Malaysia Industry Focus

Property

Refer to important disclosures at the end of this report

DBS Group Research . Equity

21 Jul 2014

New urbanization trend: Evolution of KL South

- **KL south migration gaining traction, driven by MRT connectivity, strong population growth, and larger supply of affordable homes**
- **Kajang-Semenyih growth corridor the most promising hotspot within Greater KL given availability of cheap land bank and ready infrastructure**
- **KL-SG High Speed Rail - the wildcard to shift city center towards KL South**
- **Top beneficiaries: MKH (high-conviction Buy), Eco World (Initiate coverage), SP Setia (Upgrade to Buy)**

Huge price disparity driving KL south migration. Escalating land prices within Greater KL have reduced the supply of affordable landed properties, which remain in demand. The MRT connectivity at Kajang (ready by 2017) and the ready infrastructure with several highways have made Kajang/Semenyih the natural choice for developers to expand township developments. This is supported by the availability of large tracts of land and these districts recording the among the strongest population growth in Selangor. The close proximity to KLCC and Putrajaya federal administrative centre will ensure KL South continues to thrive.

Follow the infrastructure. The terminal station of the proposed KL-SG High Speed Rail (HSR) link at Bandar Malaysia could accelerate migration to KL south given the more integrated public transport system by then. The MRT Line 2 which has been approved by the cabinet could link southward to Putrajaya, which would drive more development in Kajang/Semenyih.

Top pick: MKH. Its large exposure to affordable housing and landed residential projects in its stronghold Kajang-Semenyih growth corridor (490 acres), coupled with its low land cost at prime locations, will make MKH the largest beneficiary of the KL south migration.

KLCI : 1,872.97

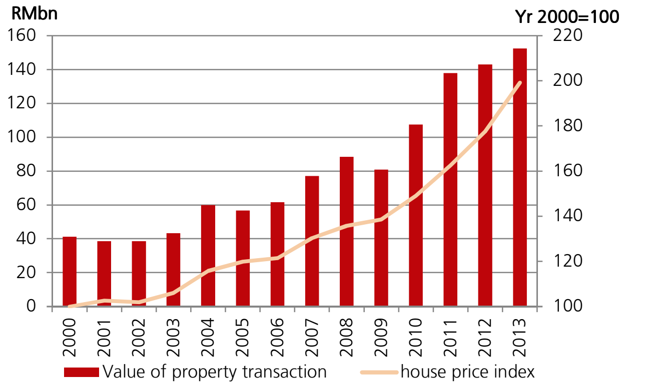
Analyst
QUAH He Wei, CFA +603 2604 3966
hewei@alliancedbs.com

STOCKS

	Price	Mkt Cap	Target Price	Performance (%)		
	RM	US$m	RM	3 mth	12 mth	Rating
UEM Sunrise Bhd	2.10	2,863	2.20	(11.8)	(30.9)	HOLD
SP Setia	3.52	2,788	4.10	20.6	5.4	BUY
Sunway Bhd	3.18	1,722	3.70	2.6	(4.2)	BUY
Eastern & Oriental	2.99	1,039	3.80	19.6	51.0	BUY
MKH Berhad	4.01	528	5.85	22.1	123.0	BUY
Eco World	5.08	404	6.00	(1.0)	605.6	BUY
Wing Tai Malaysia	2.15	218	2.25	(9.7)	(16.3)	HOLD
Hunza Properties	2.00	143	2.20	0.0	2.0	HOLD

Source: AllianceDBS

Increasing property sales and prices



Source: AllianceDBS, NAPIC

QUAH He Wei, CFA +603 2604 3966
hewei@alliancedbs.com

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Why KL South migration?

Escalating land prices within Greater KL have reduced the supply of affordable landed properties, for which there is still strong demand. The connectivity of MRT into Kajang (ready by 2017) and the ready infrastructure with several highways, have made Kajang/Semenyih the natural choice for developers to expand township developments, with the availability of large tracts of land bank and the area recording one of the strongest population growth in Selangor (26% of total transactions).

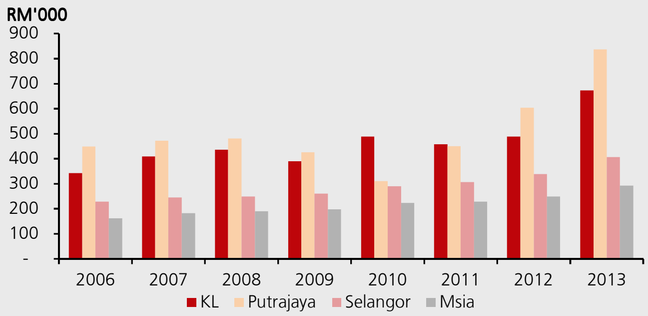
Greater KL/Klang Valley remains the core of the government's economic transformation program – the government wants to grow the Greater KL population to 10m by 2020 from an estimated 7m currently. This means the Greater KL population has to grow by 5.2% p.a. on average, much higher than the national average of ~1.4%. If the goal materializes, this would translate into stronger demand for housing of 80k units p.a. in Greater KL alone vis-à-vis 78k units completed for the whole country in 2013.

Greater KL – economic growth driver

	Population (m)	Density (ppl/sq km)	Urbanisation
Selangor	5.46	674	91.4%
KL	1.67	6,891	100%
Putrajaya	0.07	1,478	100%
Malaysia	28.3	86	71%

Source: AllianceDBS, Department of Statistics

Greater KL prices much higher than national average



Source: AllianceDBS, NAPIC

Housing demand in Greater KL is likely to remain healthy going forward, but buyers will be picky because of steep pricing, no thanks to a slew of cost-push factors including inflationary pressure, subsidy rationalisation, and implementation of minimum wages. Faced with the risk of margin compression, property developers will naturally look to landbank in areas where land cost is relatively low, and there is ready infrastructure and a growing population.

The construction of the MRT Sg. Buloh-Kajang line has drawn interest to the Kajang/Semenyih growth corridor which is located within the Hulu Langat district, Selangor, because of the availability of vast land bank there. The 51-km MRT line will have 31 stations including 16 with park-and-ride facilities and four interchange stations. The line will link Sungai Buloh in the northwest and Kajang in the southeast.

Indeed, the much-needed catalyst – three MRT stations within Kajang - has driven several public-listed property developers to grab land in the area. Other major developers such as SP Setia, Mah Sing, UEM Sunrise, Eco World, and Tropicana, have also jumped on the bandwagon as the areas gains recognition as strategic townships at a relatively comfortable distance from KL city center, that offer affordable housing and ready infrastructure:

i) Education hub: there are several education institutions in the vicinity, including New Era University College, Universiti Kebangsaan Malaysia, Universiti Putra Malaysia, Nottingham University campus, Universiti Tenaga Malaysia, the German Malaysia Institute, and the Australia International School;

ii) Easy access with the opening of several highways that link Kajang/Semenyih to other major townships within Klang Valley. These include the Kajang SILK Highway and Persiaran Kajang-Semenyih. Other links to the area are Lebuhraya Utara Selatan, Lebuhraya Cheras-Kajang and Lebuhraya Klang Selatan; and

iii) Strong population growth driven by urban migration. According to Department of Statistics data, Kajang's population was close to 800,000 in 2010, or 15% of Selangor's population of 5.4m. The local town council (MPKj) expects Kajang's population to exceed 1m by 2013.

Public-listed developers rushing to buy land in Semenyih/Kajang

Date	Buyer	Location	Size (acre)	RMm	RMpsf	Remarks
02-Jul-14	Eco World	Semenyih	492.7	225.3	10.5	near Bandar Rinching
25-Apr-14	Eco World	Semenyih	1,073.1	950.0	20.3	near Bandar Rinching
21-May-12	Mah Sing	Bangi	412.0	333.3	18.6	3.2km away from UKM
01-Mar-12	Knusford	Semenyih	13.3	14.2	24.5	near Taman Kajang Perdana and Taman Jelok Impian
03-Oct-11	SP Setia	Semenyih	673.3	381.3	13.0	13km south of Kajang in Rinching
08-Sep-11	Ireka Corp	Kajang	20.6	22.4	25.0	within Bukit Angkat Industrial Zoning
05-Sep-11	Tropicana Corp	Semenyih	198.5	228.0	26.4	Kajang Hills
06-Dec-10	UEM Sunrise	Bangi	463.5	268.5	13.3	near Bandar Seri Putra

Source: AllianceDBS, Companies

Land prices in KL Northern areas such as Sg. Buloh, Petaling Jaya and Kota Damansara have long been valued at a premium to KL Southern areas. But the MRT line will change the dynamics, it will revitalise the Kajang/Semenyih corridor. In fact, land prices in Kajang/Semenyih have almost tripled compared to 3-4 years ago, albeit coming from a low base.

Huge disparity in land price between North and South of KL for parcels near MRT stations

Area	Est. land price RMpsf	Est. property ASP RMpsf	Developer
Sg. Buloh	200-300	600-700	Mah Sing, Selangor Dredging
Kota Damansara	200-300	600-700	Meda Inc
Pusat Bandar Damansara	1300-1800	1450	Guoco Land
Dataran Sunway	350-450	1000-1200	Tropicana
Kajang city	80-100	350-450	MKH

Source: AllianceDBS, Various

We compare Kajang (in Hulu Langat district) and Sg. Buloh (in Petaling district) because these two areas have similar demographics and public transport connectivity. Kajang and Sg. Buloh are among the most populous districts in Selangor, and the existing KTM railway runs through both areas. Similarly, the terminal stations of the MRT line which will be ready by 2017 will be located at Sg. Buloh and Kajang.

However, there is a stark contrast in property prices between the two areas, in favour of the northern region. We believe the completion of the MRT Sg Buloh-Kajang Line will reduce the disparity as property buyers will likely decide mainly on price then.

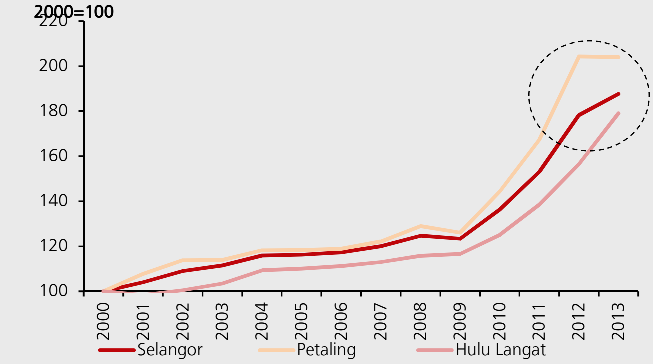
Also, property affordability is increasingly an issue for the general public with prices surging in recent years and demand outpacing new supply of houses by a large margin, particularly for low-to-medium cost units.

Population in Selangor

District in Selangor	
Gombak	668,694
Klang	842,146
Kuala Langat	220,214
Kuala Selangor	205,257
Petaling	1,765,495
Sabak Bernam	103,709
Sepang	207,354
Hulu Langat	1,138,198
Ulu Selangor	194,387

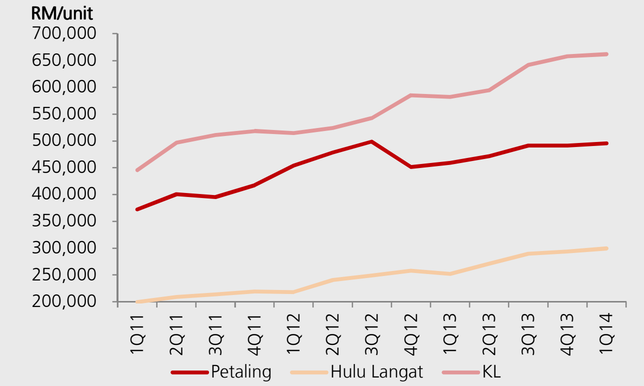
Source: AllianceDBS, Department of Statistics

Hulu Langat property prices catching up with Petaling



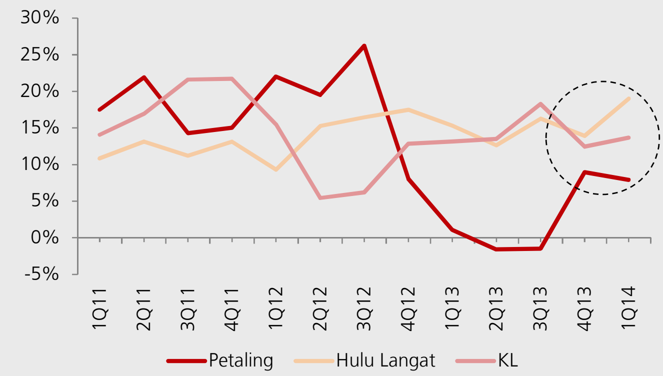
Source: AllianceDBS, NAPIC

Wide disparity for terraced house price



Source: AllianceDBS, NAPIC

Hulu Langat terraced house price growth outperform



Source: AllianceDBS, NAPIC

We noticed Hulu Langat district terrace house prices have consistently outperformed those in KL and Petaling district, which is most likely due to the huge price disparity. Based on National Property Information Center (NAPIC) 1Q14 data, average price of terrace houses in KL and Petaling district are 121% and 65% higher than those in Hulu Langat. Therefore, we believe the huge price difference is expected to drive more property buying interest to Kajang/Semenyih growth corridor where lifestyle gated-and-guarded developments have been mushrooming due to the strong demand.

Indeed, since the announcement of the MRT Sg. Buloh-Kajang Line, demand for landed properties in Kajang/Semenyih has been rising. Property sales have been resilient, driven by the strong population growth in the second most populous district in Selangor. The KL South migration is imminent; major developers in Kajang/Semenyih rushing to buy land there reinforces our view that this will be one of the best hotspots in the years to come, possibly more visible when the MRT stations are completed by 2017.

Hulu Langat properties sell like hot cake

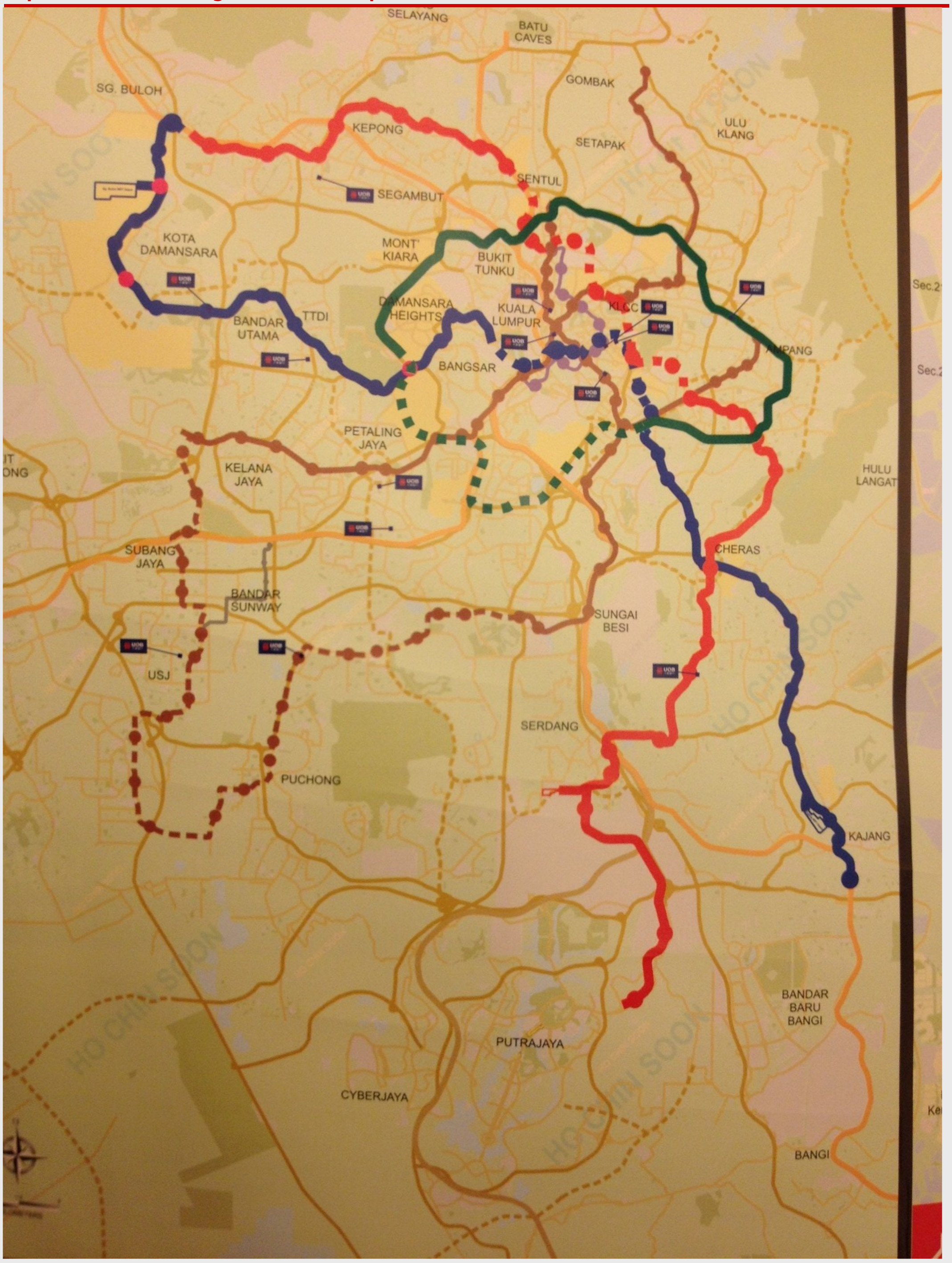
Launch	Project	Developer	Take up	Type	Price/ unit
Sep13	Southville City	Mah Sing	>90%	high rise	>280k
Oct13	Setia Eco Hill	SP Setia	>90%	landed	>450k
Nov13	Diamond City	Country Garden	>80%	landed	>900k
Feb14	Tropicana Heights	Tropicana	>90%	landed	>740k
Apr14	Saville Kajang	MKH	>80%	high rise	>290k
May14	Eco Majestic	Eco World	>80%	landed	>590k

Source: AllianceDBS, various

Developers are still launching high-priced products and fewer affordable projects, as land prices within Klang Valley have risen sharply that it is no longer feasible to launch affordable housing. The MRT network reaching out to Kajang has also reshaped public perception on residential projects in Kajang/Semenyih; they were previously associated with long travel distance from KL city center.

The availability of landed properties in Kajang/Semenyih at lower prices than in other established townships such as Petaling Jaya and Kota Damansara and good public transport connectivity, appeal most to the general public. An additional advantage is the close proximity to Putrajaya federal administrative center, which has contributed to robust property sales in the area. Upgraders from Cheras, Putrajaya and Cyberjaya also naturally look at Kajang/Semenyih when it comes to buying gated and guarded residential projects with lifestyle amenities.

Ripe for KL south migration with improved infrastructure



Source: Ho Chin Soon Research, AllianceDBS

More catalyst from major infrastructure projects

MRT Line 2 gets green light from federal government. This line will link Sg. Buloh and Putrajaya in the South. We expect the contracts to be awarded by 2H15. Although the alignment has yet to be finalised, proposals to extend the line to areas like Serdang and Putrajaya could help to drive KL South migration.

The combined coverage of MRT Line 1 and 2 will create a huge catchment area to further spur property development in the area. Malaysia's most modern public transport mode will enable the residents to reach major destinations within Greater KL with relative ease. The appeal of better quality of life at relatively lower price in the Kajang/Semenyih growth corridor will transform the property landscape there.

Transit-oriented developments (TODs) are also positioned to take off strongly with the extension of MRT connectivity to KL South. The convenience of TODs has not been fully appreciated by the public vis-à-vis property buyers in Singapore and Hong Kong, as this single largest infrastructure project is a first for Malaysia.

High Speed Rail. The ambitious High-Speed Rail (HSR) project due for completion by 2020 would reduce the journey from Singapore to Kuala Lumpur to just 90-minutes, from up to 4.5 hours currently. The location of the terminal in Singapore has yet to be finalised, but it has been reported Bandar Malaysia would house the terminal station in Malaysia.

There are plans for the 330km line to make stops in Negri Sembilan, Malacca and Johor, which could extend the journey time to 2 hours, but this is still preliminary. We understand the Malaysian government is conducting technical surveys, socio-economic analyses on the proposed stations, and the proposed alignment, among others. The HSR service is expected to boost travel between the two countries and result in significant economic gains for both.

The decision to place the Malaysian terminal at Bandar Malaysia in Sungai Besi, at the current site of the Royal Malaysian Air Force base, is a welcome surprise for KL South migration, as there could be spillover effects on the Malaysian property sector.

The positive impact of an integrated HSR and MRT Line 1 and 2 in the future is likely to benefit Kajang/Semenyih the most, since it is coming from a relatively lower base than more established townships in Greater KL.

Developers with exposure to KL South

Developer	Project	Land (acre)	% of land bank	Location	GDV (RMm)	% of total GDV (RMm)	% of RNAV	Remarks
MKH	Various	491	44%	Kajang/Semenyih, Cheras, Seri Kembangan	5,087	69%	46%	Various projects including Kajang 2, Pelangi Semenyih, Hillpark Homes
Tropicana	Tropicana Heights	199	10%	Kajang	1,456	2%	n.a.	township development
SHL	Bandar Sg. Long	328	55%	Sg. Long	n.a.	n.a.	50%	Include 160-acre golf course@Sg. Long
SP Setia	Setia EcoHill	1,447	30%	Bandar Rinching, Semenyih	7,360	11%	6%	township development
Eco World	EcoMajestic	1,566	32%	Bandar Rinching, Semenyih	14,640	31%	14%	township development
Hua Yang	One South, Mines South	22	3%	Seri Kembangan	1,035	n.a.	n.a.	mixed development
UEM Sunrise	Serene Heights, Sinaran Hills	513.6	7%	Bangi, Kajang	3,270	4%	2%	residential projects
Mah Sing	Southville City	428	15%	Bangi	8,300	32%	n.a.	township development

Source: AllianceDBS, Various, Companies

Our ground checks revealed that property projects within Kajang/Semenyih have been doing exceptionally well. The presence of established developers such as SP Setia, MKH, Tropicana, Eco World and Mah Sing, supports our optimistic outlook for property developments in an area that had been overlooked by property buyers previously because of perceived haphazard planning, lack of quality products, and weaker infrastructure.

Gated and guarded landed properties are the main attractions for genuine buyers/upgraders because of relatively more attractive pricing. This type of products are increasingly beyond the affordability of young working adults in other prime areas of Greater KL, as developers price in rising construction costs and land prices.

The Kajang/Semenyih/Bangi areas provide golden opportunity for developers to tap into the strong demand for landed properties, because of the availability of large tracts of land bank in the area. This is virtually the last area within Greater KL that is still available at reasonable prices, yet offer strong growth prospects as the improving infrastructure and facilities would enhance its appeal.

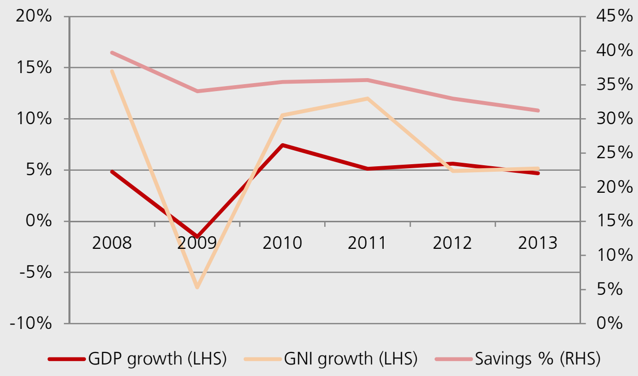
Kajang/Semenyih will be the next hotspot going forward. For property developers, the resilient demand for landed properties will create a more stable market vis-à-vis high-end condo projects which are heavily dictated by market sentiment. Typical bread-and-butter terrace houses have been selling well over the years as supply and demand are driven by sector fundamentals.

We understand that MKH, one of the oldest names in Kajang/Semenyih, has never employed the developers' interest bearing scheme (DIBS) incentive to sell their products, even during the down cycle when many developers in town introduced that to address slowing sales. This is strong testament to the booming yet resilient property sales in the growth corridor, the dynamics greatly enhanced by the MRT connectivity.

Malaysian property market remains healthy

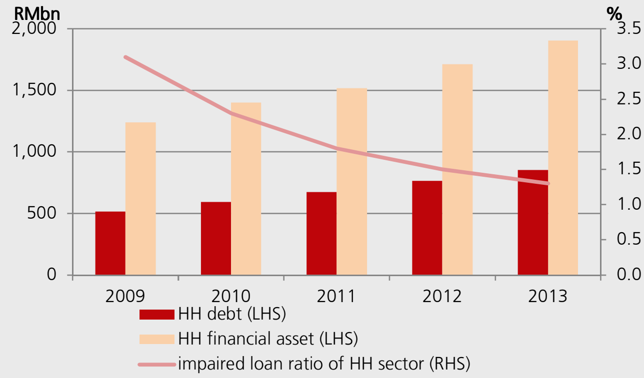
Despite the relatively weaker property sentiment due to tightening measures, property prices remain at record highs as supply continue to lag demand. Property demand in Malaysia is supported by favourable demographics - young and growing population (and labour force), increasing urbanisation, and shrinking household size. The Malaysian economy is expected to grow by 5.3% in 2014 (vs 4.7% in 2013), while unemployment rate is healthy at 3%.

Relatively healthy economic indicators



Source: AllianceDBS, BNM

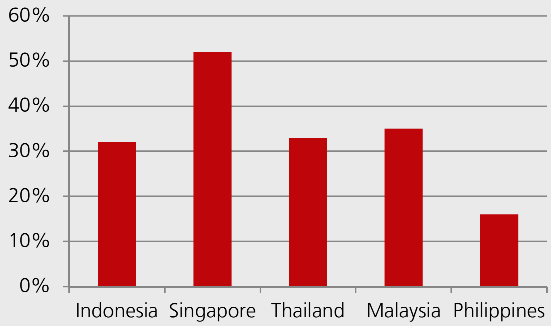
Lower impaired loan ratio despite rising household debt



Source: AllianceDBS, BNM

There are concerns rising household debt could pose a serious threat to the economy, but more stringent lending guidelines adopted by financial institutions could help to ease the pressure. Household debt also grew at a slower pace of 11.7% in 2013, compared to 13.5% in 2012. We believe the risk of a property bubble is well contained by strong fundamentals in Malaysia's economy and a robust banking system. Overall household financial health is stable as indicated by 45% household gearing and a gross national savings-to-gross national income ratio of 31%.

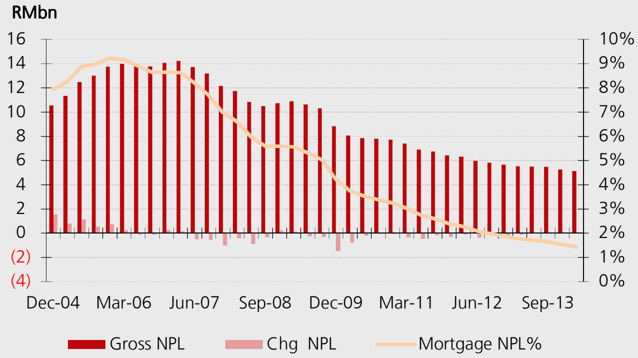
Healthy gross domestic savings



Source: AllianceDBS, World Bank

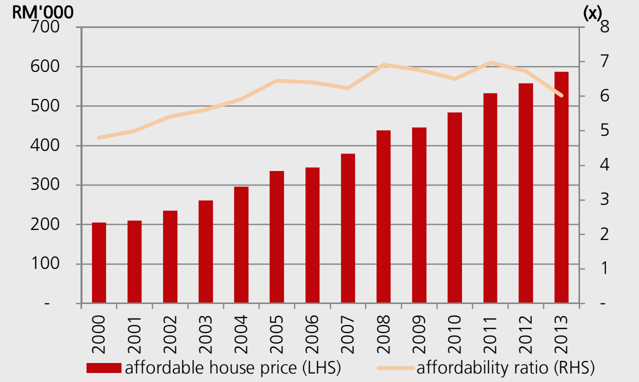
Meanwhile, non-performing loans for residential property mortgage have been improving over the years. The gross residential mortgage loan NPL ratio has improved from 3.5% in 2010 to 1.5% recently. We understand banks have been more cautious with loan approvals, as some property buyers have been facing difficulty in getting mortgage loans. Nevertheless, loan applications and approvals have started to pick up in recent months.

Mortgage NPLs trending down



Source: AllianceDBS, BNM

Affordability supported by cheap financing



Source: AllianceDBS, BNM

Despite the rapid increase in property prices in recent years, affordability remains healthy thanks to the low financing rates and rising household income. We note that 87% of the value of residential property transactions in 2013 were priced below RM500,000, and Malaysia still has the lowest house price-to-income ratio in the region.

Malaysia's house price-to-income still lowest in the region

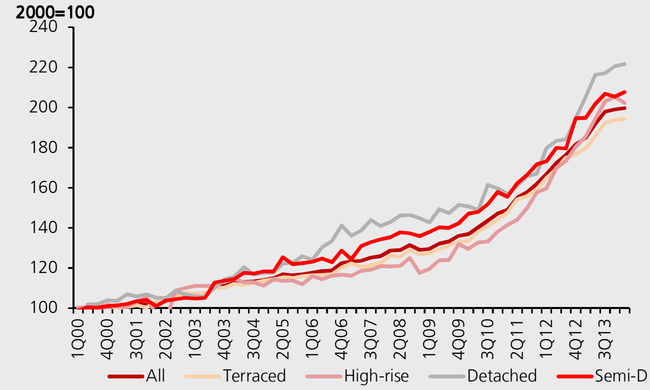
Source: URA, Singstat, Demographia, Bank of Thailand, BNM

The recent interest rate hike of 25 basis points is unlikely to cause a major slowdown in the property market. A 25 basis point increase in the base lending rate would lift a 30-year RM500k mortgage loan instalment payment by RM74/month, an increase of only 3% over the current monthly instalment of ~RM2,445. Nevertheless, sentiment may be affected temporarily after rates are adjusted by commercial banks.

The rate hike was due to BNM concern over the risk of broader economic and financial imbalances that could undermine the growth prospects of the Malaysian economy. Should there be more interest rate hike in tandem with the growing economy, it is unlikely to adversely affect property sales growth judging by historical trend though consumer sentiment may be affected.

We believe property prices are likely to remain steady at current levels, after the steep appreciation over the past few years. The supply deficit will continue to support prices as the young labour force (60% below 40 years old) will be seeking residential properties. Newly completions have ranged from 65k-80k units p.a. in recent years, while Malaysia household formation has exceeded 100k p.a., underpinning strong demand for properties. Demand is further supported by easy access to credit.

Property prices reaching all-time high



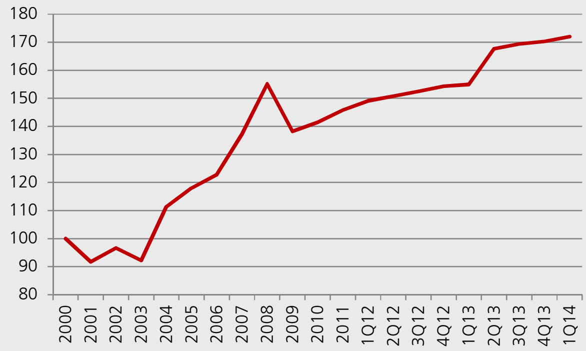
Source: AllianceDBS, NAPIC

Healthy inventory levels

	KL	Selangor	Johor	Penang	Others	Malaysia
Existing Stock	424,324	1,358,054	705,929	377,942	1,852,285	4,718,534
% of Msia	*9%*	*29%*	*15%*	*8%*	*39%*	*100%*
Completions	1,281	19,003	12,402	12,583	32,996	78,265
% of stock	*0%*	*1%*	*2%*	*3%*	*2%*	*2%*
Incoming supply	52,714	149,644	118,191	64,482	311,526	696,557
% of stock	*12%*	*11%*	*17%*	*17%*	*17%*	*15%*
total unsold	8,567	11,935	15,385	2,259	27,429	65,575
Unsold/stock	*2.0%*	*0.9%*	*2.2%*	*0.6%*	*1.5%*	*1.4%*

Source: AllianceDBS, NAPIC

Rising construction cost



Source: AllianceDBS, Langdon Seah

Cost-push factors such as rising construction cost and the implementation of 6% Goods & Services Tax (GST) effective Apr15 will continue to create upward pressure on selling prices. New tenders for construction contracts have been seeing higher quotations, partly due to intense competition for raw materials and labour with the rollout of mega infrastructure projects in Malaysia. We understand property developers have started to factor in GST in selling prices for new projects.

The sticky prices could translate into softer demand for certain properties, but demand for landed properties is likely to remain resilient although there will be limited supply of affordable units in view of the escalating land prices within Greater KL. The scarcity of large tracts of land bank in prime areas has also resulted in developers opting to build high-rise projects to optimize yields (gross development profit/acre).

Other challenges include the increasing compliance cost. These include bumi discount/quota (5-15%/30-60% depending on location and land status), low-medium cost housing quota (30-50% depending on land size), and government reserve/public area, which have led to cross-subsidy of products. We understand developers incur ~RM100k losses/unit for each low-cost house built because the RM42k cap implemented by the government has stayed despite rising construction costs.

Investment strategy

Despite generally weaker sentiment in the property market, property sales in Kajang/Semenyih growth corridor has been outperforming those in more established townships within Greater KL. We like the mass-market township developments in Kajang/Semenyih, for which demand will remain resilient with the improvements to overall infrastructure as well as public transport connectivity.

MKH and Eco World will be among the largest beneficiaries of the booming Kajang/Semenyih growth corridor, as the potential GDV from their land bank account for 69% and 31%, respectively, of their overall GDV in the pipeline. Promising sales at their projects will underpin long-term earnings visibility.

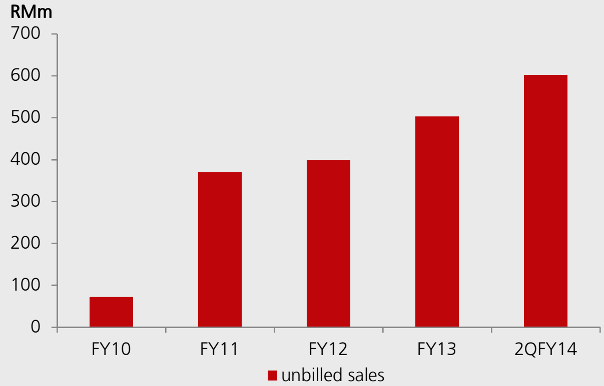
The undisputed advantage of cheaper land cost - to supply landed properties - in the area will ensure property and land prices converge rapidly towards average prices in KL. This could create a multi-year re-rating for both MKH and Eco World which enjoy strong branding.

Top/High conviction pick: MKH. The company will be the largest beneficiary of the upcoming MRT connectivity given its high exposure to the booming Kajang/Semenyih growth corridor. MKH is a rare gem that offers both deep value and strong earnings growth

MKH has an unrivalled competitive advantage in Kajang/Semenyih property development because of their low land cost of RM10psf (vs peers' >RM20psf). Affordable homes - MKH's stronghold - remains the key theme for the property sector. Their large tract of prime property land bank in Kajang/Semenyih (490 acres) makes them the prime beneficiary of rising land prices there. Scarcity of land within Kajang also provides a distinct advantage for MKH's future launches, which are expected to see strong demand and fetch premium pricing.

MKH is on track to achieve its record high property sales target of RM800m for FY14 (vs RM580m in FY13). It booked RM410m sales in 1HFY14, of which RM96m is pre-sale booking. This has yet to include overwhelming sales from Saville@Kajang (RM280m GDV) which has achieved impressive 80% take-up although the project was only launched in April. As a result, unbilled sales is at an unprecedented RM602m as at March, or 1.3x its FY13 property revenue.

Record high unbilled sales



Source: AllianceDBS, Company

Initiate coverage: Eco World (BUY, RM6.00 TP). Eco World has been gaining prominence in Malaysia's property market, as the new company is backed by a solid ex-SP Setia management team that have a proven and impeccable track record during their tenure in SP Setia. The company is in the midst of a major corporate exercise to be completed in 3Q14, which will turn the company into a large scale developer with 4.4k acres of land bank that could generate RM43.5bn GDV.

Eco World has direct exposure to the Kajang/Semenyih growth corridor through 1,566 acres of land bank in Semenyih which has the potential to generate RM14.6bn GDV. Management's impressive execution track record is the strongest confidence bestowed by the general public towards its property projects. Eco World's EcoMajestic@Semenyih received overwhelming response for the 1st phase, Cradleton, where more than 2,000 property buyers queued on launch day to grab the 612 units available for sale at end May.

Eco World may bring forward subsequent phases of EcoMajestic in view of strong demand for its landed products, despite the premium pricing starting at RM586k/unit for a terrace house. Property sales should gain momentum as more of its eco-themed projects are introduced to the market.

The company is on track to achieve its RM5bn sales target over FY14-15 given its presence in Malaysia's property hotspots in the Klang Valley, Iskandar Malaysia, and Penang. We project the company will achieve 3-year earnings CAGR of 102% over FY13-16F

Land bank upon completion of corporate exercise

	Enlarged land bank	Acres	GDV (RMm)
Eco Central	Saujana Glenmarie	25.9	90
	Eco Sky	9.6	974
	Eco Majestic	1073.1	11,144
	Eco Sanctuary	308.7	8,000
		1417.3	**20,208**
Eco South	Eco Botanic	325.1	3,794
	Eco Spring	613.8	5,871
	Eco Tropics	743.6	3,400
	Eco Business Park 1	612	3,799
	Eco Business Park 2	383.6	3,009
	Eco Business Park 3	248	2,000
		2,926	**21,873**
Eco North	Eco Terraces	12.8	338
	Eco Meadows	75.7	916
	Eco Macalister	1.1	190
		89.6	**1,444**
		4,433	**43,525**

Source: AllianceDBS, Company

SP Setia (Upgrade to BUY, TP RM4.10). SP Setia will be one of the beneficiaries of the rising prominence of KL South, through it 1,447 acres of undeveloped land bank in Semenyih which was acquired in 2011 at a blended cost of RM10.6psf. Setia Eco Hill launched in Oct13 was met with astounding success; the project had more than 26,000 registrants for 760 units on offer during the launch. We understand the ballot numbers were snapped up within five hours, and over 2,000 people turned up for the sales launch.

The company's fundamentals remain solid given its record high unbilled sales of RM11.2bn, which translates into 4x FY13 property development revenue. Therefore, we project SP Setia to deliver 3-year earnings CAGR of 18%. Also, SP Setia remains one of the largest developers in Malaysia with sizeable prime land bank that was acquired at relatively lower prices few years ago.

SP Setia's prime 4,782-acre land bank (RM71bn GDV) has low holding cost, which means the company stands to benefit the most the steep land price appreciation in recent years. Therefore, SP Setia is poised to benefit from resilient demand for its established township developments in Setia Alam (712 acres undeveloped; RM3.50psf land cost) and Setia Eco Hill (1,447 acres; RM10.6psf) which should continue to see strong sales.

We believe the concern over SP Setia's management departure has been priced in and the overhang has now been removed after the departure of its CEO. Re-rating catalyst could come from potential M&A exercise which is likely to be done above put option exercise price granted to Tan Sri Liew Kee Sin at RM3.95/share.

Risk

Margin compression. Developers may not be able to pass through to property buyers the incremental costs resulting from rising land prices and construction costs, as the market may not be receptive of higher selling prices in view of record high house prices. We understand there is also labour shortage in some areas such as Iskandar Malaysia where the situation is more severe, which will result in contractors demanding higher quotations for construction works.

Slowing sales. Property sales may slow down in certain locations as property buyers could be deterred by the high entry price and tightening measures, with banks adopting more cautious lending practice for mortgage loans.

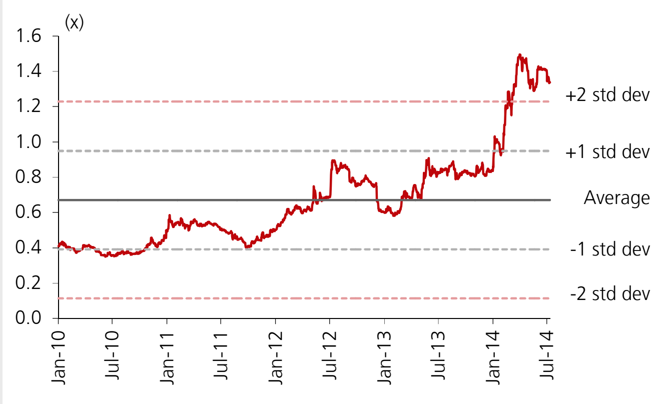
Rising household debt. The unprecedented household debt level could strain purchasing power and demand for future properties, in view of rising inflationary pressure and the impending interest rate hike which will lower disposable incomes.

Peer comparison

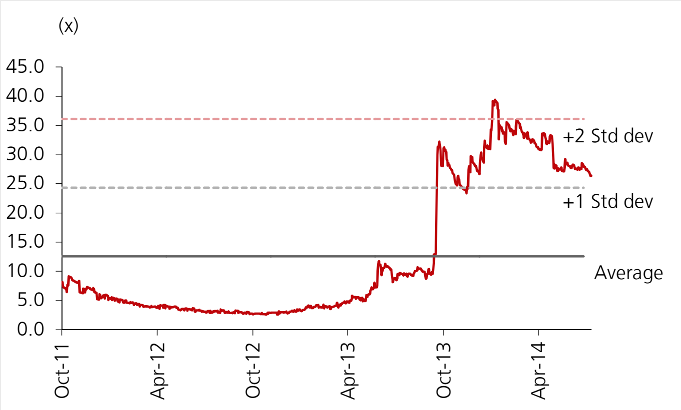
Company	FYE	Rating	Price	TP	Market cap	P/RNAV	PE CY14	CY15	PB CY14	CY15	ROE CY14	CY15
UEM Sunrise	Dec	Hold	2.10	2.20	9,529	52%	17.5	24.1	1.5	1.4	8%	6%
SP Setia	Oct	Buy	3.52	4.10	8,876	40%	18.8	13.9	1.5	1.5	8%	10%
Sunway	Dec	Buy	3.18	3.70	5,482	23%	10.9	9.1	1.0	0.9	9%	10%
E&O	Mar	Buy	2.99	3.80	3,307	33%	30.0	20.7	2.2	2.0	7%	10%
MKH	Sep	Buy	4.01	5.85	1,682	33%	11.3	7.9	1.5	1.3	14%	17%
Eco World	Oct	Buy	5.08	6.00	1,287	32%	n.m.	34.1	1.3	1.3	1%	4%
Wing Tai M'sia	Jun	Hold	2.15	2.25	676	52%	7.6	5.7	0.6	0.6	8%	10%
Hunza	Jun	Hold	2.00	2.20	456	59%	18.6	8.1	0.5	0.5	3%	7%
					Average	**40%**	**16.4**	**15.5**	**1.3**	**1.2**	**7%**	**9%**

MKH PE band

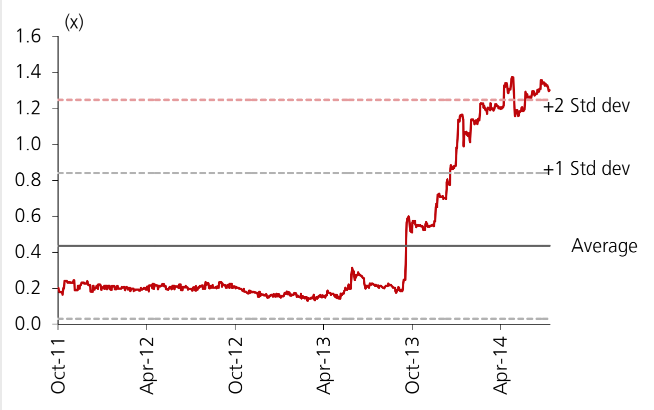
MKH PB band



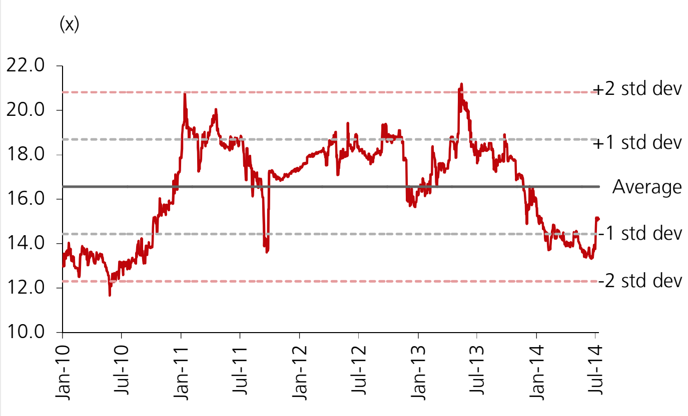
Eco World PE band



Eco World PB band



SP Setia PE band



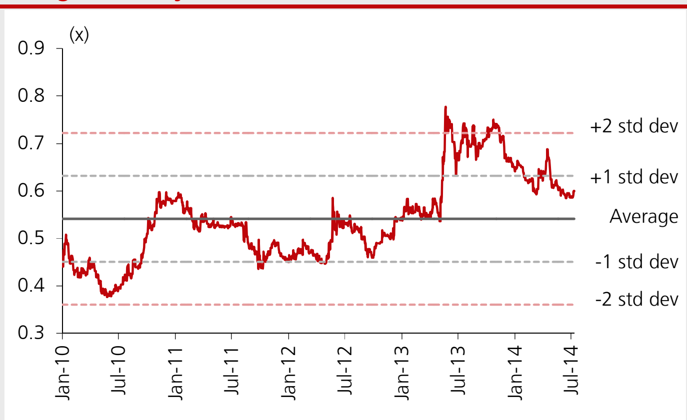
SP Setia PB band

UEM Sunrise PE band

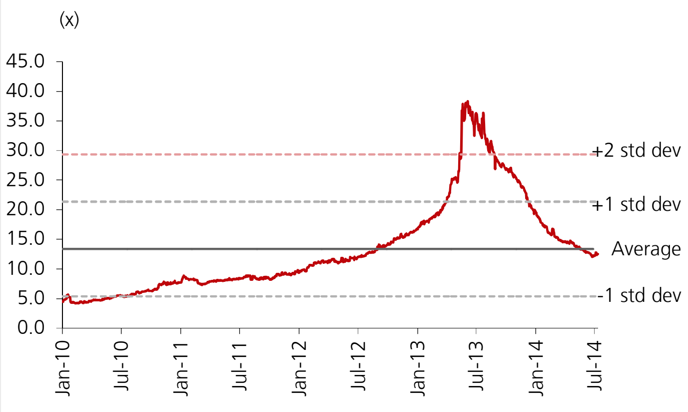
UEM Sunrise PB band

Wing Tai Malaysia PE band

Wing Tai Malaysia PB band

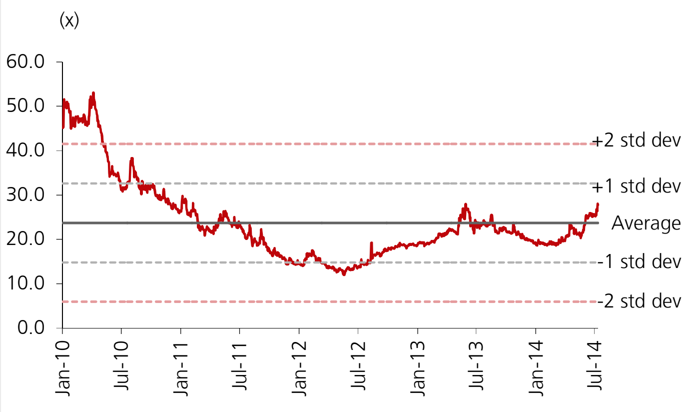


Hunza Properties PE band

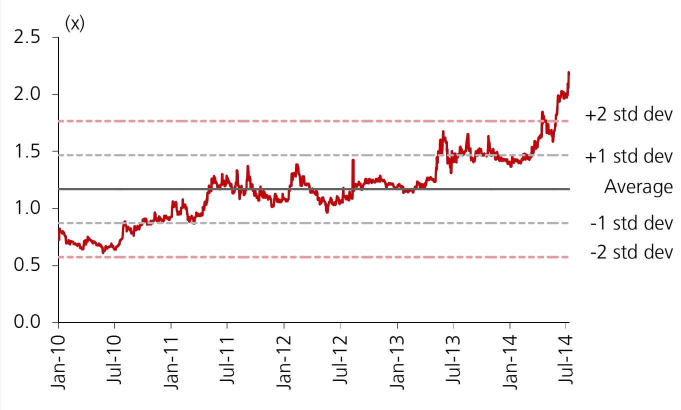


Hunza Properties PB band

E&O PE band



E&O PB band



Sunway PE band

Sunway PB band

Source: AllianceDBS, Companies, Bloomberg Finance L.P.

Stock Profiles

Company Focus

MKH Bhd

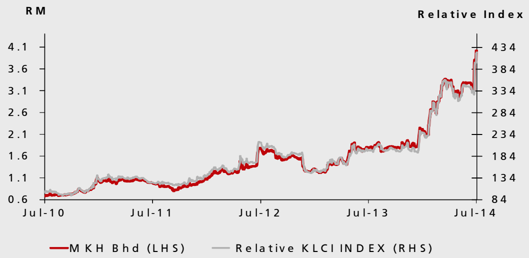
Bloomberg: MKH MK | Reuters: METR.KL **Refer to important disclosures at the end of this report**

BUY RM4.01 KLCI : 1,872.97

Price Target : 12-Month RM 5.85
Potential Catalyst: Stronger property sales and FFB production
AllianceDBS vs Consensus: First to cover the stock

Analyst
QUAH He Wei, CFA +603 2604 3966
hewei@alliancedbs.com

Price Relative



Forecasts and Valuation

FY Sep (RM m)	2013A	2014F	2015F	2016F
Turnover	688	775	983	1,374
EBITDA	183	208	287	403
Pre-tax Profit	136	184	261	377
Net Profit	103	135	191	275
Net Pft (Pre Ex.)	119	135	191	275
EPS (sen)	24.7	32.3	45.5	65.7
EPS Pre Ex. (sen)	28.4	32.3	45.5	65.7
EPS Gth (%)	15	31	41	44
EPS Gth Pre Ex (%)	63	14	41	44
Diluted EPS (sen)	24.7	32.3	45.5	65.7
Net DPS (sen)	7.5	8.3	8.3	12.5
BV Per Share (sen)	272.4	253.1	290.2	347.5
PE (X)	16.3	12.4	8.8	6.1
PE Pre Ex. (X)	14.1	12.4	8.8	6.1
P/Cash Flow (X)	15.4	7.5	10.9	9.3
EV/EBITDA (X)	11.4	9.7	7.0	4.9
Net Div Yield (%)	1.9	2.1	2.1	3.1
P/Book Value (X)	1.5	1.6	1.4	1.2
Net Debt/Equity (X)	0.4	0.3	0.3	0.2
ROAE (%)	12.0	13.4	16.7	20.6
Earnings Rev (%):		0	0	0
Consensus EPS (sen):		31.0	40.5	66.0
Other Broker Recs:		B: 2	S: 0	H: 0

ICB Industry : Real Estate
ICB Sector: Real Estate Investment & Services
Principal Business: MKH is an established township developer in Kajang/Semenyih and Greater Klang Valley. Its 16k ha oil palm estates in Indonesia has started to contribute significantly
Source of all data: Company, AllianceDBS, Bloomberg Finance L.P

Best proxy to booming Kajang

- **Resilient property sales riding on booming Kajang/Semenyih growth corridor**
- **Exponential growth from plantation driven by 3-year FFB volume CAGR of 20%**
- **Maintain high-conviction BUY, RM5.85 TP**

Record high unbilled sales. MKH is on track to meet its record high property sales target of RM800m for FY14 (vs RM580m in FY13). It booked RM410m sales in 1HFY14, of which RM96m is pre-sale booking. This has yet to include the strong sales from Saville@Kajang (RM280m GDV) which has seen 80% take-up despite being launched only in late April. Thanks to the robust sales, unbilled sales is at a record high of RM602m as at March, or 1.3x its FY13 property revenue.

Strong launch pipeline. MKH's large tract of property land bank in Kajang/Semenyih (490 acres) makes them the prime beneficiary of rising land prices at this hotspot. Upcoming launches for MKH include MKH Avenue 2@Kajang City (RM200m GDV, shop offices), Saville@Cheras (RM280m, high-rise), and Hill Park Homes 3@Semenyih (RM173m, 2-storey terrace houses). These should be well-received due to their strategic locations and affordable pricing.

Plantation a potential catalyst. FFB output hit 130k MT in 1HFY14 (48% of our full-year forecast), and we understand April FFB yield was strong. We expect plantation contribution to rise to 33%/38% of FY14/15 group earnings (from 17% in FY13).

High conviction pick. We project MKH to register 32% earnings CAGR over FY13-16F. MKH's unrivalled strong growth prospects in both the Property and Plantation segments will drive a multi-year re-rating of the stock.

At A Glance

Issued Capital (m shrs)	419
Mkt. Cap (RMm/US$m)	1,682 / 528
Major Shareholders	
Chen Choy & Sons Realty (%)	43.1
Public Bank Grp Off Fund (%)	9.8
Free Float (%)	47.1
Avg. Daily Vol.('000)	572

Income Statement (RM m)

FY Sep	2013A	2014F	2015F	2016F
Turnover	688	775	983	1,374
Cost of Goods Sold	(441)	(416)	(536)	(801)
Gross Profit	**247**	**359**	**447**	**572**
Other Opng (Exp)/Inc	(90)	(154)	(163)	(173)
Operating Profit	**158**	**205**	**284**	**400**
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	11	3	3	3
Net Interest (Exp)/Inc	(17)	(23)	(26)	(26)
Exceptional Gain/(Loss)	(16)	0	0	0
Pre-tax Profit	**136**	**184**	**261**	**377**
Tax	(29)	(46)	(65)	(94)
Minority Interest	(3)	(3)	(5)	(8)
Preference Dividend	0	0	0	0
Net Profit	**103**	**135**	**191**	**275**
Net Profit before Except.	119	135	191	275
EBITDA	183	208	287	403
Sales Gth (%)	26.2	12.5	26.9	39.7
EBITDA Gth (%)	59.8	13.8	38.1	40.4
Opg Profit Gth (%)	69.7	30.1	38.6	40.8
Net Profit Gth (%)	38.5	30.9	40.8	44.5
Effective Tax Rate (%)	21.3	25.0	25.0	25.0

Cash Flow Statement (RM m)

FY Sep	2013A	2014F	2015F	2016F
Pre-Tax Profit	136	184	261	377
Dep. & Amort.	14	0	0	0
Tax Paid	(36)	(9)	(46)	(65)
Assoc. & JV Inc/(loss)	(11)	(3)	(3)	(3)
Chg in Wkg.Cap.	(6)	52	(58)	(128)
Other Operating CF	13	0	0	0
Net Operating CF	**109**	**224**	**154**	**181**
Capital Exp.(net)	(174)	(80)	(80)	(80)
Other Invts.(net)	(24)	(50)	(21)	(22)
Invts in Assoc. & JV	0	0	0	0
Div from Assoc & JV	34	0	0	0
Other Investing CF	0	0	0	0
Net Investing CF	**(164)**	**(130)**	**(101)**	**(102)**
Div Paid	(13)	(26)	(35)	(35)
Chg in Gross Debt	49	0	0	0
Capital Issues	52	0	0	0
Other Financing CF	0	0	0	0
Net Financing CF	**88**	**(26)**	**(35)**	**(35)**
Currency Adjustments	(20)	0	0	0
Chg in Cash	13	68	18	44

Quarterly / Interim Income Statement (RM m)

FY Sep	3Q2013	4Q2013	1Q2014	2Q2014
Turnover	185	218	182	188
Cost of Goods Sold	(115)	(142)	(118)	(113)
Gross Profit	**70**	**76**	**64**	**76**
Other Oper. (Exp)/Inc	(22)	(16)	(16)	(24)
Operating Profit	**48**	**60**	**49**	**52**
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	0	1	1	1
Net Interest (Exp)/Inc	(6)	(2)	(5)	(7)
Exceptional Gain/(Loss)	2	(33)	(20)	29
Pre-tax Profit	**44**	**27**	**25**	**75**
Tax	(12)	(2)	(6)	(19)
Minority Interest	0	0	(2)	(5)
Net Profit	**32**	**24**	**17**	**51**
Net profit bef Except.	30	57	37	21
EBITDA	48	61	50	53
Sales Gth (%)	35.1	17.5	(16.2)	3.1
EBITDA Gth (%)	88.8	27.3	(18.6)	6.4
Opg Profit Gth (%)	91.6	25.4	(19.4)	6.3
Net Profit Gth (%)	155.0	(25.2)	(30.8)	203.1
Gross Margins (%)	37.8	35.0	35.3	40.2
Opg Profit Margins (%)	26.0	27.7	26.7	27.5
Net Profit Margins (%)	17.4	11.1	9.2	26.9

Balance Sheet (RM m)

FY Sep	2013A	2014F	2015F	2016F
Net Fixed Assets	163	243	323	403
Invts in Associates & JVs	28	31	34	37
Invt & Devt Properties	264	264	264	264
Other LT Assets	713	763	784	806
Cash & ST Invts	123	191	208	252
Dev Props held for sale	280	203	262	392
Inventory	41	61	77	108
Debtors	113	134	170	238
Other Current Assets	561	526	637	865
Total Assets	**1,851**	**2,016**	**2,250**	**2,627**
ST Debt	107	107	107	107
Other Current Liab	182	199	252	353
LT Debt	40	77	96	125
Other LT Liabilities	152	152	152	152
Shareholder's Equity	951	1,061	1,216	1,457
Minority Interests	3	6	11	19
Total Cap. & Liab.	**1,851**	**2,016**	**2,250**	**2,627**
Non-Cash Wkg. Capital	339	250	289	388
Net Cash/(Debt)	(399)	(331)	(313)	(270)

Rates & Ratio

FY Sep	2013A	2014F	2015F	2016F
Gross Margins (%)	36.0	46.3	45.5	41.7
Opg Profit Margin (%)	22.9	26.4	28.9	29.1
Net Profit Margin (%)	15.0	17.5	19.4	20.0
ROAE (%)	12.0	13.4	16.7	20.6
ROA (%)	6.2	7.0	8.9	11.3
ROCE (%)	8.4	9.1	11.7	14.8
Div Payout Ratio (%)	25.3	25.8	18.3	19.0
Net Interest Cover (x)	9.2	8.7	10.9	15.3
Asset Turnover (x)	0.4	0.4	0.5	0.6
Debtors Turn (avg days)	54.9	58.1	56.5	54.2
Creditors Turn (avg days)	137.6	167.2	153.5	137.7
Current Ratio (x)	2.1	1.9	1.9	1.9
Quick Ratio (x)	0.7	0.8	0.8	0.8
Net Debt/Equity (X)	0.4	0.3	0.3	0.2
Net Debt/Equity ex MI (X)	0.4	0.3	0.3	0.2
Capex to Debt (%)	33.4	15.3	15.3	15.3
Z-Score (X)	0.0	0.0	0.0	0.0
N. Cash/(Debt)PS (sen)	(114.2)	(79.0)	(74.8)	(64.3)
Opg CFPS (sen)	27.6	41.1	50.5	73.6
Free CFPS (sen)	(15.5)	34.4	17.6	24.0

Segmental Breakdown / Key Assumptions

FY Sep	2013A	2014F	2015F	2016F
Revenues (RM m)				
Property development &	476	489	610	964
Hotel & property investment	32	34	36	38
Trading	67	72	78	85
Manufacturing	9	9	10	10
Plantation	101	170	249	277
Total	**688**	**775**	**983**	**1,374**
EBIT (RM m)				
Property development &	115	118	153	239
Hotel & property investment	15	15	16	17
Trading	4	5	5	6
Manufacturing	0	0	0	0
Plantation	29	67	109	138
Total	**163**	**205**	**284**	**400**
EBIT Margins (%)				
Property development &	24.2	24.1	25.1	24.7
Hotel & property investment	46.9	45.0	45.0	45.0
Trading	6.7	7.0	7.0	7.0
Manufacturing	(2.3)	1.0	1.5	1.8
Plantation	28.3	39.2	43.8	49.9
Total	**23.7**	**26.4**	**28.9**	**29.1**
Key Assumptions				
CPO ASP (RM/MT)		2,525.5	2,545.1	2,617.9
FFB production (MT)		271,681.	340,780.	382,445.
property sales (RMm)	580.8	728.6	896.6	1,058.0

Source: Company, AllianceDBS