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11 January 2023

Malaysia Property

Sector weight
Property (Neutral)
Reits (Overweight)

Sime Darby Property SDPR MK

New rec	O-PF
Market cap	US\$0.7bn
3M ADV	US\$0.2m
Price	RM0.46
New target	RM0.52
Up/downside	+13%

Sunway SWB MK

New rec	O-PF
Market cap	US\$1.8bn
3M ADV	US\$0.7m
Price	RM1.66
New target	RM1.85
Up/downside	+11.4%

AME ELITE AME MK

New rec	O-PF→BUY
Market cap	US\$0.2bn
3M ADV	US\$0.2m
Price	RM1.28
New target	RM1.74→RM1.65
Up/downside	+28.9%

SP Setia SPSB MK

New rec	SELL
Market cap	US\$0.6bn
3M ADV	US\$0.8m
Price	RM0.61
New target	RM0.70→RM0.60
Up/downside	-0.8%

Axis Reit AXRB MK

New rec	BUY
Market cap	US\$0.7bn
3M ADV	US\$0.3m
Price	RM1.83
New target	RM2.60
Up/downside	+42.1%

Sunway Reit SREIT MK

New rec	U-PF
Market cap	US\$1.2bn
3M ADV	US\$0.3m
Price	RM1.53
New target	RM1.45
Up/downside	-5.3%

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Looking for some excitement

Overweight Reits but Neutral on property sector

While there is little to be excited about in Malaysia's property sector. Despite beaten down valuations, we believe investors should look to corporate activity and portfolio enhancements. We remain bullish on industrial properties, Neutral on residential properties and cautious on office and retail properties. All in, we are Neutral on the property sector. We favour industrial Reits, and we continue to see a recovery in the retail and hospitality segments. Furthermore, the end of the rate-hike cycle should see yield spreads widen for Reits. Our picks are Sime Darby Property, Sunway Bhd and Axis Reit. We upgrade our rating on AME Elite to BUY with our top SELL SP Setia.

Staying positive on industrial property

- We are still positive in the industrial segment as it is still in a sweet spot for investors with continuous investment growth and as demand continues to outweigh supply.
- Residential properties did well in 2022 but we expect moderation in 2023. Most property developers are looking at land-banking activities in 2023. Oversupply remains a structural issue but appears to be in the affordable housing segment.
- A better year for the retail sector as tenant sales and footfall should continue to recover. However as the supply of shopping malls remains insatiable, rental yield upside will be capped and rental reversions for retail Reits will be less attractive.
- The oversupply of office space will linger in 2023. Office rental rates are yet to recover even after most Covid-19 restrictions were lifted in 2022. Prime office Reits with high quality tenants will survive.

Supporting factors to keep the overall property sector relevant

- The Malaysia property sector has been in the doldrums since 2014 and there has been no improvement even when tracking share price performance over the past five years. The FBMKLCI Property Index continued its downshift but the FBMKLCI Reit Index has been largely stable thanks to dividend yields.
- Higher incomes and better employment prospects should keep potential home buyers positive on home purchases.
- Rate hikes have not deterred property purchases in 2022. Mortgage applications and approvals have increased but the approval rate are around 40%, below the 47% of 2018.

Looking for a silver lining in the property sector

- We are Neutral on the property sector. While valuations are undemanding, we continue to see limited excitement in the sector. With sales normalising and margins at best maintaining their current levels, we do not see overly strong catalysts for the sector.
- Corporate action may be needed to spur interest in the sector. For this, we would pick Sime Darby Property (O-PF, target price RM0.52), for further developments in its industrial property operations, and Sunway Bhd (O-PF, target price RM1.85) for the eventual unlocking of its healthcare assets.
- We upgrade AME Elite to BUY but with a lower target price of RM1.65 as the stock has been unduly beat down despite having positive prospects.
- SP Setia remains a SELL; we lower our target price as we update our RNAV valuation. We see limited catalysts for the stock. Its persistently high gearing ratio at 0.65x despite efforts to monetise non-core assets remains a concern. New launches are limited to its existing matured townships with little land-banking ambitions.
- There is no change in our view on Mah Sing (U-PF, target price RM0.60) as gloves remain a stigma for stock despite being non-core. Eco World (O-PF, target price RM0.69) may see slower momentum ahead as it focuses on land-banking.

Overweight Reits with Axis Reit remaining our pick

- We are Overweight Reits in anticipation of interest returning as we reach the end of the rate-hike cycle. We expect yield spreads to widen, increasing the appeal for Reits.
- Axis Reit (BUY, target price RM2.60) remains our pick for Reits as the company rides the growth of the industrial segment in Malaysia. Acquisitions remains its focus.
- We continue to like IGB Reit (BUY, target RM2.00) as a pure retail mall Reit proxy. While KLCC Stapled Group (O-PF, target price RM7.50) offers high quality office asset exposure.
- We do not favour Sunway Reit (U-PF, target price RM1.45) for being overly diversified.

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Preference differ across property subsectors; staying bullish on industrial properties

Staying bullish on industrial properties

Within the sub segments of the property sector which is also relevant to the reits, we stay bullish in the industrial properties, neutral on residential properties but cautious on offices and retail properties. Industrial properties continue to soar as demand continues to outstrip supply. The residential property space saw strong sales in 2022 and we expect some normalcy in 2023 although momentum should still stay strong as macro factors (income and employment) has been picking up. Retail properties on the other hand still has structural issues of oversupply which might cap upside to rental yields. Similarly the office segment remains in a state of surplus and the situation probably made worse after the pandemic. While we will not be discussing a view on the hospitality segment, we understand that hotels are expected to see supply increasing the next three years but the good news is in the immediate term, as the reopening momentum continues, demand should improve and occupancy rates would inch closer to pre-pandemic levels; hotel room rates have already overshoot to levels before the lockdown.

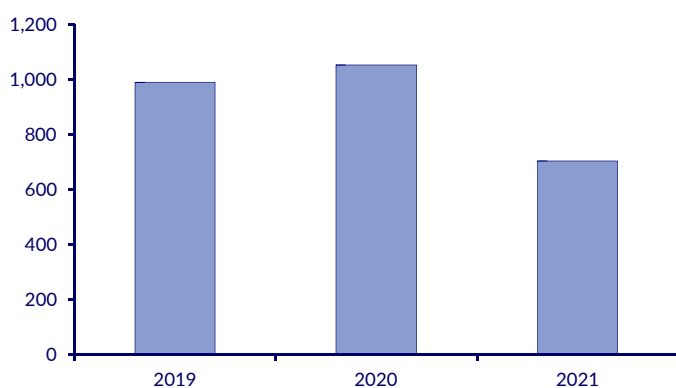
Staying positive on industrial properties

Industrial sector continues to be in favour

We are still positive in the industrial segment still offers sweet spot for investors with continuous growth in investments. Particularly for the manufacturing sector, despite a decline in number of approved projects, the value of new investment coming into Malaysia actually jumped significantly in 2021, according to the Malaysian Investment Development Authority (MIDA). This was primarily driven by foreign investment which surged by more than two folds in 2021; among the key projects include RM1.5bn integrated logistics, warehousing and ecommerce by Logos SE Asia Pte Ltd.

Figure 1

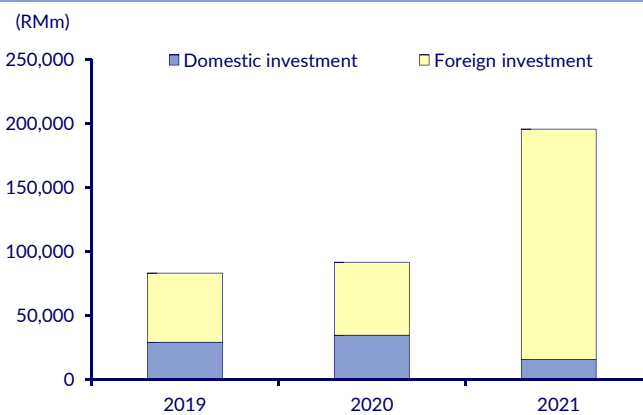
Manufacturing sector: number of approved projects



Source: CLSA, MIDA

Figure 2

Manufacturing sector: value of investments



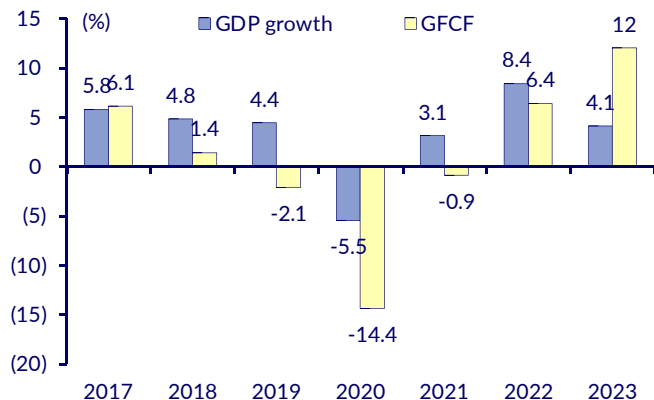
Source: CLSA, MIDA

Capex cycle recovery will spur demand

Malaysia is on track to see a recovery in gross fixed capital formation (GFCF) as the capex cycle recovers. We expect foreign direct investments to be a driving theme for 2023. Malaysia attracted RM194bn of approved private investments in 9M22 (+2.5% YoY), 67% of this was foreign. In fact, foreign investments more than compensated for the lack of investments by domestic firms since 2021.

Figure 3

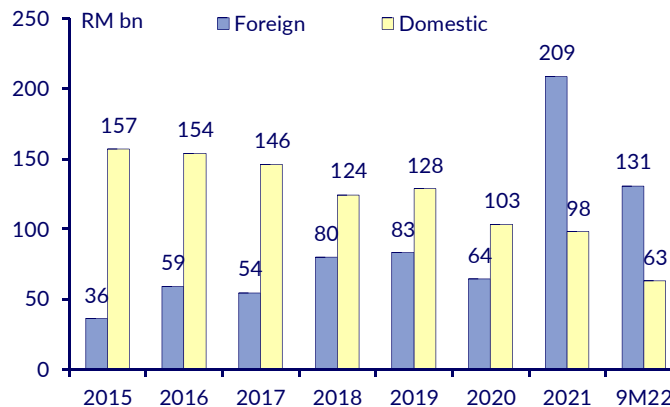
Malaysia's GDP growth versus gross fixed capital formation (GFCF) growth



Source: CLSA, CEIC

Figure 4

Approved investment data by MIDA, categorised by foreign and domestic approved investments



Source: CLSA, Malaysian Investment Development Authority

But the supply of industrial properties is at a slower pace

In essence, the supply of industrial property is still stagnant as demand rose faster than supply. We believe this was exacerbated by the pandemic which saw tremendous enquiries for warehouse as consumers rely on online shopping. According to National Property Information Centre (NAPIC), the number of industrial property in Greater Kuala Lumpur only grew at 0.62% and 0.61% respectively for 2020-21. In addition, NAPIC also forecasting incoming supply of industrial property will be modest at 2.7% while future supply planned in the pipeline will add another 3.6% into existing industrial property in Greater Kuala Lumpur.

Figure 5

Supply of industrial properties in Greater Kuala Lumpur

Property type	Existing supply			Future supply	
	2019	2020	2021	Incoming	Planned
Terraced	31,065	31,192	31,329	393	318
Semi-detached	7,010	7,106	7,184	266	824
Detached	5,724	5,784	5,848	266	477
Flatted factory	1,933	1,933	1,934	247	0
Industrial complex	107	107	108	1	4
Cluster	0	0	0	92	93
Total	45,839	46,122	46,403	1,265	1,716

Source: NAPIC

Most developers are dipping their fingers into the industrial property space. AME Elit and Axis Reit are pure plays

The continue demand outstripping supply spells good news to the industrial property segment. Most property developers have allocated a parcel of its land for industrial purposes—Eco World and SP Setia. Sime Darby Property is building up its industrial property venture via its joint-venture with Logos SE Asia Pte Ltd. The industrial property pure plays are AME Elite and Axis Reit.

Did well in 2022 but 2023 may see some moderation

Residential property to moderate a little

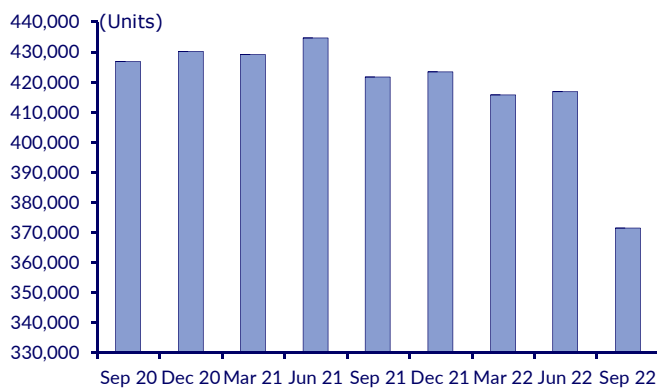
The property companies have done well in 2022 to date with sales exceeding targets set earlier in the year. Most companies appear to be more cautious going into 2023 setting sales targets below levels achieved in 2022. Despite higher interest rates translating to higher mortgage rates, it did not seem to have deterred property buyers. Similar to the backdrop of the consumer sector, higher incomes and better employment prospects should keep potential home buyers positive on home purchases.

Overhang issues remain but now in the affordable housing segment

National Property Information Centre (NAPIC)'s latest data as at 3Q22 indicates that there is high overhang for affordable homes, prompting the need for further studies to be done given that the country has been harping on affordable housing projects. The database showed that there was an overhang of 29,534 units of which 24% were priced below RM300,000 while 29.3% were price between RM300,000 to RM500,000 and it was the states of Johor and Penang having oversupply issues rather than the Klang Valley.

Figure 6

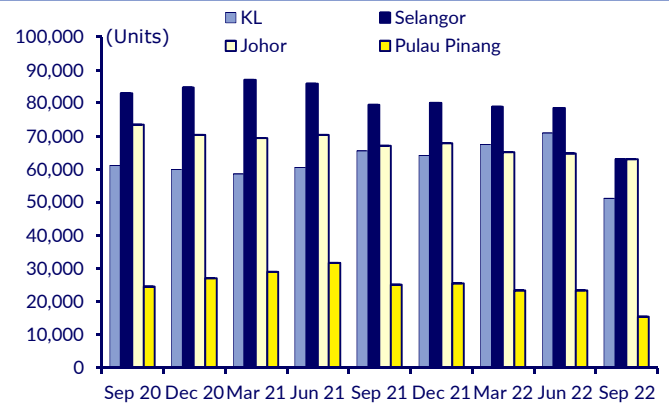
Total residential planned supply



Source: CLSA, CEIC

Figure 7

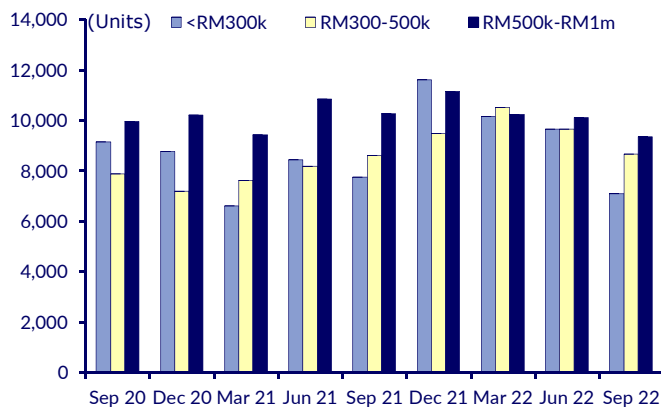
Total residential planned supply by state



Source: CLSA, CEIC

Figure 8

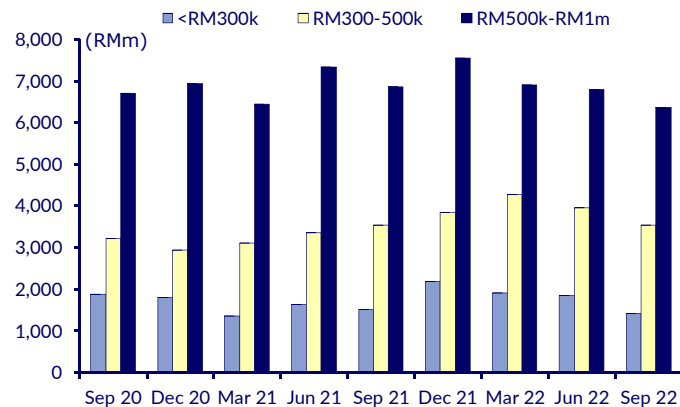
Unsold units completed by type and price range



Source: CLSA, CEIC

Figure 9

Unsold value completed by type of property and price range



Source: CLSA, CEIC

Yet to see any meaningful incentives from the government to spur the residential property sector

There has yet to be many government incentives to send a boost to the residential property sector. The only incentive that has been *announced* for the property sector since the new government has been in place is a 30% cut in assessment for Putrajaya houses costing below RM300,000. Previous housing goodies on stamp duty waivers for residential properties below RM500,000 remains until 2025, while those priced from RM500,000 to RM1m will enjoy a 75% waiver up till end 2023. Developers are now more selective on discounts as construction costs have crimped margins. Foreign buyer threshold has never reduced and are only opened to buying properties exceeding RM1m. The Malaysia My Second Home (MM2H), which was reopened in October 2021, though with some new conditions, coupled with the full reopening of international borders could see some higher-end properties see some demand but we believe will be slow.

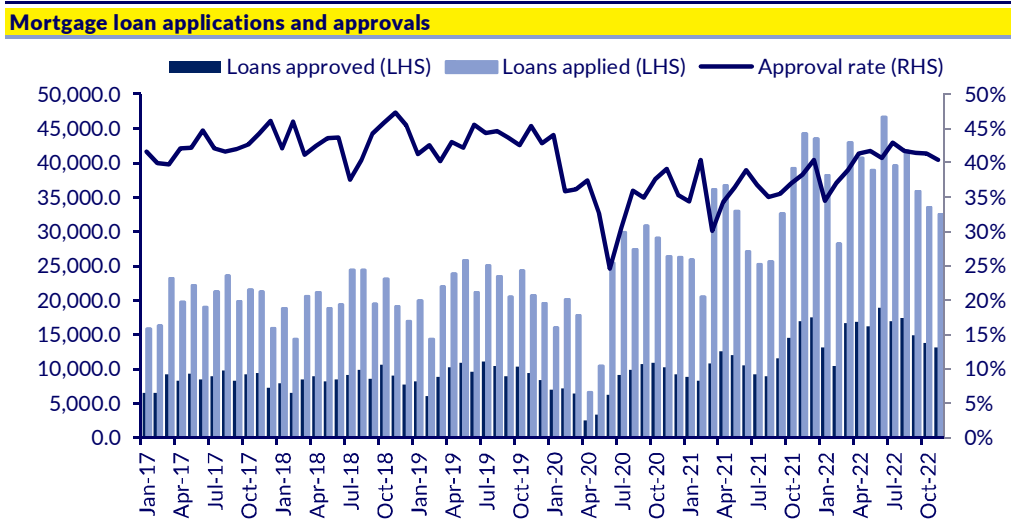
We do not expect any relaxation of financing criteria

Mortgage applications have soared since 2021 while approvals improved from mid-2021 but the approval rate is still at around 40%

Slowdown in launches in 2022

The one relaxation all developers have been waiting for is on financing but that has yet to be seen. We do not expect this to be initiated any time soon due to Bank Negara Malaysia’s concern remains on the continued demand supply imbalances in the residential property sector. As it stands, loan application and approvals for residential properties have improved and it would appear to be driven by “real demand” rather than for speculative investments given the state of affairs since the pandemic. We doubt the central bank will open up floodgates for the previous developer interest bearing scheme (DIBS) to return any time soon. This was last abolished in 2014 and marked the beginning of the down-cycle for the residential property sector.

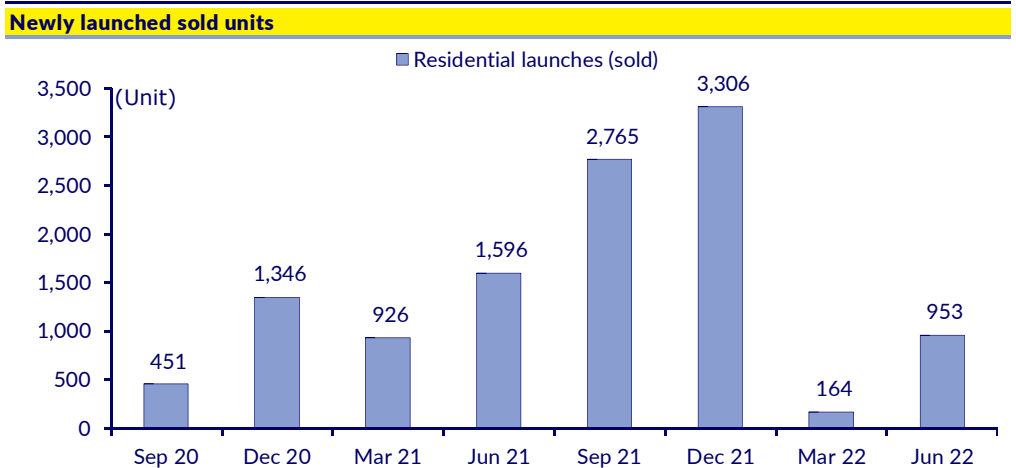
Figure 10



Source: CLSA, Bank Negara Malaysia

Official data from NAPIC up to 2Q22 saw new launches tapering significantly in which bodes with our discussions with property developers. This is due to the struggle on rising construction costs and labour shortage. While we don’t expect a significant increase in launched in 2023, we expect completed property stock carried over from 2021 onwards to still be able to drive sales in 2023. Unbilled sales are higher across property developers averaging up to two years of revenues.

Figure 11

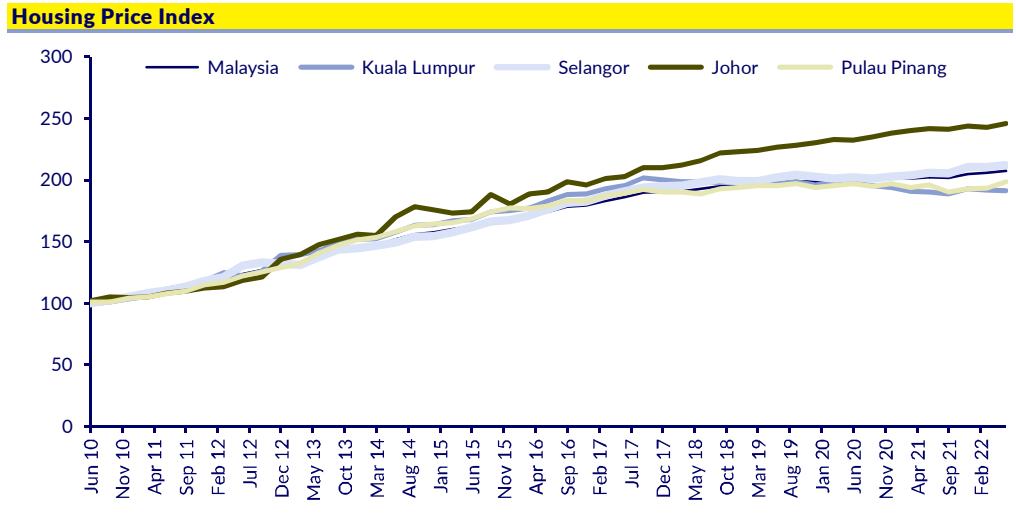


Source: CLSA, CEIC, NAPIC

Housing Price Index has levelled off except for Johor

For a change, we would note that the Housing Price Index has flattened off on average but a rise in prices in Johor which we believe could be largely due to the reopening of the Singapore borders. Most developers have indicated that sales in Johor has improved since 2Q22.

Figure 12



Source: CLSA, CEIC

Land-banking activities are resuming selectively

Most property developers have exceeded sales targets it set in 2022 but almost none are looking at higher sales targets from actual 2022 sales. While issues with construction costs and labour shortage are easing, developers are taking a cautious stance doing into 2023. A silver lining to the residential property sector is that developers are now starting to embark on land-banking activities, something not heard of actively for the past three years. SP Setia is still however looking to divest some of its non-core land assets but players like Eco World and Mah Sing are actively scouting around.

Sequential improvement in footfall and occupancy in 1H23

Another year of recovery for the retail sector

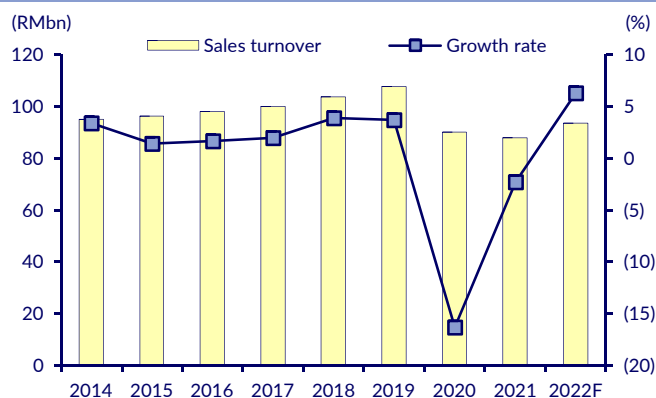
We expect retail sector to post another sequential improvement in sales, footfall and occupancy in 1H23, riding on the reopening theme post pandemic. Prime and niche malls are among the prime beneficiary for this, while sub-urban and neighbourhood mall are less impacted regardless of higher tourist arrival into Malaysia.

Modest growth in rental reversions for prime and niche mall

We are, however, not overly optimistic on retail segment in general as we believe that the structural issue still exist, even after Covid-19 gone. Developers' insatiable appetite for shopping mall is still far from over, putting pressure in overall rental reversion and occupancy rates. In 2022, we have witnessed at least an additional 2.7m sqft of new retail space in Greater KL and the figure is expected to be higher in 2023 with 3.4m sqft of new retail space expected to enter the market. On this score, we are of the view that rental reversion in major shopping mall in 2023 is unlikely to be encouraging, coming from a low base after pandemic. For retail REITs under our coverage, we have pencilled-in a modest 3-5% YoY increase in rental reversion in 2023 after a flattish 2022.

Figure 13

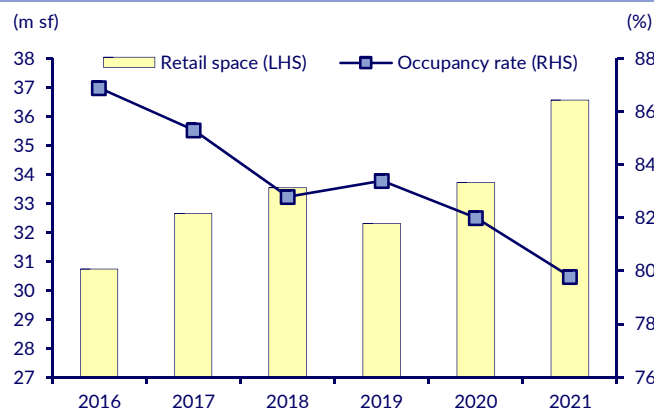
Malaysia retail industry: turnover and growth rate



Source: Retail Group Malaysia

Figure 14

Kuala Lumpur: retail space and occupancy rate



Source: NAPIC

Figure 15

New malls in 2022-2023 in Greater Kuala Lumpur

	Location	Year	Estimated NLA (sf)
Pavilion Bukit Jalil	Bukit Jalil	2022	1,800,000
Lot 91, KLCC	KLCC	2022	73,000
Mitsui Shopping Park Lalaport	Bukit Bintang	2022	840,000
The Exchange, TRX	TRX	2023	1,300,000
118 Mall	City Centre	2023	1,000,000
Pavilion Damansara Heights	Damansara Heights	2023	1,170,000

Source: CLSA

Retail sales may be lower in 2023 after a high based in 2022

Expect a strong 1Q23 for retail malls

Oversupply in the office space remains a challenge

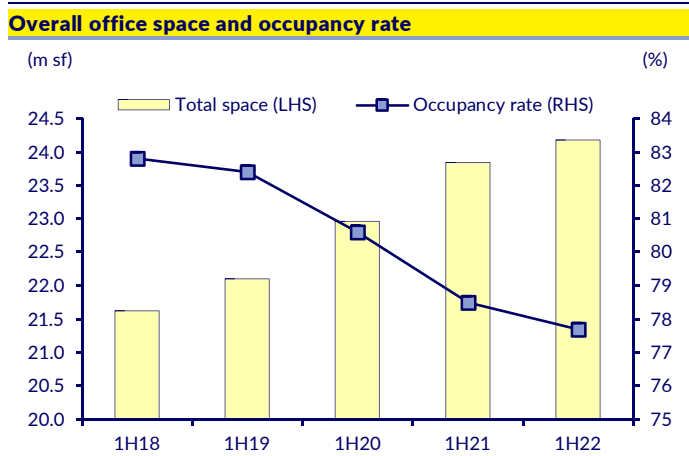
Another point that investors would need to monitor in 2023 would be further increase in interest rates by Bank Negara Malaysia (we expect at least two more rate hikes) and higher electricity tariffs. Theoretically, higher interest rates will lead to consumers to pause their purchase of big-ticket items and thus affecting retail sales. Separately, 37% increase in electricity tariff for 1H23 will hurt operating profit margin with higher electricity cost coming from the air-conditioner for most mall operators.

1Q23 is expected to see strong footfall and tenant sales across shopping malls amid the festive season. More relevant to the Reits for the retail property segment under our coverage, we continue to favour strong momentum for IGB Reit, a pure retail mall proxy.

Office segment: challenges persist

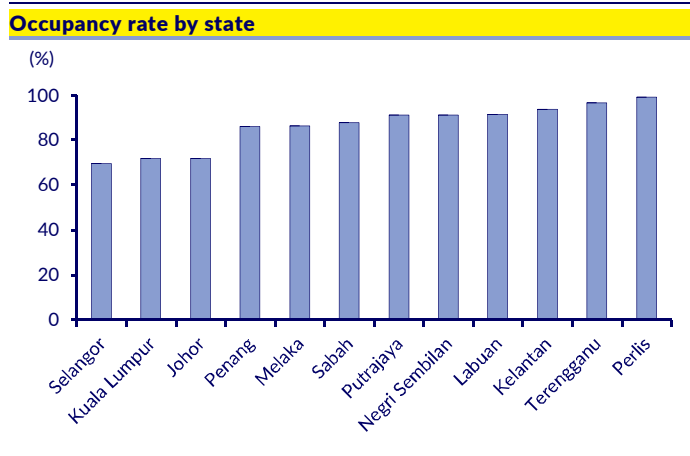
Similar to retail segment, concern over oversupply of office space still linger in 2023. Total office space in Malaysia has been on the uptrend since the past years while occupancy rate moved in the inverse direction. Consequently, rental rates are under pressure. By state, Kuala Lumpur, Penang and Selangor reported the lowest occupancy rate which hover around 70% as at 1H21 based on NAPIC data.

Figure 16



Source: NAPIC

Figure 17



Source: NAPIC

Compressed rental rates amid an influx of supply

Based on our channel checks, office rental rates is yet to recover even after most of Covid-19 restrictions lifted in 2022. Tenants can easily rent office space at 50% discount from advertised price, even for offices located in the city centre. Clearly, this is a negative sign for office market which will see massive addition of space in 2023 including notable projects such as Affin Tower in TRX and PNB 118.

Figure 18

Project Name	Location	Estimated NLA (sf)
Affin Tower	TRX	
PNB 1194	City Centre	
The Stride Strata Office	BGCC	1,602,000
UOB Tower 2	Jalan Raja Laut	
PNB 118	City Centre	
Felcra Tower	Jalan Sultan Yahya Petra	
Pavilion Embassy Corporate Tower	Jalan Ampang	3,853,000
Pavilion Embassy Corporate Suites	Jalan Ampang	
V2 Corporate Office Tower	Sunway Velocity 2	
The MET Corporate Towers	KL Metropolis	
Aspire Tower	Jalan Bangsar	2,615,000
Pavilion Damansara Heights (Phase 1)	Damansara Heights	
Total		8,070,000

Source: Knight Frank Research

Prime office REIT with high quality tenants will survive

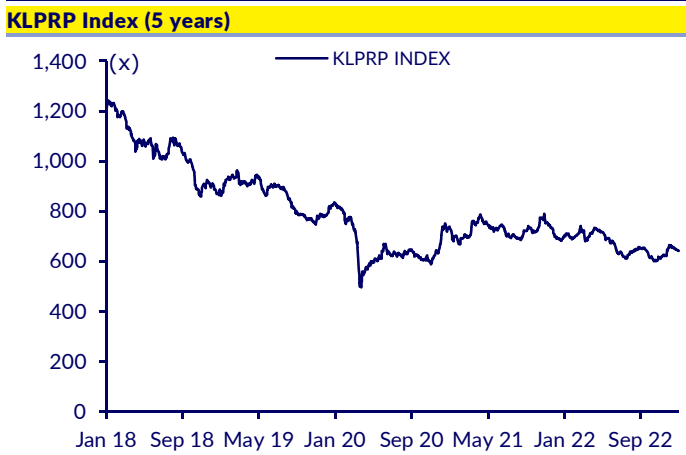
Within our coverage, KLCC Stapled Group is shielded from the oversupply issue given that majority of its offices are leased to parent company, Petronas, on a triple net lease structure. We see downside risk for Sunway REIT's office segment, particularly for Sunway Tower which currently reported extremely low occupancy rate of 26% as at Sep 2022.

Supporting forces

The property sector has halved in terms of its index levels; Reits have held up mostly due to dividends

The Malaysia property sector has been in the doldrums since 2014 and there has been no improvements even when tracking share price performances over the past five years. The FBMKLCI Property index (KLPRP) has seen its momentum halved since 2018. Holding the fort a little better are the Malaysia Reits as indicated by the FBMKLCI Reit index (KLREI) which is largely supported by dividend yields.

Figure 19



Source: CLSA, Bloomberg

Figure 20

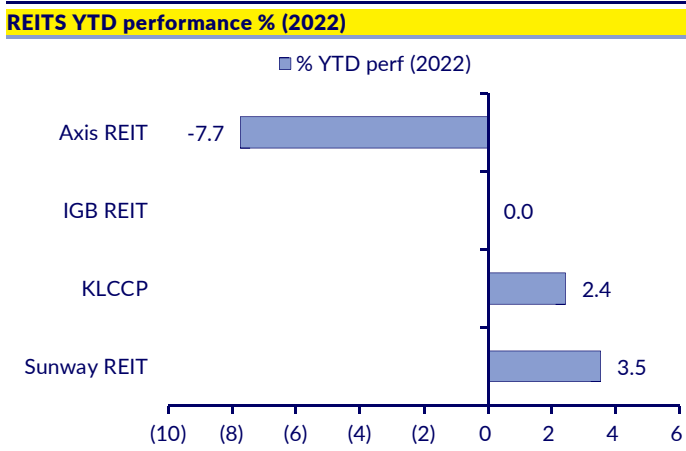


Source: CLSA, Bloomberg

Not a favourable sector to look at in 2022

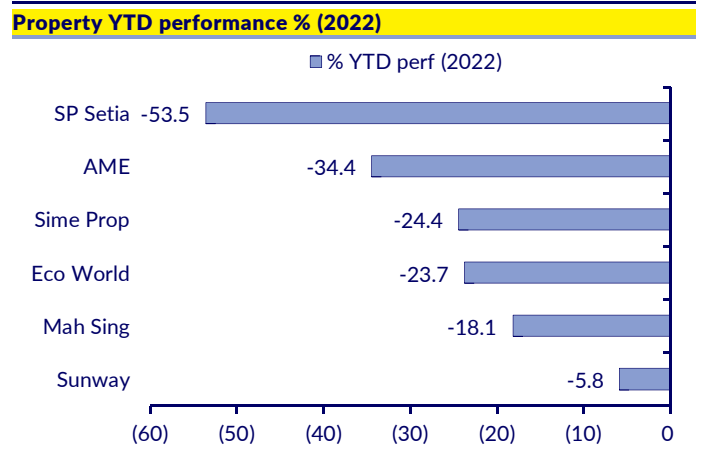
Among the six property stocks under our coverage, all ended the year in negative territory with SP Setia the worst. Within the four reits we cover, our top pick Axis Reit was the only one that ended in the red while Sunway Reit was the outperformer. We have downgraded Sunway Reit to Underperform following its sale of its hospital asset (see *Malaysia Property (Sunway group—busy year end)*).

Figure 21



Source: CLSA, Bloomberg

Figure 22

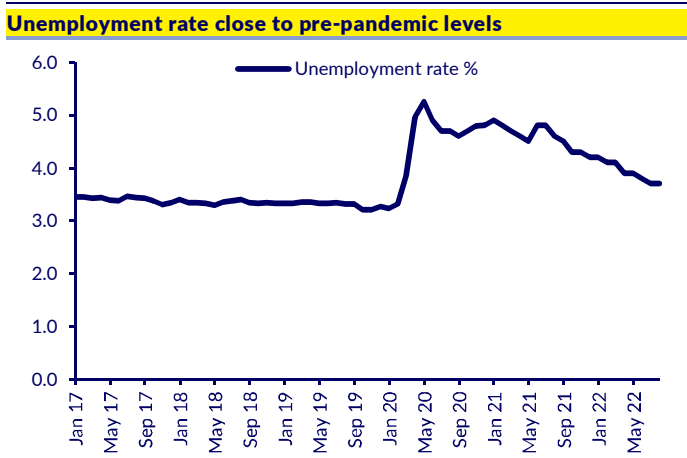


Source: CLSA, Bloomberg

Driving factors for 2023 includes better employment levels and payrolls

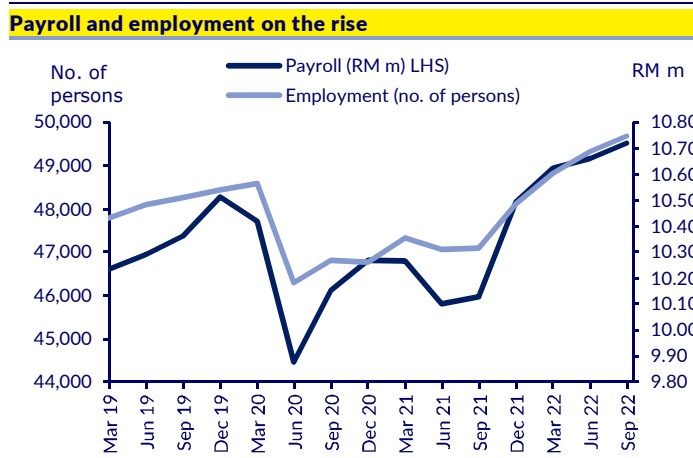
As we enter 2023, macro factors are supporting better momentum for the property sector as unemployment levels are almost back to pre-Covid levels and payrolls are improving. This is despite accounting for already four rate hikes in 2022 and another two more expected in 2023. Furthermore, consumer sentiment remains positive and retail sales have been trending up.

Figure 23



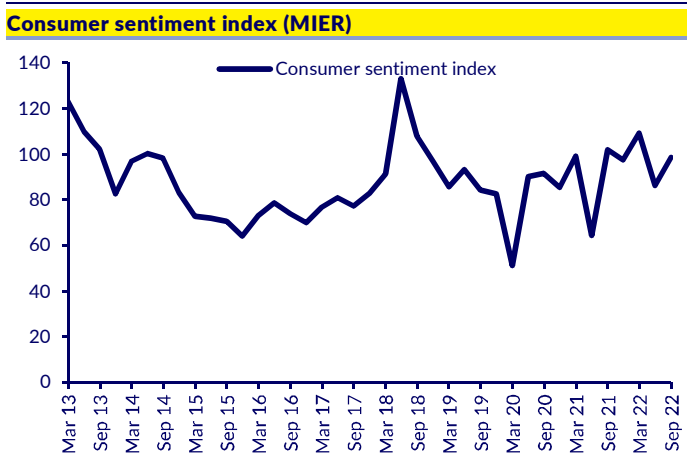
Source: CLSA, CEIC

Figure 24



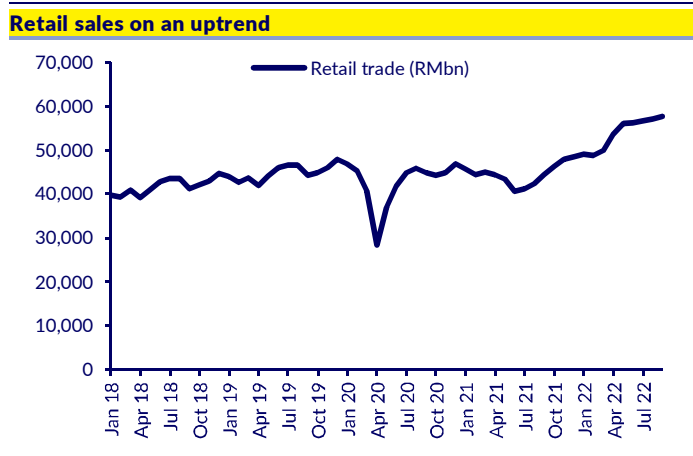
Note: Based on data available, payroll comprises manufacturing, retail wholesale and services. Source: CLSA, CEIC

Figure 25



Source: CLSA, MIER/CEIC

Figure 26



Source: CLSA, CEIC

Few catalysts; corporate action could excite

Expect a slower quarter ahead for Sime Darby Property but we favour its strong balance sheet and land-banking activation and monetisation

Neutral on the property sector

While valuations are undemanding, we continue to see limited excitement in the sector. With sales normalising and margins at best maintaining, we do not see overly strong catalysts for the sector. Corporate action may be needed to spur interest in the sector. For this, we would pick Sime Darby Property (O-PF, target price RM0.52) for further development in its industrial property operations and Sunway Bhd (O-PF, target price RM1.85) for its eventual unlocking of its healthcare assets. We upgrade AME Elite to BUY but with a lower target price of RM1.65 as the stock has been unduly bashed down despite having positive prospects.

Sime Darby Property and Sunway Bhd are companies to watch

Up to 9M22, Sime Darby Property has done well but we expect a pause of activities in 4Q22. While no sales targets have been disclosed for 2023, we suspect it would not exceed actual sales levels it will record in 2022 (FY22 results will be due in end February 2023). The company will continue to embark on land bank activation and monetisation to unlock land value for development. Its balance sheet has gained strength, positioning it well for future growth.

Sime Darby Property's gradual expansion into industrial property should be keenly watched

We rate Sime Darby Property O-PF

We make no changes to our earnings forecasts for Sime Darby Property

Target Price for Sime Darby Property of RM0.52

Looking out for Sunway's healthcare assets

The outlook for the property sector remains lukewarm, but we believe strong brands with township development will remain outperformers. Sime Darby Property's gradual expansion into industrial property should be closely watched and could be its key re-rating catalyst.

We maintain our O-PF recommendation with an RNAV-derived target price of RM0.52, based on an RNAV discount of 70% (close to 1 std. below its five-year mean) given the challenging cost environment. We believe downside to the share price is limited as it is trading below its Covid trough, despite it being one of a sector outperformer.

Figure 27

Financial summary: Sime Darby Property					
Year to 31 December	20A	21A	22CL	23CL	24CL
Revenue (RMm)	2,063	2,220	2,400	2,481	2,775
Net profit (RMm)	128	138	215	231	237
EPS (sen)	1.9	2.0	3.2	3.4	3.5
CL/consensus (0) (EPS%)	-	-	-	-	-
EPS growth (% YoY)	(63.3)	8.0	55.1	7.5	2.9
PE (x)	25.2	23.3	15.0	14.0	13.6
Dividend yield (%)	2.1	2.1	2.7	2.9	2.9
FCF yield (%)	12.2	14.7	2.5	5.3	1.3
PB (x)	0.4	0.4	0.3	0.3	0.3
ROE (%)	1.4	1.5	2.3	2.5	2.5
Net debt/equity (%)	30.1	34.2	33.8	32.5	32.5

Source: CLSA, Company

Figure 28

Sime Darby Property: RNAV-derived target price (RMm)	
NPV of landbank	2,849
Shareholders' funds	9,141
RNAV	11,990
Number of shares (m)	6,801
RNAV/share (RM)	1.76
Discount	70%
Target Price (RM)	0.52

Source: CLSA, Company

Sunway Bhd should be closely watched as it eventually unlocks value for its healthcare asset. As an indication, Sunway Healthcare has recently acquire the hospital assets from its sister company Sunway Reit to consolidate its assets. The acquisition of the hospital asset from Sunway Reit did not come as a surprise to us despite being a related party transaction but it is seen necessary for the Sunway Healthcare to streamline its assets as it is planning for to IPO by 2027 though we believe this could be brought forward earlier.

We have raised our earnings forecasts for Sunway Bhd mostly for 22CL to account for higher contribution from its associates and jointly-controlled entities which are related to its property investments and healthcare operations. We made minor tweaks for 23-24CL earnings forecasts for similar reasons.

The company as a conglomerate is ascribed a holding company discount of 10%. Our SOTP-derived target price remains at RM1.85 after accounting for a higher valuation for Sunway Construction but lower for Sunway Reit. We maintain our O-PF rating.

Earnings adjustments mainly from associates and jointly controlled entities

Figure 29

Financial summary: Sunway Bhd					
Year to 31 December	20A	21A	22CL	23CL	24CL
Revenue (RMm)	3,829	4,529	5,356	5,915	6,093
Rev forecast change (%)	-	-	0.0	0.0	0.0
Net profit (RMm)	388	319	557	738	791
NP forecast change (%)	-	-	30.6	5.6	5.4
EPS (sen)	8.0	6.6	11.4	15.1	16.2
CL/consensus (11) (EPS%)	-	-	112	126	127
EPS growth (% YoY)	(39.0)	(17.6)	74.3	32.6	7.2
PE (x)	20.9	25.3	14.5	11.0	10.2
Dividend yield (%)	0.9	1.2	1.7	2.3	2.4
ROE (%)	4.6	3.3	4.9	6.2	6.4
Net debt/equity (%)	51.0	45.0	39.2	35.2	33.3

Source: CLSA, Company

Figure 30

Sunway Bhd: earnings change table

	22CL			23CL			24CL		
	Previous	Revised	%chg	Previous	Revised	%chg	Previous	Revised	%chg
Ebit	456.8	480.2	5%	577.2	577.2	0%	646.3	646.3	0%
Share of Associates	108.2	139.1	29%	129.8	166.9	29%	133.7	171.9	29%
Share of jointly controlled entities	73.0	153.0	110%	214.9	214.9	0%	202.4	202.4	0%
PATAMI	426.1	556.6	31%	698.7	737.9	6%	750.3	791.1	5%

Source: CLSA

Maintain O-PF rating and SOTP left unchanged after accounting for a higher target price for Sunway Construction (SunCon) and Sunway Reit (SunREIT)

Small cap illiquid stock but a proxy to industrial properties

Figure 31

Sunway Property: Target price derivation			
Division	Value (RM m)	RM/share	Methodology
Construction (SunCon)	1,353	0.28	54.56% stake based on SunCon TP of RM 1.92
Sunway REIT (SunREIT)	1,894	0.39	40.88% stake based on SunREIT TP of RM 1.45
Property Development	1,421	0.29	Discounted RNAV
Property Investment	2,228	0.46	Book Value
Healthcare	3,938	0.81	Divestment valuation (to GIC)
Trading & Manufacturing	269	0.06	10X forward P/E
Quarry	108	0.02	10X forward P/E
	11,211	2.30	
Holding Company Net Cash/(Debt)	(1,192)	(0.24)	
	10,019	2.06	
10% Holding Company Discount	(1,002)	(0.21)	
Fair Value (RM)	9,017	1.85	

Source: CLSA

AME Elite: upgrade to BUY

A small cap and relatively illiquid stock, AME Elite is a pure proxy play for industrial properties. We believe the investment community is rather perplexed when looking at its financials as it divests its assets to its newly listed Reit, AME REIT (N-R). The disposal gains although would like recur annually would cause quarterly earnings to be volatile. For a clearly perspective, we have isolated the disposal gains and look at adjusted net profit as its sustainable earnings base.

Lower revenue for construction

We lower our construction revenues for 22CL

We have lowered our revenue forecasts for the construction segment despite being a major contributor to revenues in addition to property development. While 1HFY23's momentum, was slower, a pick up is expected to 2HFY23 as labour shortage issues ease.

Figure 32

Financial summary: AME Elite					
Year to 31 March	21A	22A	23CL	24CL	25CL
Revenue (RMm)	461	398	614	737	602
Rev forecast change (%)	-	-	(20.4)	19.0	7.1
Net profit (RMm)	46	45	64	80	71
NP forecast change (%)	-	-	(17.3)	10.5	3.7
Adjusted net profit (RMm)	51	48	102	80	71
Adjusted EPS (sen)	12.0	7.5	15.9	12.6	11.1
Adj EPS growth (% YoY)	(15.3)	(38.0)	113.8	(21.2)	(11.2)
CL/consensus (5) (EPS%)	-	-	-	-	-
PE (x)	11.7	18.0	12.8	10.1	11.4
Dividend yield (%)	3.2	2.0	2.4	2.4	2.4
ROE (%)	7.1	6.6	8.4	9.6	7.9

Source: CLSA, Company

Figure 33

AME Elite: earnings changes									
March YE	Previous	Revised	% change	Previous	Revised	% change	Previous	Revised	% change
Revenue (RM m)	771.4	613.7	(20%)	619.4	737.1	19%	561.6	601.6	7%
Ebit (RM m)	110.4	175.6	59%	105.2	111.4	6%	98.5	99.4	1%
Core Earnings (RM m)	77.3	63.6	(18%)	75.0	80.4	7%	70.5	71.4	1%

Source: CLSA

Lower target price for AME Elite to RM1.65 and upgrade recommendation to BUY

Weak balance sheet a key weakness

Our SOTP-derived target price is lowered to RM1.65 from RM1.74 as we lowered the multiple attributed to construction and engineering to 8x PE (from 10x PE) and tapered down our value for property development as we raised the RNAV discount to 30% from none. We upgrade the stock to a Buy (from O-PF) due to share price action.

Figure 34

AME Elite: SOTP valuation			
Segment	Value (new)	Value (old)	Valuation based on
Construction and Engineering (RM m)	270	239	8x PE
Property Investment and Management (RM m)	550	550	Targeted yield of 5%
Property Development (RM m)	232	332	RNAV @ 30% discount
	1052	1120	
Share base (m)	641	641	
Target price (RM)	1.65	1.74	

Source: CLSA

Maintain SELL rating on SP Setia given a lack of catalysts

We see little catalyst for SP Setia to re-rate compared to its peers. Comparatively, its gearing ratio is among the highest at 0.65x despite efforts to monetise non-core assets. Also, the company is not looking at land-banking (in Malaysia) and new launches are limited to its existing matured townships. Gross profit margins were affected in 2022 due to higher raw material costs and labour shortage. SP Setia is looking to divest the remaining property phases at Battersea. There are not more impairments for FY22 (bulk of it done in FY20).

Looking for expansion opportunities in Australia and Vietnam

Maintain SELL rating and lower target price to RM0.60

No change in earnings estimates

Lower target price on updated RNAV numbers

Sticking to what it knows best in property development—affordable housing

Aggressive land-banking activities and a strong balance sheet

SP Setia is however looking to buy land in Australia it reaches the tail end of its current projects there. It is also looking for opportunities in Vietnam as it believes the country will benefit from continues supply chain relocation. Its projects there are residential in nature as it hopes to capture workers flocking for new homes are factories that are building up in industrial areas.

While we made no changes to our earnings forecasts. We lower our RNAV-derived target price to RM0.60 from RM0.70 as we update our RNAV value for SP Setia's properties. Maintain SELL rating.

Figure 35

Financial summary: SP Setia					
Year to 31 December	20A	21A	22CL	23CL	24CL
Revenue (RMm)	3,228	3,763	4,952	4,470	3,836
Net profit (RMm)	15	130	304	240	170
EPS (sen)	0.3	2.8	6.5	5.2	3.7
CL/consensus (15) (EPS%)	-	-	111	94	61
EPS growth (% YoY)	(89.6)	762.6	133.5	(20.9)	(29.3)
PE (x)	187.7	21.8	9.3	11.8	16.7
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	12.1	37.4	6.0	28.4	30.1
PB (x)	0.2	0.2	0.2	0.2	0.2
ROE (%)	0.1	0.9	2.1	1.6	1.1
Net debt/equity (%)	70.6	71.6	69.6	64.1	58.9

Source: CLSA, Company

Figure 36

SP Setia: RNAV-derived target price				
Region	Land size (acres)	GDV (RMm)	Value (New) (RMm)	Value (Old) (RMm)
Central region	5,180	98,690	2,648	2,924
Southern region	2,350	20,787	598	665
Northern region	1,467	16,962	399	449
East Malaysia	53	3,976	234	251
International	546	34,067	1,276	1,339
Total revalued land	9,596	174,482	5,156	5,628
Shareholders funds			12,053	12,053
RNAV			17,209	17,681
Number of share (m)			4,049	4,049
RNAV/share (RM)			4.25	4.37
Discount (%)			85%	85%
Target price			0.60	0.70

Source: CLSA

Mah Sing - a builder of with its own niche

Among the property developers under our coverage, Mah Sing appears to be the most bullish and believes it can still steer strong sales in 2023. Mah Sing's residential properties are very much focused on the affordable housing segment at RM300,000-RM500,000 and targets first time home buyers. Its buyer profile has not changes since pre-Covid and are typically those in the age group of 30-35 years old. Its launches are typically well taken up at >90%.

The company continues to aggressively land-bank in areas outside its central business district where it is matured and highly populated for it M Series products. Its healthy balance sheet with a net gearing at only 0.27x allows it headroom for

Still loss-making for its gloves business; will remain non-core

No changes in our earnings, target price and U-PF rating

Same sales target as the previous financial year. Focusing on land-banking in FY23. It will move more into industrials

Balance sheet remains strong while dividends are sustainable

Maintain O-PF rating and target price of RM0.69

growth. There were limited land deals in the market in the past few years. It is now in negotiation for land deals and eager to close it.

Recall, Mah Sing ventured into gloves at the peak of the gloves euphoria with 12 lines and 3.6bn capacity. Utilisation is at 30%. The manufacturing segment is still loss making but losses have narrowed. Management indicated that US big buyers are slowly coming in for orders. Probably different from the bigger glove players, Mah Sing targets niche gloves by colour, lighter and heavier weight vs the standard. The manufacturing operations will remain non-core and <10% of total assets.

We made no change to earnings and target price of RM0.60. Maintain Underperform. While we like its property business, the stigma with gloves as the sector remains in the doldrums could cause the stock to continue underperforming.

Figure 37

Financial summary: Mah Sing					
Year to 31 December	20A	21A	22CL	23CL	24CL
Revenue (RMm)	1,531	1,754	2,205	2,347	2,448
Net profit (RMm)	21	106	123	155	166
EPS (sen)	(2.0)	2.0	3.9	6.0	6.4
CL/consensus (0) (EPS%)	-	-	-	-	-
EPS growth (% YoY)	(225.2)	nm	96.6	53.2	7.2
PE (x)	nm	29.8	15.2	9.9	9.2
Dividend yield (%)	2.8	2.8	3.5	4.3	4.7
FCF yield (%)	12.3	(9.1)	15.9	0.1	3.9
PB (x)	0.4	0.4	0.4	0.4	0.4
ROE (%)	0.6	3.1	3.5	4.3	4.5
Net debt/equity (%)	3.2	13.6	29.0	29.8	29.1

Source: CLSA, Company

Figure 38

Mah Sing: RNAV-derived target price (RMm)		
Segment	Value (RMm)	Remark
RNAV of Property Development	1,340	70% discount to RNAV
Plastics and Gloves @PE of 10x	127	10x PE
SOTP	1,467	
Number of shares (m)	2,428	
SOTP / TP per share (RM)	0.60	

Source: CLSA, Company

Eco World: moderating momentum

The company is setting a RM3.5bn sales target for FY23, similar to what it targeted in FY22. While lower than the RM3.8bn achieved in FY22, Eco World aims to focus on higher profit margin products from its matured land-bank. Its improved cash flow position should enable the company to resume land-banking opportunities with a focus on industrial land but not forgetting township development, although these will likely be on a smaller scale going forward. Eco World's sales are increasingly more diversified, with 20% of its sales not arising from industrial properties (Eco Business Park), while another 44% came from its premium residential products.

The company's balance sheet is also on a stronger footing, with higher cash balances and lower borrowings, which led to its net gearing at a low of 0.3x. We see sequential dividend payments as sustainable

We maintain our O-PF rating and our RNAV-derived target price of RM0.69. Its dividend yield is attractive at over 7%.

Figure 39

Financial summary: Eco World					
Year to 31 October	21A	22A	23CL	24CL	25CL
Revenue (RMm)	2,043	2,044	2,133	2,456	2,300
Net profit (RMm)	183	157	243	222	259
EPS (sen)	6.2	5.3	8.2	7.5	8.8
CL/consensus (0) (EPS%)	-	-	-	-	-
EPS growth (% YoY)	35.2	(14.0)	54.3	(8.3)	16.5
PE (x)	10.5	12.2	7.9	8.6	7.4
Dividend yield (%)	6.2	7.7	7.7	7.7	7.7
FCF yield (%)	50.3	48.5	(37.8)	(4.1)	9.8
PB (x)	0.4	0.4	0.4	0.4	0.4
ROE (%)	3.9	3.3	5.1	4.6	5.2
Net debt/equity (%)	44.1	31.5	48.9	52.8	50.8

Source: CLSA, Company

Figure 40

Eco World: RNAV by location and target price calculation			
Project location	Land size (acres)	GDV (RM bn)	NPV (RM m)
Central Region	2,061.4	55.6	1,451.6
Southern Region	1,213.1	20.3	454.6
Northern Region	239.4	9.0	96.7
International		13.3	38.0
Total NPV	3,513.9	98.2	2,041.0
Shareholders' funds			4,738.5
RNAV			6,779.4
Number of shares (m)			2,955.3
RNAV/share (RM)			2.29
Discount			70%
Target price (RM)			0.69

Source: CLSA

Overweight Reits on sustained improvement in earnings and dividend yields

End of the rate hike cycle should see spreads widen

Overweight Reits, Axis REIT is top pick

The Reits have done well in 2022 despite the rate hike cycle but we had said that the Reits would see earnings and yield expansion from reopening, which has panned out well. We continue to see the recovery in retail and hospitality to lift earnings in 2023 but expect office to be stable. Industrial Reits remain our preferred exposure as demand for manufacturing facilities and warehouses remain high.

We expect market volatility to continue in 2023, fuelled by recession fears as inflation rate soars across the globe. We note that during the high interest rate environment, REITs tend to underperform the market return. As the interest rate cycle starts to reach its end – we expect two more rate hikes in 1H23 and no more thereafter – we believe the appeal for Reits should return.

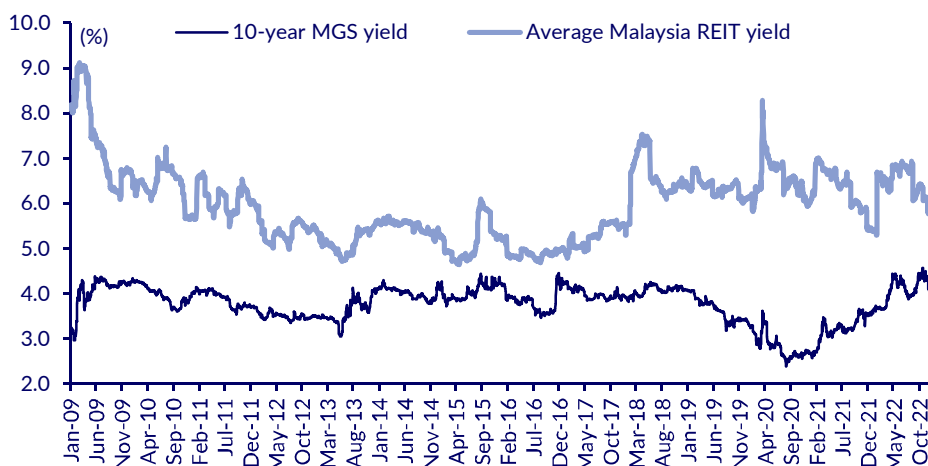
Our preference remains for Axis Reit with its combination of growth (asset acquisition) and decent yield.

Spread will likely widen as interest rate hike halt by end-1H23

Preferred Reit pick; more acquisitions on the way

Figure 41

MGS yield versus Reit yield



Source: CLSA, Bloomberg

Axis REIT: BUY with a DDM-derived target price of RM2.60

We are positive on Axis REIT as the company rides on the growth in industrial segment in Malaysia. Last year, the company acquired three new properties which led to 10.2% increase in space under management. We anticipate there will be few more acquisition exercises in 2023 although it may not be as aggressive as the past years. No change in earnings forecasts.

Figure 42

Financials - Axis REIT

Year to 31 December	20A	21A	22CL	23CL	24CL
Revenue (RMm)	232	246	310	339	369
Net profit (RMm)	142	200	171	185	201
EPS (sen)	9.5	13.7	10.4	11.2	12.1
CL/consensus (11) (EPS%)	-	-	103	102	105
EPS growth (% YoY)	(30.2)	44.0	(24.4)	8.1	8.0
PE (x)	18.7	13.0	17.2	15.9	14.8
Dividend yield (%)	4.7	5.3	5.5	5.9	6.4
FCF yield (%)	(3.8)	(1.3)	(6.2)	0.6	1.4
PB (x)	1.7	1.3	1.5	1.5	1.5
ROE (%)	8.9	11.4	8.8	9.4	10.2
Net debt/equity (%)	50.5	39.1	61.5	60.7	59.2

Source: CLSA

Figure 43

DDM-derived target price—Axis REIT

	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal
Distributions (MYR'm)	160.7	174.5	189.3	208.6	227.1	245.5	250.8	264.3	271.1	289.7	309.8	5369.0
NPV	160.7	161.7	162.6	166.1	167.6	168.0	159.1	155.4	147.7	146.3	145.0	2513.5
Total NPV (MYR'm)	4,253.89											
Share base	1,642.35											
Fair value/share	2.60											

Source: CLSA

Continued momentum into 2023

IGB REIT: BUY with a DDM-derived target price of RM2.00

We project earnings in 2023 to grow at a commendable rate of 9.5% YoY in 2023 driven by modest rental reversion at both of its malls. Mid Valley Megamall and The

Gardens are expected to perform better than its peers in terms of rental reversion given its strategic location, surrounded by offices nearby. This ensures constant footfall from local visitors while improvement from international travellers will also help in higher tenant sales in 2023. No change in earnings estimate.

Figure 44

Financials: IGB REIT					
Year to 31 December	20A	21A	22CL	23CL	24CL
Revenue (RMm)	465	400	518	556	569
Net profit (RMm)	234	199	290	320	330
EPS (sen)	6.6	5.6	8.1	8.9	9.1
CL/consensus (13) (EPS%)	-	-	90	97	92
EPS growth (% YoY)	(25.5)	(15.5)	45.4	9.5	2.2
PE (x)	23.3	27.5	18.9	17.3	16.9
Dividend yield (%)	4.5	3.8	5.4	5.8	5.9
FCF yield (%)	5.3	4.7	6.6	6.8	6.8
PB (x)	1.2	1.2	1.2	1.2	1.2
ROE (%)	5.2	4.4	6.4	7.0	7.2
Net debt/equity (%)	26.1	26.1	24.0	22.8	21.2

Source: CLSA

Figure 45

DDM-derived target price—IGB REIT												
	2022CL	2023CL	2024CL	2025CL	2026CL	2027CL	2028CL	2029CL	2030CL	2031CL	2032CL	Terminal
Distributions (RM m)	296.4	323.3	333.1	348.0	366.4	385.3	405.5	426.7	448.9	472.1	496.4	9473.7
NPV	296.4	301.2	289.1	281.3	275.9	270.3	265.0	259.8	254.6	249.5	244.4	4663.4
Total NPV (RM m)	7,650.95											
Fair value/share	2.00											

Source: CLSA

A stable Reit to have

KLCC Stapled Group—O-PF with a DDM-derived target of RM7.50

No change in our earnings estimate. Our DDM-derived target price is also supported by an attractive dividend yield of 5.8% based on 95% payout ratio assumption. We like the company for its dominant position within the high quality office in the city centre, with long term lease secured on a triple net lease basis. This is also complemented by prime retail and hotel assets which has further room for improvement.

Figure 46

Financials - KLCC Stapled Group					
Year to 31 December	20A	21A	22CL	23CL	24CL
Revenue (RMm)	1,239	1,171	1,440	1,480	1,522
Net profit (RMm)	432	496	726	759	782
EPS (sen)	23.9	27.5	40.2	42.0	43.3
CL/consensus (11) (EPS%)	-	-	107	105	106
EPS growth (% YoY)	(45.3)	14.7	46.5	4.4	3.1
PE (x)	28.6	24.9	17.0	16.3	15.8
Dividend yield (%)	4.5	5.2	5.6	5.8	6.0
FCF yield (%)	5.5	5.3	1.5	11.8	6.8
PB (x)	2.5	2.5	2.5	2.4	2.4
ROE (%)	8.6	10.0	14.5	15.0	15.4
Net debt/equity (%)	10.7	10.4	13.5	13.5	13.5

Source: CLSA

Figure 47

DDM-derived TP - KLCC Stapled Group												
	22CL	23CL	24CL	25CL	26CL	27CL	28CL	29CL	30CL	31CL	32CL	Terminal value
Discount factor (x)	1.0	0.9	0.9	0.8	0.7	0.7	0.6	0.6	0.5	0.5	0.5	0.5
Distributed income (RMm)	690	721	743	786	802	822	875	889	902	916	929	14379
Units in issue (m)	1805	1805	1805	1805	1805	1805	1805	1805	1805	1805	1805	1805
DPU (RM/unit)	0.38	0.40	0.41	0.44	0.44	0.46	0.48	0.49	0.50	0.51	0.51	7.96
PV of DPU (RM/unit)	0.38	0.37	0.35	0.35	0.33	0.31	0.30	0.29	0.27	0.25	0.24	3.67
PV of cashflows	3.43											
Terminal valuation	3.67											
Vacant Land - D1	0.15											
Phase 3 - Dayabumi	0.23											
Target price (RM)	7.50											

Source: CLSA

Overly diversified recent sale of its hospital assets crimps income

Sunway REIT: U-PF with DDM-derived target price of RM1.45

We do not favour diversified REIT at the moment as we think poor performance of mass retail, hospitality and office will drag down SREIT earnings. In addition, recent disposal of Sunway Medical Centre will also led to loss of recurring income for SREIT, which contributes 4.3% and 5.6% to the group revenue and net property income, respectively. No change in our earnings estimates.

Figure 48

Financials - Sunway REIT					
Year to 31 December	20A	21A	22CL	23CL	24CL
Revenue (RMm)	557	676	662	701	700
Net profit (RMm)	208	267	315	463	354
EPS (sen)	7.1	8.4	9.2	13.5	10.3
CL/consensus (13) (EPS%)	-	-	103	140	103
EPS growth (% YoY)	(45.6)	18.8	9.5	47.2	(23.7)
PE (x)	21.1	17.7	16.2	11.0	14.4
Dividend yield (%)	4.9	4.4	6.7	7.6	7.6
FCF yield (%)	6.8	(5.8)	8.0	14.7	8.5
PB (x)	1.4	1.4	1.4	1.4	1.4
ROE (%)	6.8	7.8	8.3	12.3	9.4
Net debt/equity (%)	70.1	57.0	57.8	52.9	53.9

Source: CLSA

Figure 49

DDM-derived target price - Sunway REIT												
	22CL	23CL	24CL	25CL	26CL	27CL	28CL	29CL	30CL	31CL	32CL	Terminal value
Distributed income (RMm)	295	334	334	336	343	347	350	352	357	364	372	5,207
PV of distributed income (RMm)	295	308	285	265	250	234	218	203	190	179	169	2,363
Total NPV (RMm)	4,959											
No. of units	3,445											
Fair value/share (RM)	1.45											

Source: CLSA

Valuation details - Ame Elite Consortium Bhd AME MK

We value it using the SOTP method to reflect the various operations within the business. The most sizeable portion stems from its Property Investment division which is valued based on a targeted listing yield of c.5% which should see further upside upon its listing in 2H2022. Meanwhile, the Property Development segment is valued based on a RNAV valuation, while the Construction segment is valued based on a 12x PE multiple.

Investment risks - Ame Elite Consortium Bhd AME MK

A prolonged pandemic and delay in economic recovery would pose risks to the company's outlook as the construction and M&E orderbooks have yet to see significant replenishments. Furthermore, international border closures would make it more difficult for international clients to lock in contracts to purchase industrial properties. Nonetheless, we expect a more normalised outlook looking in the next financial year.

Valuation details - SP Setia Bhd SPSB MK

Our target price is based on a 85% discount to RNAV/share. The RNAV is derived by summing up shareholders' funds (ie, book value) and NPV of expected future profits of the developers' landbank.

Investment risks - SP Setia Bhd SPSB MK

SP Setia is a property developer, which means it operates in a highly cyclical industry as people tend to shy away from property during economic downturns. Its large landbank and sizeable inventory are potential risks as prolonged capital commitment in these areas could impede the company's ability to roll out new projects. Covid-19 and business disruption during the movement control order, pose risks to sales.



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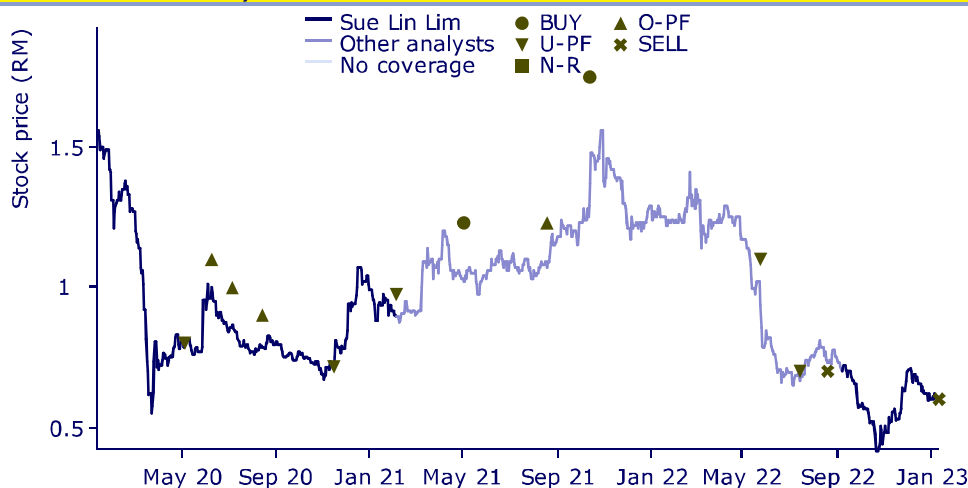
- AME ELITE (AME MK - RM1.28 - BUY)
- AME Reit Bhd (N-R)
- Axis Reit (AXRB MK - RM1.83 - BUY)
- Eco World (ECW MK - RM0.65 - O-PF)
- IGB Reit (IGBREIT MK - RM1.68 - BUY)
- KLCCP Stapled Group (KLCCSS MK - RM6.90 - O-PF)
- Logos SE Asia Pte Ltd (N-R)
- Mah Sing (MSGB MK - RM0.57 - U-PF)
- Sime Darby Property (SDPR MK - RM0.46 - O-PF)
- SP Setia (SPSB MK - RM0.60 - SELL)
- SunCon (SCGB MK - RM1.60 - BUY)
- Sunway (SWB MK - RM1.66 - O-PF)
- Sunway Healthcare (N-R)
- Sunway Healthcare Holdings (N-R)
- Sunway Reit (SREIT MK - RM1.53 - U-PF)

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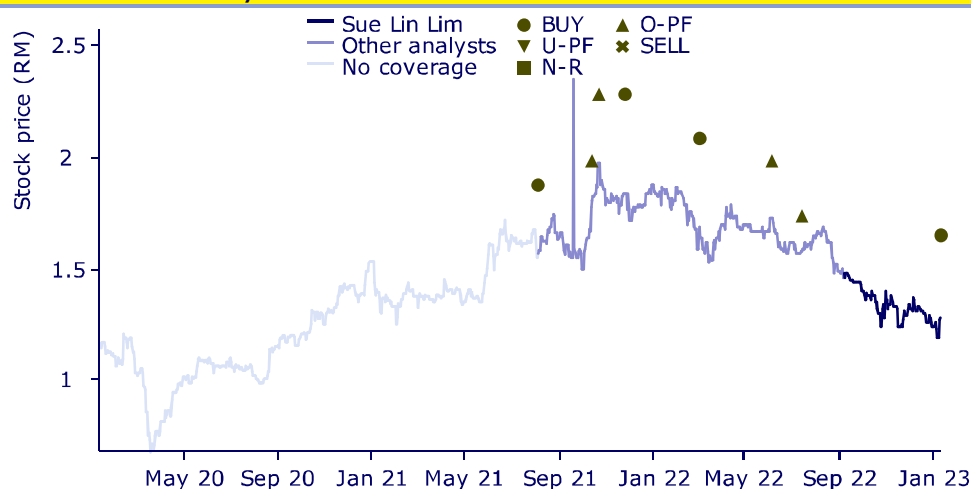
Date	Rec	Target	Date	Rec	Target
LATEST	SELL	0.60	04 Feb 2021	U-PF	0.97
19 Aug 2022	SELL	0.70	15 Nov 2020	U-PF	0.72
14 Jul 2022	U-PF	0.70	14 Aug 2020	O-PF	0.90
24 May 2022	U-PF	1.10	06 Jul 2020	O-PF	1.00
14 Oct 2021	BUY	1.75	09 Jun 2020	O-PF	1.10
19 Aug 2021	O-PF	1.23	05 May 2020	U-PF	0.80
03 May 2021	BUY	1.23			

Source: CLSA

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Recommendation history of Ame Elite Consortium Bhd AME MK



Date	Rec	Target	Date	Rec	Target
LATEST	BUY	1.65	26 Nov 2021	BUY	2.28*
14 Jul 2022	O-PF	1.74*	23 Oct 2021	O-PF	2.28*
05 Jun 2022	O-PF	1.99*	14 Oct 2021	O-PF	1.99*
03 Mar 2022	BUY	2.08*	05 Aug 2021	BUY	1.88*

Source: CLSA; * Adjusted for corporate action

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