

Headline	Asean property plays		
MediaTitle	The Edge		
Date	23 Jul 2012	Color	Full Color
Section	Corporate	Circulation	25,041
Page No	35to38	Readership	75,123
Language	English	ArticleSize	1235 cm²
Journalist	N/A	AdValue	RM 21,264
Frequency	Weekly	PR Value	RM 63,792



LEAD STORY

Asean property plays

The move for regional economic integration by 2015 bodes well for the property sector, says UOB Kay Hian's Vikrant Pandey. Where can investors find the best opportunities and which markets will attract the most property investment flows? See story on **Page 36**.

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Emergence of Asean a boon for property sector, according to UOB Kay Hian analyst

BY Goola Warden
OF THE EDGE SINGAPORE

Vikrant Pandey, UOB Kay Hian's property analyst, is well known for always having a view on Singapore's real estate market and the country's leading developers. These days, however, he's been talking a lot more about the property markets of neighbouring countries.

At the 12th Asean Summit in January 2007, Asean governments affirmed their strong commitment to regional economic integration and the establishment of an Asean community. In particular, the timetable pointed to the setting up of the Asean Economic Community (AEC) by 2015 and to transform Asean into a region with free movement of goods, services, investment, skilled labour, and freer flow of capital. The combined region would have a relatively young population of 600 million people, GDP of US\$2 trillion (RM6.3

trillion) and economic growth averaging some 6% per annum.

"It will attract a new set of investments looking at Asean as a whole, and Singapore as a key country would benefit from that," Pandey tells *The Edge Singapore*. "Singapore has been pitching itself as the capital of Asean." Meanwhile, Thailand could increasingly turn into the manufacturing base of the regional grouping. On the other hand, Malaysia could end up producing resources such as palm oil, cocoa and crude oil, while Indonesia could be the centre for coal and oil, according to Pandey.

As for the poorer countries within Asean such as Myanmar, Laos, Cambodia and Vietnam, tighter integration with their more developed neighbours could be especially beneficial. "If you take the individual countries, the risk premium is very high. But if you talk about a bloc, the risk premium goes down," Pandey says. "Those countries which have higher risk premium than the average will improve the most, and these

include Myanmar and Cambodia once entry barriers are reduced."

What does all this have to do with the property market? More foreigners are likely to set up businesses in the region, and the need to accommodate increased numbers of expatriates and intra-regional investors will benefit the property market, Pandey points out.

In addition, the reduced entry barriers make it easier for developers to expand their regional presence. Instead of just Singapore, developers could start projects in places such as Malaysia, Thailand and Indonesia once the barriers are reduced. "You will have Singapore developers growing into Asean, like CapitaLand investing in Malaysia and Vietnam," Pandey says. "You will see other developers coming to Singapore, like [Malaysia's] S P Setia, IGB and so on."

As it is, Malaysians and Indonesians have long demonstrated a natural affinity for Singapore's property market. In fact, Indonesians and



Pandey: Interest rates are at their lowest levels since the Asian financial crisis

Malaysians have been one of the top sources of foreign purchasers of residential property in Singapore, accounting for between 40% and 50% of foreign buyers in 2009-2011. Meanwhile, Singaporeans have been buying property in Iskandar Malaysia (IM) and other parts of Johor. In IM, Singaporeans and other foreigners accounted for almost 80% of the purchasers at UEM Land's developments Imperia at Puteri Harbour and Impiana at East Ledang, according to UOB Kay Hian's report.

So, where is the opportunity greatest for property investors? Which markets will attract the most property investment flows? And, what does

it mean for property stocks?

Indonesia tops the list

UOB Kay Hian recently produced an 80-page report on Asean property stocks, focusing closely on the countries where it maintains research offices, namely Singapore, Malaysia, Thailand and Indonesia. The report identifies key factors affecting property stocks: government and macroeconomic policy; property market demand-supply dynamics; home affordability; liquidity; stock valuations; and growth and profitability. "We've built a scoring model around these key factors looking at

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Property prices in Indonesia could still rise by 30%, says Pandey

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Singapore, Malaysia, Indonesia and Thailand," Pandey explains.

On that basis, Indonesian property stocks come out tops, scoring well on growth and profitability as well as demand-supply dynamics, but slightly less on liquidity and valuations, Pandey says. However, the outlook for property stocks around the region is actually looking positive because interest rates are at their lowest levels since the Asian financial crisis (AFC), he adds.

"Interest rates are very low in Singapore and Thailand, higher in Malaysia and highest in Indonesia. But compared with 1996, they are at a record low across the region," Pandey says. "Banks are flush with liquidity and they are looking for [somewhere] to park their money." That could spell an expansion

in mortgage financing, which Pandey says could lead to the residential property market rising steadily for several more years.

To be sure, prices have already risen strongly over the last few years. In fact, property prices in central Jakarta have doubled since 2009. Yet, they aren't at excessive levels yet, according to Pandey. "We still feel there is no bubble and there is ample growth potential because the contribution of the property sector is only 4% of the GDP in Indonesia. Compare that to 23% for Malaysia."

Also, mortgage loans account for only 13% of credit in Indonesia now, compared with 48% during the AFC. Moreover, property in central Jakarta comprises the high-end segment. "It's like what Singapore saw in 2007 when the high-end moved up. Subsequently, the mid- and mass-market moved up." Fur-

thermore, Indonesians in general pay cash, and mortgage loan tenures are usually for just 10 years compared with 30 years in Singapore. "Indonesia is in a very long bull cycle," Pandey maintains. Although growth could slow down, prices could still rise by 30% and volume by 10% to 15% he adds.

Additionally, Pandey believes the new land bill in Indonesia, the Compulsory Land Acquisition Act, will have a positive impact on Indonesian developers. In the past, infrastructure couldn't be built across private property, stymieing development. "With this Act, you will see a lot more infrastructure development, and properties will benefit because of that," Pandey says.

Among the Indonesian property developers, UOB Kay Hian recommends Alam Sutera Realty, with a target price of IDR840, based on

a 30% discount to the brokerage firm's RNAV of IDR1,200 per share, and Ciputra Surya, which is trading at a 42% discount to its RNAV of IDR3,271 apiece.

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Singapore in second place

Based on its scoring system, UOB Kay Hian figures that Singapore property stocks are the second-most attractive in the region now, despite the draconian anti-speculative measures that were introduced. "Singapore stands out at the top in terms of valuations, and offers the best liquidity," Pandey says.

The way he sees it, Singapore property stocks are just too depressed. "Right now, in Singapore, markets are pricing in a discount of almost 50% to NAV for companies against the physical property prices. When the market gets confirmation that the fall will not be as deep as 40% — let's say the fall gets arrested at 10% to 15% — then you have room for a 20% to 50% rally on the valuation gap, let alone the growth potential," Pandey explains.

While most of the action in the physical property market has been in the mass-market sector, Pandey sees the high-end segment recovering soon. "In the past, high-end was driven by foreigners," he notes. But the punitive stamp duty rates imposed on foreigners have deterred them from buying. "Now, Singaporeans are picking up the slack. You will start seeing the bottom-up approach filtering up to the high-end."

Pandey also points out that median wages in Singapore are double those in Hong Kong, yet property prices are half those in the Special Administrative Region. He also estimates that the mortgage-to-income ratio in Singapore is only around 30%. "Singapore is the only country in the region that offers positive carry, in the sense that when you buy a house, the rent can pay for your mortgage and give you more, so rental yields are higher than your interest cost," he says.

In terms of individual stocks, Pandey likes Ho Bee International and CapitaLand, largely on valuation grounds. Ho Bee is trading at a 51% discount to its RNAV of S\$2.50, while

CapitaLand is trading at a 30% discount to its RNAV of S\$4.27.

Conducive policy in Thailand

Elsewhere, Thailand's property sector looks best from the government policy angle. "After the floods, Thailand is in stimulus mode. The country's liquidity is quite high compared with the region, just below Singapore's," Pandey says. Condominiums had become more popular after the floods, especially in the CBD and resort towns like Pattaya and Hua Hin, but preferences are shifting back to landed property. Pandey says UOB Kay Hian is advising clients to switch back to Land & Houses PCL, which had experienced a correction and offers value.

As for Malaysia, the country ranks best from the affordability angle although the policy cycle is turning less positive. "If you are looking at the mortgage as a percentage of household income, this ratio is the lowest for Malaysia," Pandey says. The country also has a couple of interesting property themes. Firstly, there is IM, the huge growth zone at Singapore's doorstep. Secondly, in Kuala Lumpur, the new MRT system being built could breathe life into certain developments. As a play on IM, UOB Kay Hian is recommending UEM Land, with a target of RM2.68, which is a 25% discount to its RNAV.

Finally, Pandey says that the Philippines could be where the next big opportunity could be for investors in physical property as well as property stocks.

Unfortunately, UOB Kay Hian doesn't currently have a presence in that market. Perhaps if the Asean story takes off, that will change. **E**

Goola Warden is an associate editor at The Edge Singapore