Property sector to ride on cyclical recovery, says Public Investment Bank Research | The Edge Markets

Friday, 18 June, 2021 10:07 PM

Clipped from: https://www.theedgemarkets.com/article/property-sector-ride-cyclical-recovery-says-public-investment-bank-research

A

KUALA LUMPUR (June 18): Public Investment Bank Research has upgraded its call on the property sector to "overweight", as it expects the sector's valuations to improve with better pre-sales kicking in.

Its analyst Tan Siang Hing said in a note today the property sector's nascent recovery in 2019 was circumvented by the pandemic-induced economic calamity in early-2020 which effectively reduced the sector to "un-investable", weighed by economic stress, affordability as well as overhang issues.

Nevertheless, he noted that property players are now on a stronger footing with their "kitchen-sinking" of inventories last year, and have proven their resilience despite a few months of zero revenue due to lockdown restrictions.

"Cyclical stocks are starting to see recoveries pick up speed after the Covid-19 vaccination drive started early this year," he said.

He also believed the property sector has more room to run as the economy starts to recover in the second half of 2021 (2H2021) with herd immunity expected to be achieved by end-2021.

"Notwithstanding sector headwinds, we believe that in the absence of exogenous shocks, property pre-sales and the sales recovery seen in 2019 before the pandemic struck should resume," he said.

According to him, the property sector is currently trading at an undemanding 71% discount-to-book value.

Despite generally weaker sentiment in the property market, he believed sentiments toward property stocks will improve once property sales recover more strongly in 2H2021.

"We prefer property developers with good sales track record and would benefit more with the established branding to ride on the cyclical recovery," he said.

He also noted that the property sector which used to be fragmented is now getting more concentrated with the big developers such as S P Setia Bhd, Sime Darby Property Bhd, Eco World Development Group Bhd (EcoWorld), IOI Properties Group Bhd, Gamuda Land Bhd, etc commanding a bigger chunk of the total new sales.

"These players, we reckon, could benefit the most if the sector rebounds going into next year with their scale advantage and well-located land bank with low holding costs," he said.

For sector exposure, he likes S P Setia, EcoWorld, Sime Darby Property, IGB Bhd and LBS Bina Group Bhd. He also upgraded them to "outperform".

On EcoWorld, he said its target price (TP) of 98 sen effectively prices the group at 40% discount to its book value.

He expects the group to meet its FY21 sales target of RM2.87 billion, with sales to recover further to RM3 billion to RM4 billion levels in coming years as the economy recovers from the dearth of pandemic-wreaked damage.

"We do not discount further re-rating of the stock should the group continue its impeccable track record to scale new heights and ride out of the economic storm," he said.

Meanwhile, he said, S P Setia remains the largest property developer in the country with more than 8,500 acres of undeveloped land that has an estimated gross development value (GDV) in excess of RM135 billion.

"Earnings visibility is also good, underpinned by unbilled sales of RM10.05 billion. Group pre-sales for FY20 was RM3.82 billion, surpassing its revised FY20 sales target of RM3.8 billion," he said.

His TP of RM1.25 is based on an unchanged 0.4 times of FY21 price-to-book value (PBV). He opined that S P Setia is currently trading at an undemanding valuation of 0.3 times PBV/price-to-revalued net asset valuation, versus the industry's 0.5 times/0.4 times.

Tan also likes Sime Darby Property (TP: 79 sen) for its strategically located landbank (at low prices) and its strong balance sheet (net gearing of 0.27 times).

“We believe that after the kitchen-sinking exercise of writing off more than RM550 million last year, the group is emerging stronger with focus on digitalisation and cost and operation efficiency,” he said.

He opined that the group will also grow its industrial and logistics developments to support new sales for the year.

According to him, the group has a total landbank of about 20,000 acres with GDV in excess of RM80 billion.

As for IGB, he said he likes the company for the long-term attractiveness of its assets.

While the proposed listing of its commercial assets has already been approved and is currently underway, he said, the group’s other new ventures such as 18 @ Medini (a mixed development in Iskandar Malaysia), a mixed-use development project in Bangkok (six acres) and the offer for the 1.9-acre land in London are now put on hold due to the current difficult market conditions.

His TP of RM2.70 is pegged at about 65% discount to his revised net asset value (RNAV) estimates.

He also added that LBS Bina remains an attractive proposition given its entrenched position as a leading player in the domestic mass-market affordable housing segment.

He opined that its earnings visibility is healthy, underpinned by its strong unbilled sales of RM2 billion and its annual sales replenishment rate of about RM1 billion.

“Our valuation of 69 sen is pegged at about 50% discount to our RNAV estimates,” he said.