Malaysia Industry Focus

# Property Sector

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## Luxury segment taking off

- **Sales of *Binjai on the Park* at KLCC is picking up**
- **Strong indicator that sector recovery is broadening out to the luxury segment**
- **Developers with ready-to-launch products will benefit the most. Top picks: DNP, E&O and SP Setia.**

**Breathtaking visit, positive findings.** We recently visited *The Binjai on the Park*, the most prestigious luxury development in Malaysia by KLCC Holdings (unlisted wholly-owned subsidiary of PETRONAS) located *on* KLCC park with an enviable view of the iconic Twin Towers. Take-up rate has picked up strongly from 10% in Jul09 to 35% (out of 171 units), with en-bloc buying (6-10 units) emerging. 30% of buyers consist of foreigners, while 60% are paying cash. Compared to the initial launch in Aug08 that coincided with the onset of the global financial meltdown, ASP has been reduced from RM2,800psf to RM2,400psf (3,200-3,700sf), while smaller units (2,200sf) were released at RM1,700psf. Management would likely embark on an international marketing roadshow soon, and ASP might be raised after take-up exceeds 40%. The project is expected to be handed-over by Dec09.

KLCI : 1,190.39

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TOP PICKS

| | Price (RM) | Mkt Cap (US$m) | Target Price (RM) | Rating |
|---|---|---|---|---|
| DNP Holdings | 1.69 | 155 | 2.60 | BUY |
| Eastern & Oriental | 1.57 | 271 | 2.10 | BUY |
| SP Setia | 4.30 | 1,252 | 5.00 | BUY |

*Source: DBS Vickers*

DNP Holdings : Niche high-end/luxury developer in KLCC. 54% owned by Wing Tai.

Eastern & Oriental : Niche high-end developer with exposure to prime landbank in Penang and KL

SP Setia : Sector leader - largest residential property developer by market cap and sales

Figure 1: Multi million-dollar view from Binjai on the Park

*Source: Mandarin Oriental website*

## Highlights

Recent visit to *Binjai on the Park* (BOP) revealed the following:

- BOP is the most prestigious luxury development in Malaysia, being the only residential development *on* KLCC park with a majestic view of the iconic PETRONAS Twin Towers. Its internationally recognized address, is likened to trophy assets overlooking London's Hyde Park and New York's Central Park. BOP is developed by KLCC Holdings, an unlisted wholly-owned subsidiary of national oil company PETRONAS. The 171-unit twin tower is nearing completion and expected to be delivered by Dec09.

- Take up rate has improved significantly from 10% in Jul09 to 35% currently. About RM100m sales were clinched last month, including RM40m in the last week. The project was first launched in Aug08 with 30% of units taken up, but sales weakened with the onset of the global financial meltdown in 4Q08. Since late Jun09, management has introduced the following changes:

  a) Reduced selling prices from RM2800-3000psf to RM2200psf for 3000sf units, RM2500psf for 3700sf units, and RM2700psf for penthouses;
  b) Released units above the 30th storey;
  c) Released smallest units (2200sf) at RM1700psf; and
  d) Taken back marketing from a property broker that had exclusive marketing rights.

  Management might go on an international roadshow soon to Hong Kong, Singapore, and Shanghai to market BOP. We understand ASP may be raised after take-up rate crosses 40%. KLCC property prices are still c. 30% below the peak in mid-07, compared to Singapore and Hong Kong which are near if not surpassed previous peaks.

- The highest price achieved so far is c. RM19m for a 7000sf duplex penthouse. All the three single floor plate penthouses (5,700sf) were snapped up at RM15-16m/unit.

- The buyers were mainly:

  a) Prominent Malaysians;
  b) Businessmen/professionals from the commodities (oil & gas, timber, plantation) and financial services background, with some working overseas; and
  c) Foreigners from Singapore, Hong Kong, UK and Japan, among others.

  We understand 30% of buyers consist of foreigners, while 60% are paying cash. Block buyers have also started to emerge, buying between 6-10 units.

- Among the buying trends noted were:

  a) Bigger units are more popular despite the higher price on psf basis, with most being for own stay;
  b) Buyers targeted higher floors (for top view of Twin Towers) and low floors (for park view); and
  c) The smallest units (2200sf priced at RM1700psf) are most popular among investors. The absolute value of RM3.7m/unit or just US$1m/ S$1.5m is a comfortable bite size for foreigners. With rentals in the vicinity reaching RM5-6psf/month, rental yield works out to about 4% (vs mortgage rate as low as 3.2%);

- Implications

  a) Strong indicator that sector recovery is broadening out to even the luxury segment. Just a few weeks ago, this segment was considered dead by many; and
  b) Positive for developers with ready-to-launch products to capitalise on this early recovery.

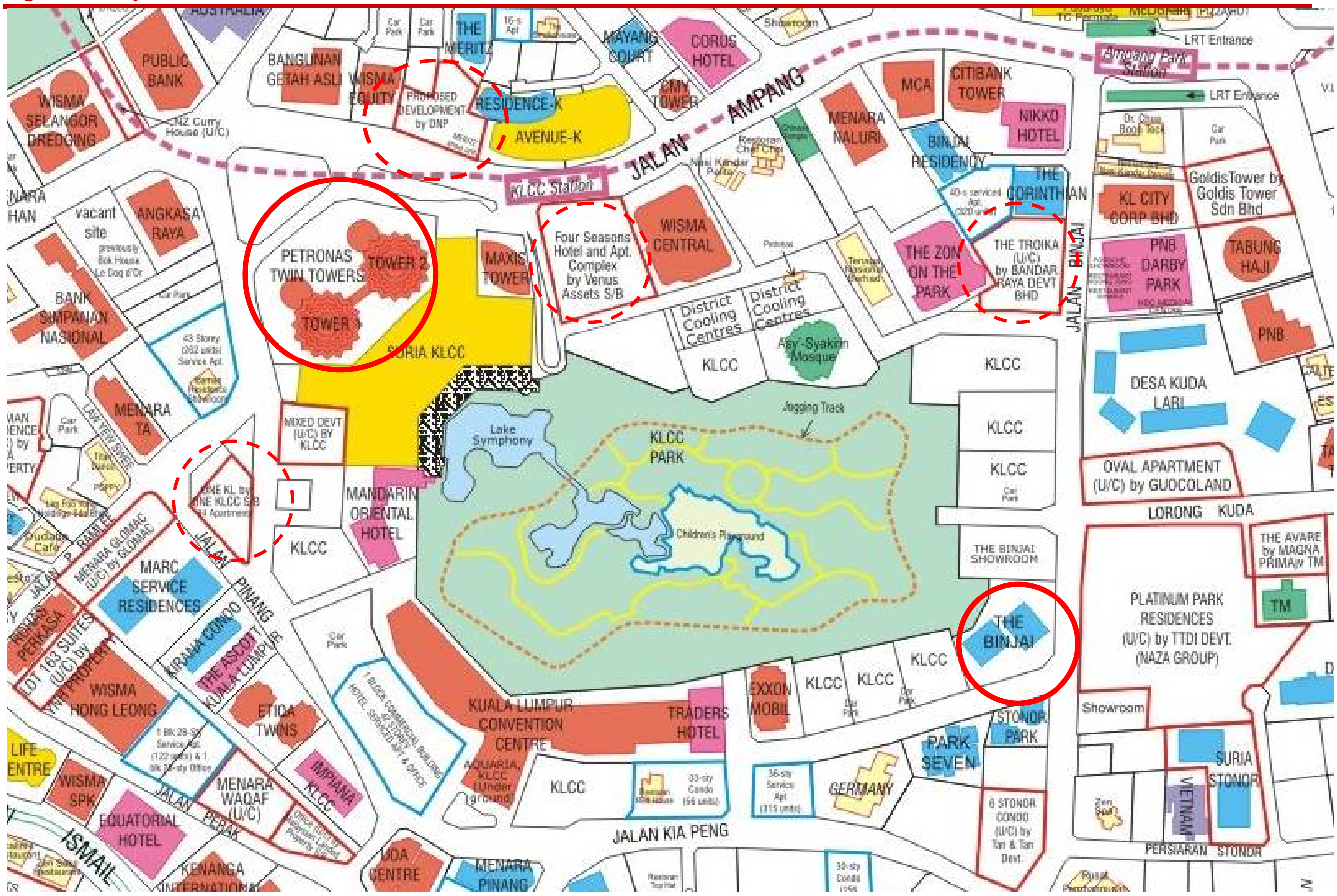
## Top picks

DNP (Buy; TP: RM2.60). Niche high-end developer at KLCC that is 54% owned by Wing Tai. It has RM1.5b worth of launches in the pipeline: (i) Verticas Residensi condos at Bukit Ceylon (GDV RM726m, 423 units) – 64% of 70 units soft launched at RM900psf sold since Jul09, international marketing in Hong Kong started last weekend; (ii) U-Thant condos (GDV RM125m, 25 units, ASP: RM1,100psf, expected launch date: end-09); and (iii) KLCC luxury condos (GDV RM803m, 197 units, ASP: RM1,800psf, expected launch date: 2010) - prime location (opposite Twin Towers, diagonally across from upcoming Four Seasons), international design by renowned French architect Jean Nouvel.

E&O (Buy; TP: RM2.10). Niche high-end developer in KL and Penang with RM2.2b worth of launches in the pipeline: (i) St Mary Tower A, KL (GDV RM540m, 288 units, ASP: RM1250psf) – started international marketing in Singapore, East Malaysia, Hong Kong and China; (ii) Seri Tanjung Pinang (STP), Penang condos (GDV RM1.6b, 1200 units, ASP: RM700psf, expected launch date: Oct09), (iii) STP link houses (GDV RM40m, 35 units, ASP: RM1.2m/unit) and detached (GDV RM110m, 33 units, ASP: RM3.3m/unit), expected launch in 2010.

SP Setia (Buy; TP: RM5.00). Proxy for Malaysian property sector, as the largest residential developer by market cap and sales (9M09: RM1.25b vs 9M08: RM1.1b). Bringing forward RM5b mixed development project located opposite Mid Valley in KL. Has a knack for acquiring cheap prime landbank.

Figure 2: Binjai On The Park's Enviable Location




Source: Ho Chin Soon Research, DBS Vickers

Figure 3: Peer comparison

| Company | Rating | Share Price (RM) | Mkt Cap (RMm) | Book Value (RM) | P/BV (x) | RNAV (RM) | P/RNAV (x) | Net Gearing (%) | Major shareholders (%) | Remarks |
|---|---|---|---|---|---|---|---|---|---|---|
| Investment asset owners | | | | | | | | | | |
| KLCC Property | Buy | 3.30 | 3,082.4 | 3.68 | 0.90 | 4.67 | 0.71 | (33) | Petronas (53%), EPF (12%) | Most defensive earnings: locked-in rental income from long-term leases with blue-chip tenants. Prime beneficiary of asset reflation (largest asset owner in super prime KLCC). |
| IGB | NR | 1.80 | 2,682.5 | 1.89 | 0.95 | 3.30 | 0.55 | (16) | Goldis (26%), EPF (8%) | Defensive earnings, conservative management |
| Average | | | | | 0.92 | | 0.63 | | | |
| Developers Large-cap | | | | | | | | | | |
| SP Setia | Buy | 4.30 | 4,372.3 | 1.94 | 2.22 | 5.54 | 0.78 | (18) | PNB (33%), EPF (12%), Tan Sri Liew Kee Sin (11%) | Sector leader, proxy to developers. Traded up to 5-10% premium to RNAV during peak cycle in mid-07. |
| UEM Land | NR | 1.65 | 4,006.5 | 0.58 | 2.84 | 2.59 | 0.64 | (74) | Khazanah (77%) | Beneficiary of policy changes to ease restrictions on foreign investments. Risks: poor execution track record, long gestation period, lack of strong anchor (eg Singapore, Middle East) |
| Average | | | | | 2.53 | | 0.71 | | | |
| Mid-cap | | | | | | | | | | |
| DNP | Buy | 1.69 | 542.6 | 2.23 | 0.76 | 3.73 | 0.45 | (10) | Wing Tai (54%) | Niche high-end developer at KLCC. Can leverage on Wing Tai's strong brandname and international marketing network. |
| YTL Land | NR | 0.99 | 789.7 | 0.67 | 1.48 | 2.28 | 0.43 | (26) | YTL Corp (60%), Bara Aktif (8%) | Can leverage on YTL's strong brandname and global presence. |
| E&O | Buy | 1.57 | 944.9 | 1.36 | 1.15 | 2.66 | 0.59 | (83) | Dato' Terry Tham & GK Goh (25%), Halfmoon Bay (11%) | 1 for 2 rights of 8% ICSLS 2009/2019 @ 65sen (completion in Oct 09). RM219m rights proceeds should help strengthen balance sheet (net gearing to improve to 45%) and cashflows. Strong track record as niche high-end developer. RNAV yet to include STP Phase 2 (potential +RM2.40/share) |
| IJM Land | NR | 2.03 | 2,239.6 | 1.35 | 1.50 | 2.80 | 0.73 | (5) | IJM Corp (66%), GIC (7%) | Launch of Light project in Penang to help realise RNAV. Can leverage on IJM's institutional following. |
| Sunrise | Buy | 2.12 | 1,050.2 | 1.86 | 1.14 | 3.40 | 0.62 | (38) | Casa Unggul (18%), EPF (11%), Pheonixflex (6%), Lim Kim Huat (5%) | Strong brandname, largest landowner in prime Mont' Kiara. |
| YNH Prop | NR | 1.84 | 741.9 | 1.68 | 1.10 | 3.30 | 0.56 | (31) | Dr Yu & family (60%) | Still pending sale & purchase agreement with Kuwait Finance House for 50% of Menara YNH's office space (since Jan 08) |
| SunCity | Buy | 3.30 | 1,550.8 | 3.69 | 0.89 | 4.56 | 0.72 | (79) | Tan Sri Jeffrey Cheah (45%), GIC (21%) | Potential launch of RM3b REIT would unlock property investment assets value and turn high net gearing position into net cash - but may come later rather than sooner as targeting 6-7% yield vs current 10-11% for Msian REIT |
| Average | | | | | 1.15 | | 0.59 | | | |
| Sector Average | | | | | 1.36 | | 0.62 | | | |

*Source: Bloomberg, Respective companies, DBS Vickers*

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|---|
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*Share price appreciation + dividends*

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