Malaysia Property

Growing with Madani Economy

Industry Focus **21 December 2023**

- Favourable economic outlook to ensure healthy demand for residential properties in 2024
- Improving supply-demand dynamics point to sustained sector recovery on a gradual basis
- New infrastructure projects to uplift property market recovery

Solid recovery. Malaysia's property market maintained its healthy trajectory in 3Q23 as residential property transaction grew 6% y-o-y and 12.0% q-o-q to 68.7k units – the highest quarterly volume since 2012. Sequentially, residential property loans grew by 7.2% (vs 6.8% in 2Q23), reflecting the resilient demand for residential properties. Meanwhile, 3Q23 house price index y-o-y growth was flattish at 0.1%, compared to 4.3% in 2Q23.

Sustained improvement in supply overhang. Residential overhang has continued to ease in 3Q23, registering 25,311 units (-14% y-o-y, -4% q-o-q) which is the lowest since 2017. More importantly, the improvement in overhang has also been witnessed in the high-rise segment, though it remains elevated by historical standards. We believe that the favourable economic outlook under the Madani Economy Framework will lead to a better supply-demand dynamics, resulting in lower overhang units.

Encouraging sales performance from developers. Bursa-listed large developers generally recorded commendable sales performance in 3Q23, especially in the landed properties segment where booking pipeline remained strong. Given the robust employment market with record high labour participation and better income growth prospects in 2024, Malaysia's property sector is likely to maintain its gradual recovery momentum.

Rail infrastructure projects as catalysts. The government has planned several major rail infrastructure projects such as MRT3, Penang LRT, Johor LRT and KL-SG HSR which will be a strong catalyst for Malaysia's property sector. Taking cue from the spillover effects of the on-going JB-SG RTS, we believe Malaysia's property sector will continue to do well in the near-to-medium term. Landed properties remain the bright spot in the property market due to a balanced supply-demand dynamics. We believe township developers such as Eco World, Sime Darby Property and IOI Properties could be the largest beneficiaries of the sustained recovery for landed properties.

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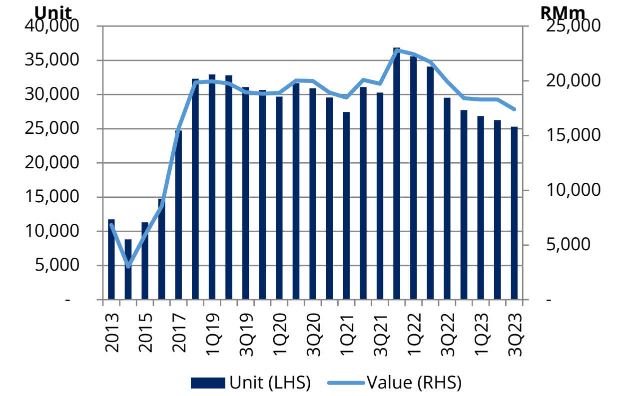
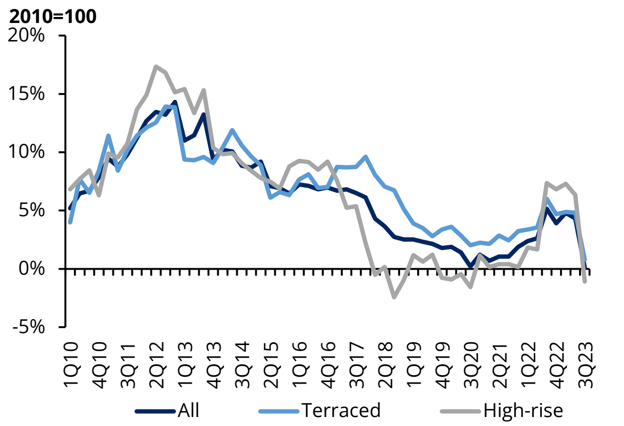
Completed but unsold residential units



Source: AllianceDBS, NAPIC

Stable Malaysian House Price Index (MHPI)



Source: AllianceDBS, NAPIC

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Sustained recovery momentum

Malaysia's economy is expected to pick up in 2024 as domestic demand is likely to strengthen further with sustained consumer spending and stronger investment activities. Its strong fundamentals and diversified economic structure, coupled with renewed government focus to spur higher economic growth will help ensure Malaysia's growth trajectory remains firmly on the uptrend.

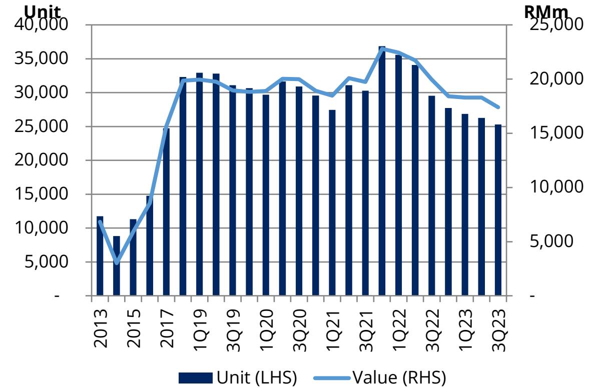
We expect Malaysia to register a stronger GDP growth of 4.3% in 2024 after a healthy growth of 4.1% expected for 2023. This is also in line with the government's 2024 GDP growth projection of 4.0%-5.0%. Private consumption, accounting for 60% of our economy, will continue to deliver satisfactory performance for Malaysia's economy, underpinned by robust labour market and strong economic and social activities, especially the tourism-related activities.

In 3Q23, Malaysia's property market remained strong as property transaction volume hit the highest in 11 years. The earlier concerns of normalized interest rate leading to waning demand have not materialised. 3Q23 residential property transaction grew 6% y-o-y and 12.0% q-o-q while residential property loans grew healthily by 7.2% (vs 6.8% in 2Q23). This has clearly illustrated the resilience of the property market, underpinned by firm demand.

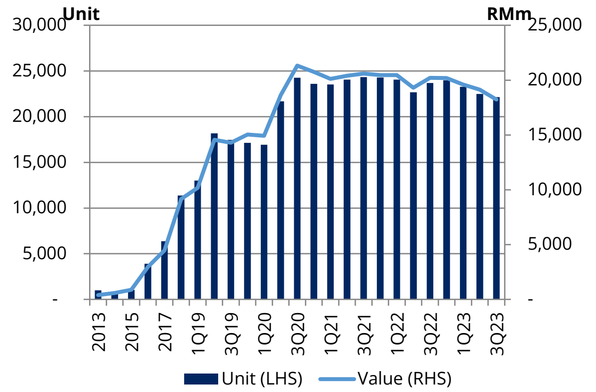
Taking a look at the perennial concern of supply glut, it continues to show sequential improvement. As at end-3Q23, residential overhang dipped by 4% q-o-q and 14% y-o-y due to the better sales of completed landed properties. It is noteworthy that residential overhang has been declining for seven quarters consecutively, reaching the lowest since 2017. This illustrates the successful monetisation of unsold inventory that has been going on over the past few years.

For high-rise overhang, unsold completed units (inclusive of SOHO and serviced apartments) have recovered to pre-pandemic levels. It has been showing a declining trend as the strong post-pandemic reopening helps to absorb the unsold units. While high-rise units still account for a whopping 80% of total overhang, we believe the overhang will reduce further should the economic growth remain strong as projected by the government.

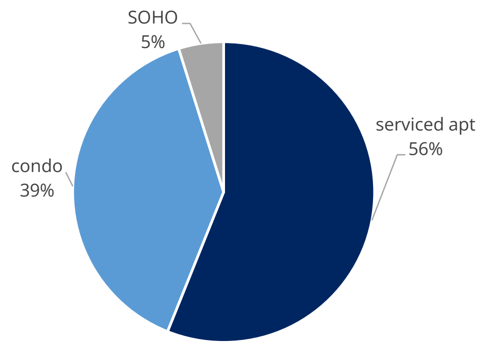
Completed but unsold residential units



Completed but unsold serviced apartments



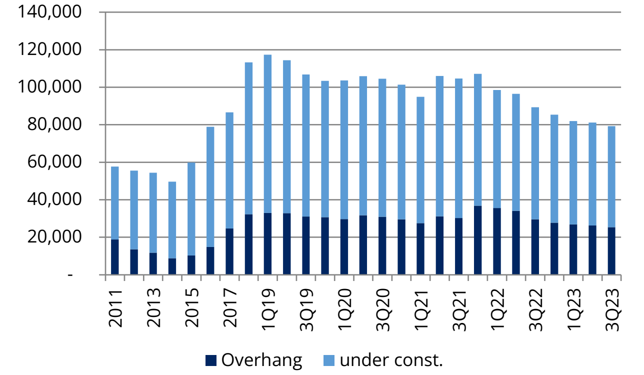
Overhang of high-rise properties



Source: AllianceDBS, NAPIC

On an aggregate basis, total unsold units (completed and under construction) are slowly reducing in the system as Malaysia's economy remains on a healthy growth momentum. Nevertheless, improvement in the overall supply-demand dynamics will take place on a gradual basis as total supply remains relatively high by historical standards.

Total unsold units in Malaysia's property market



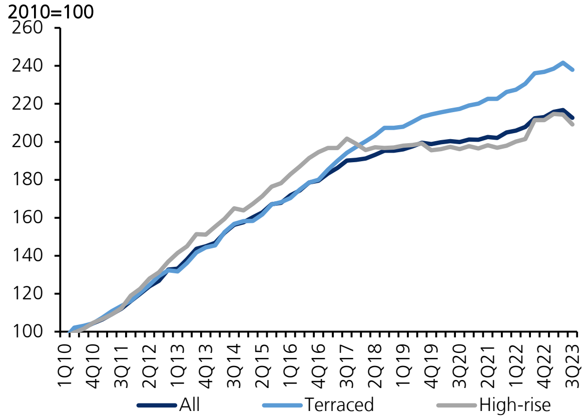
Source: AllianceDBS, NAPIC

We believe that Malaysia's property market will continue to improve in 2024 after making notable improvements in the supply overhang over the past two years. While it is true that low affordability could be a concern for homebuyers, we believe that Malaysia's property market is heading towards a sustained recovery given strong economic growth momentum, peaking interest rates and healthy growth in labour force, notwithstanding the external uncertainties.

More importantly, Malaysia's employment market has been growing steadily, and has far exceeded the pre-pandemic employment level, thanks to the growing economy. It is even more encouraging that labour participation has hit a record high of 70.1% in Sep 2023 which could partly explain the steady and resilient domestic demand. This positive development is expected to continue given our favourable demography which will further underpin the resilience of Malaysia's domestic demand.

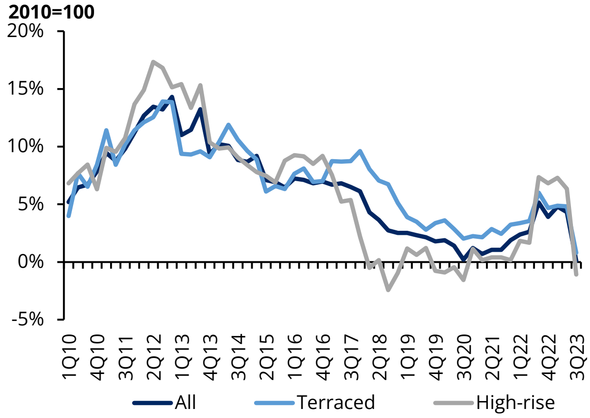
Property price growth in 3Q23 was flattish at 0.1% after strong price appreciation over the past two years. Price growth is likely to remain on a healthy trend given the improvement in supply overhang, sustained growth trend in the overall economy and cost-push inflation for developers.

Malaysian House Price Index (MHPI)



Source: AllianceDBS, NAPIC

Malaysian House Price Index growth trend

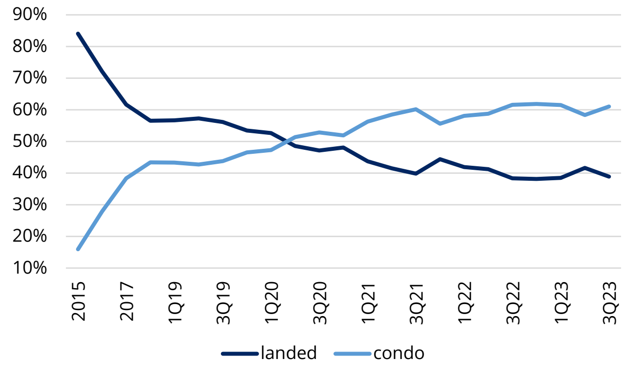


Source: AllianceDBS, NAPIC

In terms of monetary policy, Bank Negara Malaysia (BNM) has raised the benchmark interest rate by five times with 25 bps hike each since May 2022, bringing the Overnight Policy Rate (OPR) to 3.0% which is similar to pre-pandemic level. We believe that BNM will stand pat on the OPR in 2024 amid normalising inflation and steady growth trajectory in our economy.

Malaysia's property sector could be boosted by the major rail infrastructure projects that are in the pipeline. Several projects such as MRT3, Penang LRT, Johor LRT and KL-SG HSR are expected to see more progress in 2024 which bode well for transit-oriented developments. Taking cue from the spillover effects of the on-going JB-SG RTS, we believe Malaysia's property sector will continue to do well in the near-to-medium term as those mega rail infrastructures are developed progressively.

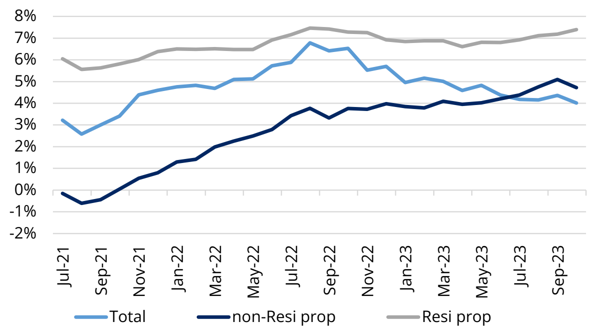
Composition of residential overhang



Source: AllianceDBS, NAPIC

We note that the composition of landed properties in the supply overhang has been declining over the years, as demand remains resilient and Malaysians typically favour landed housing. Expensive land prices have also limited the supply of landed properties which made supply less speculative in nature, compared to high-rise housing. Therefore, we are confident that landed properties are now on a sustained recovery going forward given the more balanced supply-demand dynamics.

Resilient residential loans growth



Source: AllianceDBS, BNM, CEIC

Commonly used abbreviations

Adex = advertising expenditure
bn = billion
BV = book value
CF = cash flow
CAGR = compounded annual growth rate
Capex = capital expenditure
CY = calendar year
Div yld = dividend yield
DCF = discounted cash flow
DDM = dividend discount model
DPS = dividend per share
EBIT = earnings before interest & tax
EBITDA = EBIT before depreciation and amortisation
EPS = earnings per share
EV = enterprise value
FCF = free cash flow
FV = fair value
FY = financial year
m = million
M-o-m = month-on-month
NAV = net assets value
NM = not meaningful
NTA = net tangible assets
NR = not rated
p.a. = per annum
PAT = profit after tax
PBT = profit before tax
P/B = price / book ratio
P/E = price / earnings ratio
PEG = P/E ratio to growth ratio
q-o-q = quarter-on-quarter
RM = Ringgit
ROA = return on assets
ROE = return on equity
TP = target price
trn = trillion
WACC = weighted average cost of capital
y-o-y = year-on-year
YTD = year-to-date

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