaysia

Maybank Investment Bank Berhad (A Participating Organisation of Bursa Malaysia Securities Berhad) 33rd Floor, Menara Maybank, 100 Jalan Tun Perak, 50050 Kuala Lumpur

Tel: (603) 2059 1888; Fax: (603) 2078 4194

Stockbroking Business: Level 8, Tower C, Dataran Maybank, No.1, Jalan Maarof

59000 Kuala Lumpur Tel: (603) 2297 8888 Fax: (603) 2282 5136

Singapore

Maybank Securities Pte Ltd Maybank Research Pte Ltd 50 North Canal Road Singapore 059304

Tel: (65) 6336 9090

Indonesia

PT Maybank Sekuritas Indonesia Sentral Senayan III, 22nd Floor Jl. Asia Afrika No. 8 Gelora Bung Karno, Senayan Jakarta 10270, Indonesia

Tel: (62) 21 2557 1188 Fax: (62) 21 2557 1189

Thailand

Maybank Securities (Thailand) PCL 999/9 The Offices at Central World, 20th - 21st Floor, Rama 1 Road Pathumwan, Bangkok 10330, Thailand

Tel: (66) 2 658 6817 (sales) Tel: (66) 2 658 6801 (research)

Sales Trading

Kevin Foy Regional Head Sales Trading kevinfoy@maybank.com Tel: (65) 6636-3620 US Toll Free: 1-866-406-7447

Indonesia Helen Widjaja helen.widjaja@maybank.com (62) 21 2557 1188

Philippines Keith Roy keith_roy@maybank.com Tel: (63) 2 848-5288 London Greg Smith gsmith@maybank.c

gsmith@maybank.co.uk Tel: (44) 207-332-0221

India Sanjay Makhija sanjaymakhija@maybank.com Tel: (91)-22-6623-2629

London

Maybank Securities (London) Ltd PNB House 77 Queen Victoria Street London EC4V 4AY, UK

Tel: (44) 20 7332 0221 Fax: (44) 20 7332 0302

India

MIB Securities India Pte Ltd 1101, 11th floor, A Wing, Kanakia Wall Street, Chakala, Andheri -Kurla Road, Andheri East, Mumbai City - 400 093, India

Tel: (91) 22 6623 2600 Fax: (91) 22 6623 2604

Vietnam

Maybank Securities Limited Floor 10, Pearl 5 Tower, 5 Le Quy Don Street, Vo Thi Sau Ward, District 3 Ho Chi Minh City, Vietnam

Tel: (84) 28 44 555 888 Fax: (84) 28 38 271 030

Hong Kong

MIB Securities (Hong Kong) Limited 28/F, Lee Garden Three, 1 Sunning Road, Causeway Bay, Hong Kong

Tel: (852) 2268 0800 Fax: (852) 2877 0104

Philippines

Maybank Securities Inc 17/F, Tower One & Exchange Plaza Ayala Triangle, Ayala Avenue Makati City, Philippines 1200

Tel: (63) 2 8849 8888 Fax: (63) 2 8848 5738

www.maybank.com/investment-banking www.maybank-keresearch.com

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