

## Malaysian Developers

More news flow on land-banking; Good news from here priced-in for SWB, we prefer ECW & SPSB at current levels

**News-flow on land-banking has partly driven the share price outperformance for MSGB and mainly SWB in the past 3-months** (see Fig 3). Both companies have been actively land-banking mainly in the more resilient Klang Valley region, adding 42% to SWB's and 6% to MSGB's Klang Valley GDV (on a net basis after land cancellations for MSGB). Balance sheets remain at comfortable levels post acquisitions and hence equity-raising is unlikely, in our view. The land-banking strategy/execution we believe is stronger at SWB vs MSGB (as discussed below). But, **we stay Neutral on SWB** on valuations as much of the good news we believe is priced-in with the stock at 20% RNAV discount or at +1SD to sector historical mean. We are also Neutral on MSGB trading at 27% RNAV discount, in line with sector historical mean. **Top picks/OWs are ECW** (strong pre-sales delivery/market share gains, recovery in margins/earnings post start-up phase and improved financials from de-gearing efforts), **and SPSB** (stronger market position and larger size/liquidity following its proposed merger with I&P), with both trading at 46-47% RNAV discount, or between -1SD to -2SD to sector historical mean.

- **More news-flow on land-banking.** In addition to SP Setia (SPSB)'s proposed acquisition of I&P Group to complete by end-17, both Sunway Bhd (SWB) and Mah Sing (MSGB) have been actively landbanking, with four acquisitions each to date in 2017 (Tables 1 & 2), including SWB's two announced acquisitions yesterday.
- **Size of acquisitions.** To recap, SPSB's acquisition of I&P would raise its land-bank (domestic and international) by 70% and its effective GDV by 45%. MSGB's acquisitions will mainly replace GDV lost with the cancellation of two deals to focus on projects in the more affordable segment. Overall, SWB's acquisitions to date on an effective basis will add 14% to its total GDV (42% rise to its Klang Valley GDV). MSGB's in turn will add 4% to total GDV (6% to Klang Valley GDV) on a net basis after land cancellations.
- **Pricing for the acquisitions and balance sheet impact.** Pricing for the land acquisitions at 12-16% of GDV for SWB and 9-12% of GDV for MSGB fall within the normal range of 10-20%. The acquisitions will raise FY17E/18E net gearing from 41%/39% to 47%/45% for SWB and from 5%/net cash to 21%/14% for MSGB. These remain at comfortable levels, and hence equity-raising we believe are unlikely.
- **Land-banking strategy/execution.** Both acquisitions by SWB and MSGB are focused on faster, quick turn-around developments mainly in the Klang Valley. SWB's acquisition strategy leverages on its existing successful developments i.e. the Jalan Peel land opposite its Sunway Velocity project and the USJ1 land at the edge of its Bandar Sunway town-ship, with a focus on integrated developments (i.e. residential units with retail or office components) where its strength/competitive edge lies. MSGB in turn focuses on land for purer residential/serviced apartment projects in the affordable sub-M\$0.7MM per unit segment, but execution remains a key risk for the company, in our view. In addition to the two cancelled projects, MSGB has also received a competing ownership claim on its M\$0.6B GDV Titiwangsa acquisition announced in May-17.
- **Remain Neutral on SWB and MSGB.** While we like SWB's strategy and execution vs MSGB, we remain Neutral on valuations after its recent outperformance (Fig 3 & 4), with the stock now trading at a 20% RNAV discount, or +1SD to the sector mean. MSGB is trading at 27% RNAV discount in line with historical mean.

- **Top picks remain SPSB and ECW (both OWs).** Top picks are ECW (strong pre-sales delivery/market share gains, recovery in margins/earnings post start-up phase and improved financials from de-gearing efforts), and SPSB (stronger market position and larger size/liquidity following its proposed merger with I&P). Both stocks trade at 46-47% RNAV discount or between -1SD to -2SD to historical mean for the sector.
- **Recent publications.** 1) 3 Jul-17 Malaysia Property update titled “*The Property Tracker – May-17 mortgage approval recovery continues and restructuring progress (i.e. SPSB) on track*” [here](#). 2) 26 May-17 Malaysia Property note titled “*Bottoming, expecting a gradual lift: Still OW on ECW, upgrade SPSB and UEMS to OW, cut SWB to Neutral*” [here](#). 3) 23 Jun-17 SPSB note titled “*Share price slide post-equity raising proposal for I&P: We look at impact in greater detail; reiterate OW*” [here](#). 4) 15 Jun-17 SWB note titled “*To expand Healthcare unit leveraging on its integrated model; proposes bonus issue and free warrants*” [here](#).

**Table 1: SWB land acquisitions YTD in 2017**

DATE	REGION	SUBJECT LAND	VENDOR	PURCHASER	ACRES	PRICE (M\$MN)	PRICE (M\$psf)	GDV (M\$MN)	REMARKS
Aug-17	KLV	Kajang	Concept Housing Development (M) Sdn Bhd	Sunway (100% stake)	5.3	63.0	274.10	460	Two partially constructed towers (12 and 20 storey) and 13 storey podium
Aug-17	KLV	USJ1-Bandar Sunway	JAKS Resources	Sunway (100% stake)	14.8	168.0	260.60	1,400	Future mixed redevelopment of existing industrial land
Jul-17	KLV	Istana	5x individuals	Sunway (100% stake)	4.5	165.0	836.20	1,100	Mixed development
Feb-17	KLV	Velocity-Jalan Peel	2x individuals	Sunway (50% stake)	8.4	323.0	886.00	2,000	Mixed development including offices
<b>Increase</b>					<b>33.1</b>	<b>719.0</b>		<b>3,960*</b>	
<b>GDV before 2017 acquisitions</b>								<b>28,451</b>	
<b>Increase in GDV post 2017 acquisitions</b>								<b>14%</b>	<b>Klang Valley GDV up 42%</b>

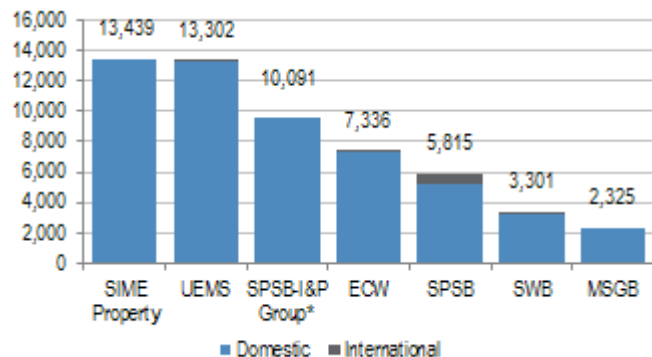
Source: Company. KLV = Klang Valley. \* Effective GDV.

**Table 2: MSGB land acquisitions YTD in 2017**

DATE	REGION	SUBJECT LAND	VENDOR	PURCHASER	ACRES	PRICE (M\$MN)	PRICE (M\$psf)	GDV (M\$MN)	REMARKS
Jul-17	KLV	Kuala Lumpur Badminton Stadium	2x individuals	Mah Sing Group (100% stake)	11.2	263.5	538.50	2,200	Serviced apartments including reconstruction of badminton stadium
Jul-17	Penang	Bukit Minyak	Waz Lian Properties Sdn Bhd	Mah Sing Group (100% stake)	10.9	43.8	92.30	150	Industrial
May-17	KLV	Sentul	4x individuals	Mah Sing Group (78% stake)	8.5	150.0	405.10	1,300	Serviced apartments
May-17	KLV	Titivangsa	1x individual	Mah Sing Group (100% stake)	3.6	60.0	386.90	650	Serviced apartments
<b>Increase</b>					<b>34.2</b>	<b>517.3</b>		<b>4,014*</b>	
<b>Less: 2 land cancellations</b>								<b>(3,050)*</b>	
<b>Net increase</b>								<b>964*</b>	
<b>GDV before 2017 acquisitions</b>								<b>25,967</b>	
<b>Net increase in GDV post 2017 acquisitions/cancellations</b>								<b>4%</b>	<b>Klang Valley GDV up 6%</b>

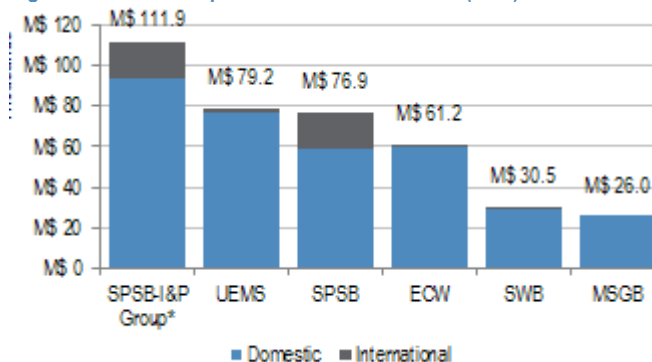
Source: Company. KLV = Klang Valley. \* Effective GDV

Figure 1: JPM Developer universe landbank (acres) as at end-2016



Source: Companies, J.P. Morgan estimates. Note: Land bank for SWB here includes the Velocity Jalan Peel acquisition

Figure 2: JPM Developer universe effective GDV (M\$) end-2016



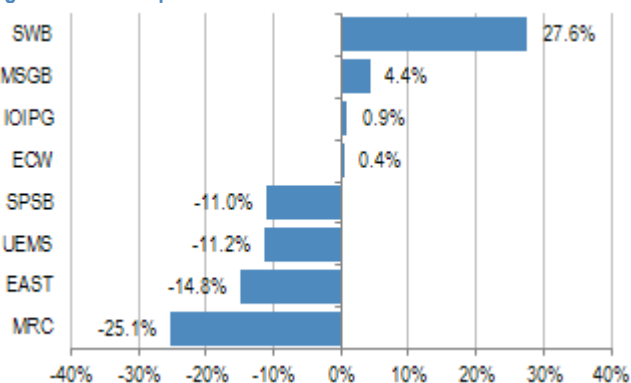
Source: Companies, J.P. Morgan estimates. Note: GDV for SWB here includes the Velocity Jalan Peel acquisition

Table 3: Developer peer comparison

As at: 2 Aug-17	FYE	Mkt cap (US\$m)	Price (M\$)	Rating	Target (M\$)	P/E		EPS growth		Net div yield		P/B	ROE	RNAV (M\$)	Prem/disc to RNAV
						CY17E	CY18E	CY17E	CY18E	FY17E	FY18E				
Eco World Develop	Oct	1,051	1.53	OW	1.90	26.5	15.7	21.2%	68.1%	0.0%	0.0%	1.1	4.4	2.90	-47%
Mah Sing Group	Dec	883	1.57	N	1.65	12.0	12.9	-6.6%	-7.1%	3.3%	3.1%	1.1	11.3	2.15	-27%
SP Setia	Dec	2,285	3.28	OW	4.40	13.1	15.0	-4.4%	-12.8%	5.4%	4.0%	1.0	7.8	6.10	-46%
Sunway	Dec	2,087	4.37	N	3.90	15.6	14.6	1.6%	6.7%	2.8%	3.0%	1.2	7.5	5.45	-20%
UEM Sunrise	Dec	1,207	1.14	OW	1.60	28.3	25.7	41.1%	10.1%	0.0%	1.1%	0.8	2.8	2.90	-61%
<b>Weighted average</b>		<b>7,513</b>				<b>18.0</b>	<b>16.5</b>	<b>0.0%</b>	<b>0.3%</b>	<b>2.8%</b>	<b>2.6%</b>	<b>1.1</b>	<b>6.8</b>		<b>-39%</b>

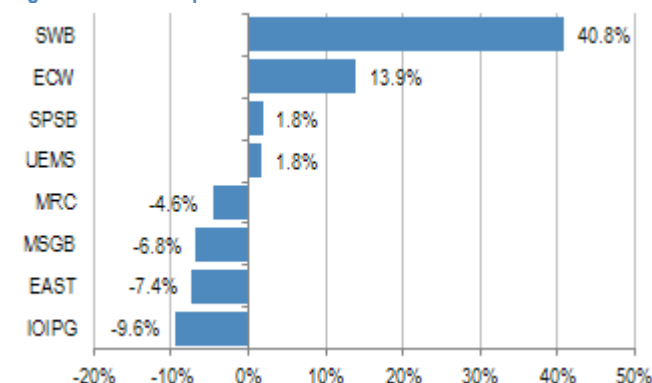
Source: Bloomberg, J.P. Morgan estimates.

Figure 3: 3 month performance relative to FBMKLCI



Source: Bloomberg.

Figure 4: 12 month performance relative to FBMKLCI



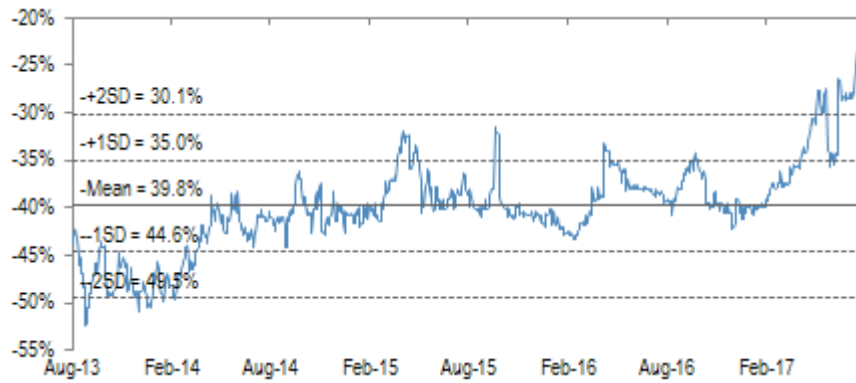
Source: Bloomberg.

Figure 5: Developer RNAV band



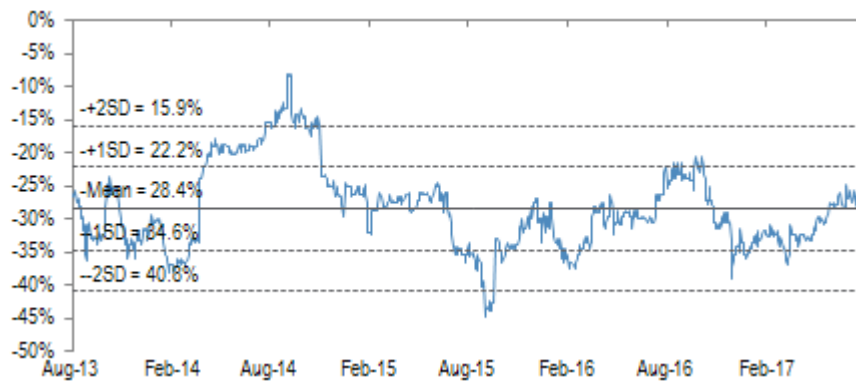
Source: Bloomberg, J.P. Morgan estimates.

Figure 6: SWB RNAV band



Source: Bloomberg, J.P. Morgan estimates.

Figure 7: MSGB RNAV band



Source: Bloomberg, J.P. Morgan estimates.

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## Companies Discussed in This Report (all prices in this report as of market close on 02 August 2017)

Eco World Development (ECOW.KL/M\$1.53/Overweight), Mah Sing Group Berhad (MAHS.KL/M\$1.57/Neutral), SP Setia (SETI.KL/M\$3.28/Overweight), Sunway Bhd (SWAY.KL/M\$4.37/Neutral)

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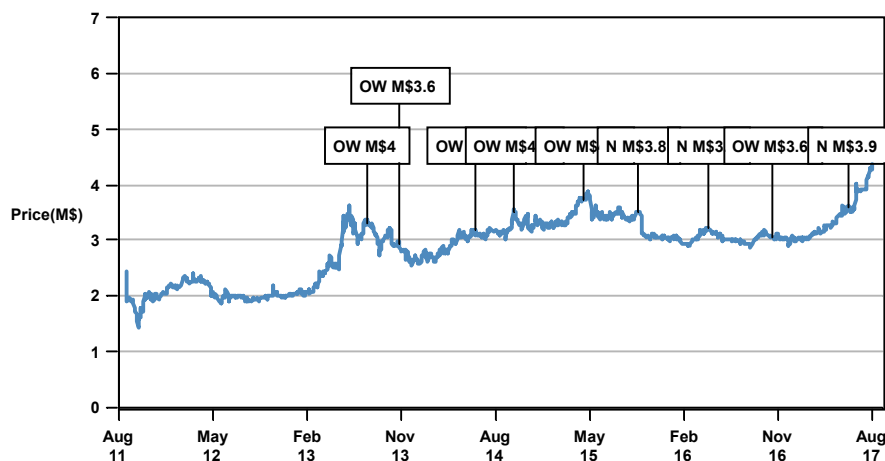
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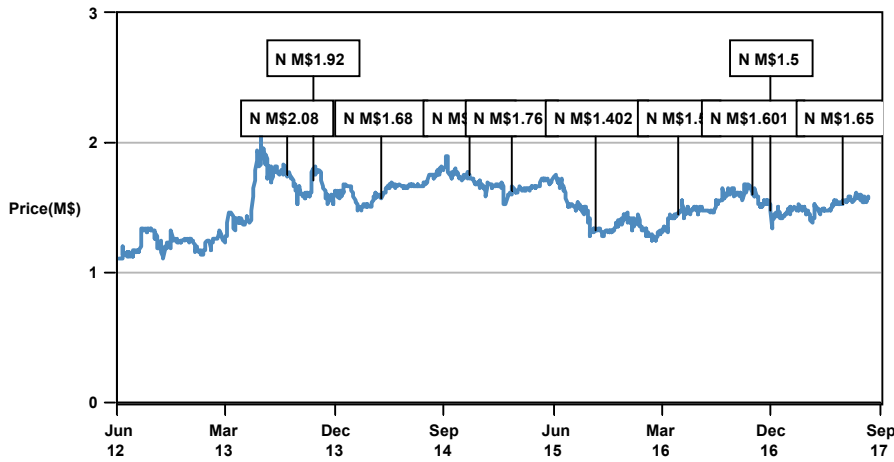
Sunway Bhd (SWAY.KL, SWB MK) Price Chart



Date	Rating	Share Price (M\$)	Price Target (M\$)
26-Jul-13	OW	3.30	4.00
28-Oct-13	OW	2.95	3.60
05-Jun-14	OW	3.21	3.80
22-Sep-14	OW	3.52	4.10
17-Apr-15	OW	3.75	4.30
19-Sep-15	N	3.50	3.80
08-Apr-16	N	3.24	3.30
14-Oct-16	OW	3.06	3.60
26-May-17	N	3.60	3.90

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.  
Initiated coverage Jul 26, 2013.

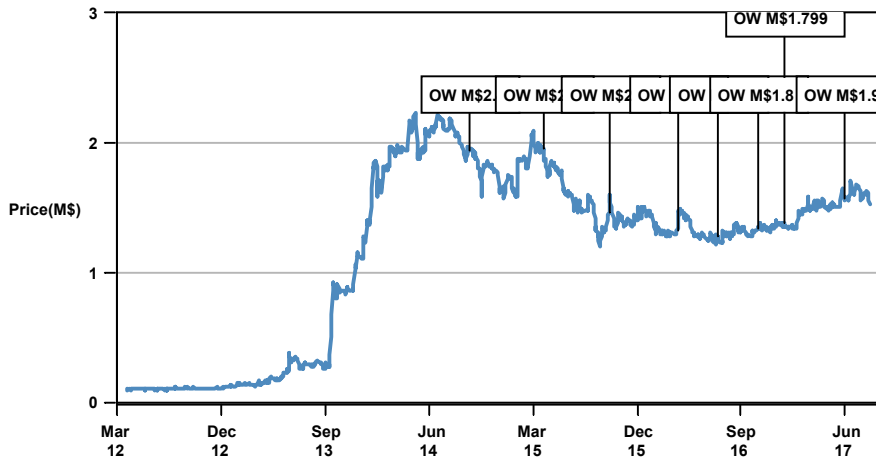
**Mah Sing Group Berhad (MAHS.KL, MSGB MK) Price Chart**



Date	Rating	Share Price (M\$)	Price Target (M\$)
02-Aug-13	N	1.76	2.08
05-Oct-13	N	1.71	1.92
26-Mar-14	N	1.57	1.68
03-Nov-14	N	1.76	2.08
17-Feb-15	N	1.62	1.76
19-Sep-15	N	1.33	1.40
08-Apr-16	N	1.45	1.50
14-Oct-16	N	1.60	1.60
29-Nov-16	N	1.47	1.50
26-May-17	N	1.52	1.65

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Aug 02, 2013.

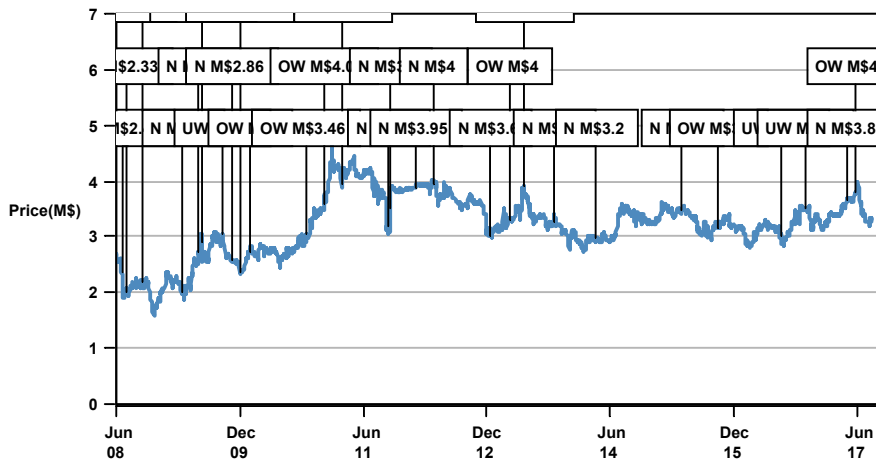
**Eco World Development (ECOW.KL, ECW MK) Price Chart**



Date	Rating	Share Price (M\$)	Price Target (M\$)
16-Sep-14	OW	1.94	2.40
27-Mar-15	OW	1.95	2.60
19-Sep-15	OW	1.46	2.10
14-Mar-16	OW	1.32	1.90
28-Jun-16	OW	1.27	1.70
14-Oct-16	OW	1.34	1.80
20-Dec-16	OW	1.38	1.80
26-May-17	OW	1.57	1.90

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Sep 16, 2014.

**SP Setia (SETI.KL, SPSB MK) Price Chart**



Date	Rating	Share Price (M\$)	Price Target (M\$)
24-Jun-08	N	2.36	2.46
16-Jul-08	N	2.01	2.33
25-Sep-08	N	2.20	2.00
19-Mar-09	N	2.01	1.80
02-Jun-09	N	2.72	2.40
18-Jun-09	UW	2.92	2.53
17-Sep-09	UW	3.07	2.60
30-Oct-09	N	2.58	2.86
04-Dec-09	OW	2.39	2.86
14-Jan-10	OW	2.73	3.00
23-Sep-10	OW	3.04	3.46
10-Dec-10	OW	3.57	4.06
28-Feb-11	OW	3.94	4.50
22-Sep-11	N	3.19	3.50
28-Sep-11	N	3.50	3.90
20-Jan-12	N	3.88	3.95
10-Apr-12	N	3.96	4.00
13-Dec-12	N	3.03	3.60
14-Mar-13	OW	3.30	4.00
15-May-13	OW	3.91	4.60
23-Sep-13	N	3.28	3.50
26-Mar-14	N	2.98	3.20
17-Apr-15	N	3.49	3.50

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Jun 24, 2008.

19-Sep-15	OW	3.17	3.80
27-Jun-16	UW	3.01	2.80
14-Oct-16	UW	3.50	3.10
17-Apr-17	N	3.67	3.80
26-May-17	OW	3.79	4.40

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