

10 January 2017

Overweight

Malaysian Property

Strong weekend property sales

Strong demand for the maiden launch of New Suites underpins our conviction of a sustained pick-up in residential transactions. Priced about RM900psf, some 800 service apartments were taken up over the weekend despite consumer sentiment hangover from a weak ringgit. And the buyers are primarily locals. China presales are expected to commence soon. New Suites would be a sell-out.

Performance

	1M	3M	12M
Absolute (%)	(1)	(6)	12
Rel market (%)	(4)	(7)	10

Source: Bloomberg, KAF

Key recommendations & forecasts

Company	Bloomberg	Rec	Price (RM)	Target (RM)	EPS FY17F (cents)	PE FY17F (x)	NAV (RM)	Discount to NAV (%)
Mah Sing	MSGB MK	Buy	1.46	1.80	15.1	9.7	2.81	(48)
SP Setia	SPSB MK	Buy	3.19	3.60	26.8	11.9	4.77	(33)
MRCB	MRC MK	Buy	1.38	1.60	5.8	23.9	2.44	(43)

Source: Bloomberg, Company, KAF

* Prices as at 6 Jan 2017

Overwhelming market response to New Suites

We saw very strong market response to the maiden launch of New Suites located along Embassy Row in Jalan Ampang. New Suites is Phase 1 of the larger 3rd Avenue @ Jalan Ampang, an integrated mixed development consisting of SOFO, residential and lifestyle development with a combined GDV of RM2.1bil. There are some 2,400 service apartments to be developed over five years.

The said project is jointly developed by Titijaya Berhad and China Railway, with the former having a 70% stake. The JV had initially plan to launch just 300 units of service apartments at New Suites last weekend. We understand that more than one thousand potential buyers turned up for the maiden launch. The strong buying interests prompted the developers to offer the balance units in Phase 1 for sale. The developer sold an incredible 800 units of service apartments priced around RM900psf by the end of the day.

Astute pricing and small 'bite-sized' units

We believe that the success of New Suites may be due to the developer's astute pricing strategy and small 'bite-sized' units. The build-up ranges from 430sf to 600sf. And at RM900psf, New Suites are priced at a 10% discount to the secondary price of Mah Sing's M Residences further down the road. The strong take-up rate for New Suites underscores our conviction of a sustained return of residential demand after an extended lull. We have already seen a pick-up in residential transactions since 2Q16. The buying momentum aided by robust demographic-driven demand would continue, we believe.

Buyers are primarily locals; China presales soon

What is perhaps more encouraging is that New Suites was a sell-out despite the consumer sentiment hangover from a weak ringgit. More importantly too, the buyers are primarily locals. We are not unduly concerned over the remaining number of service apartments for future presales (1,600 units). We understand that Titijaya's JV partner, China Railway, is underwriting the sale of a significant portion of the balance service apartments. China Railway will soon be launching the project in China. With the buying momentum and market clearing price already established by the locals, we believe that the launch in China will be a success.

Maintain Overweight

We retain our Overweight stance on the sector, with a BUY rating on SP Setia, Mah Sing and MRCB. We expect a sustained pick up in residential transactions to trigger a narrowing in discount to NAVs.

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Important disclosures can be found in the Disclosure Appendix

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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