

Malaysia Property

All stars aligned

Industry Focus
25 June 2024

- Solid domestic economy growth momentum underpins strong property demand
- Sustained sector recovery is expected given the improved supply-demand dynamics
- Major growth catalyst from burgeoning data centre investments

Riding on Malaysia's robust economy. Malaysia's strong economic growth trajectory has led to resilient demand for properties as 1Q24 total property transactions grew 17% y-o-y, outpacing Malaysia's strong 1Q24 GDP growth of 4.2%. It is noteworthy that the healthy growth was recorded across the key property subsectors, namely residential, commercial and industrial. This is further corroborated by strong property loans growth in the banking system where loans for residential property and non-residential property grew 7.5% and 5.9% respectively in Apr 2024, outperforming the pre-pandemic levels.

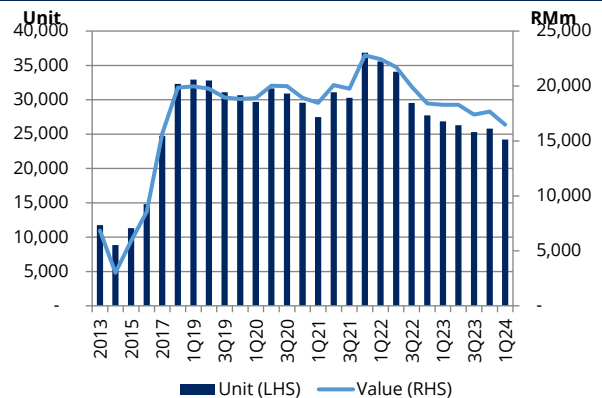
Supply overhang is no longer a concern. 1Q24 residential overhang came in at 24,208 units (-6% q-o-q, -10% y-o-y), the lowest since 2017. In addition, marked improvement was seen in overhang for serviced apartment and SOHO (classified under commercial) which dipped 6% y-o-y and 37% y-o-y respectively in 4Q23. We believe that the solid labour market conditions with record labour force participation and low unemployment will continue to sustain the property sector recovery.

Steady performance from developers. Large Bursa-listed developers generally achieved healthy property sales and financial performance in 1Q24, riding on the strong property demand. Landed properties continue to receive robust demand while affordably-priced high-rise properties benefit from keen interest from first-time home buyers. Developers are likely to have more launches in 2H24, leveraging on the much-improved supply-demand dynamics.

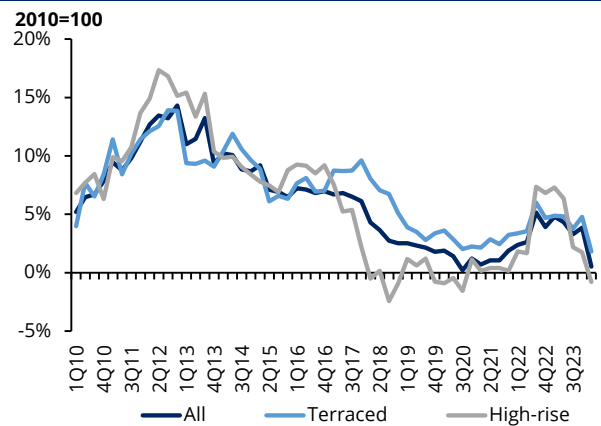
Data center boom. The massive data centre investments committed by world-class tech players such as Microsoft, Google and ByteDance have helped spur strong land price appreciation in Johor and Selangor, benefitting industrial landowners in strategic locations. In addition, major rail infrastructure projects such as MRT3, Penang LRT, Johor LRT and KL-SG HSR are expected to serve as a strong catalyst for Malaysia's property sector.

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Completed but unsold residential units


Source: AllianceDBS, NAPIC

Stable Malaysian House Price Index (MHPI)


Source: AllianceDBS, NAPIC

Firm sector recovery

Malaysia’s economy grew 4.2% y-o-y and 1.4% q-o-q on a seasonally adjusted basis in 1Q24 which was higher than the advance estimate of 3.9%. The higher-than-expected 1Q24 GDP was largely due to the resilient domestic market, notably driven by the Services, Construction and Mining sectors. Overall, 1Q24 domestic demand grew by 6.1% y-o-y – the strongest quarterly growth since 2022 while net exports saw a narrower contraction amid the recovery in goods and services exports.

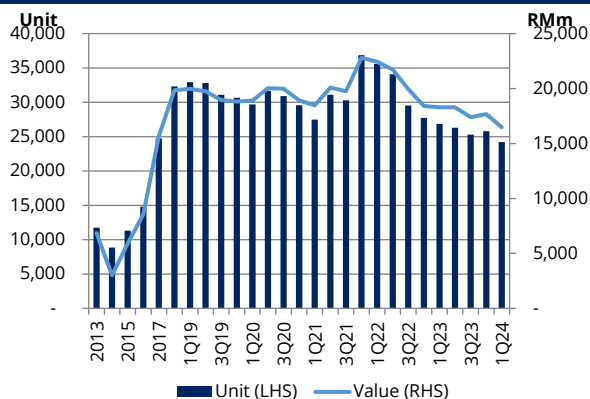
Thanks to the concerted efforts by the federal government to boost economic growth under the Madani Economy Framework, 1Q24 capital expenditure surged to a multi-year high growth of 9.6%, signifying the positive impact arising from record-high approved investments in 2021-2023. The implementation of the strategic developments and flagship projects under the 12th Malaysia Plan Mid-Term Review (12MP MTR), New Energy Transition Roadmap (NETR) and New Industrial Master Plan (NIMP) 2030 will accelerate the economic take-off envisaged by the government to be a paradigm shift for Malaysia.

In 1Q24, Malaysia’s property market remained strong as total property transaction volume exceeded 100k for the third successive quarter, a feat that was last achieved back in 2012. The earlier concerns of normalized interest rate leading to waning demand have not materialised. In fact, healthy growth was observed across the key property sub-sectors, reflecting the strong fundamentals of Malaysia’s economy. Meanwhile, Malaysia’s 1Q24 house price index grew at 0.5% y-o-y, following the strong growth of 4.1% in 2023 and 3.5% in 2022.

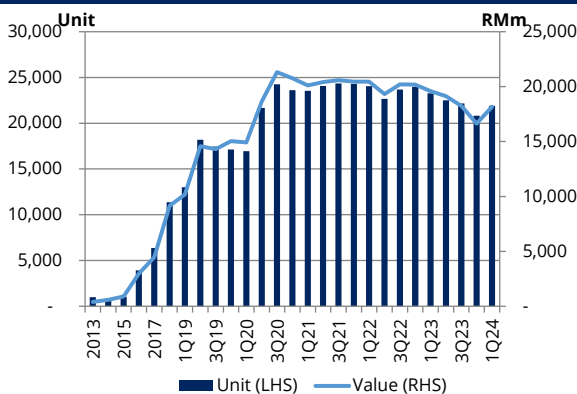
The solid property sector performance is also attributable to the much better supply-demand dynamics as supply overhang is no longer a major concern for the sector. In fact, supply overhang has continued to show sequential improvement. It is noteworthy that residential overhang has reached the lowest since 2017. This illustrates the successful monetisation of unsold inventory that has been going on over the past few years as well as the pick-up in property buying demand since 2022.

For high-rise overhang, unsold completed units (inclusive of SOHO and serviced apartments) have been showing a declining trend as the robust domestic economy helps to absorb the unsold units. While high-rise units still account for 80% of total overhang, we believe this should continue to improve given the favourable economic outlook.

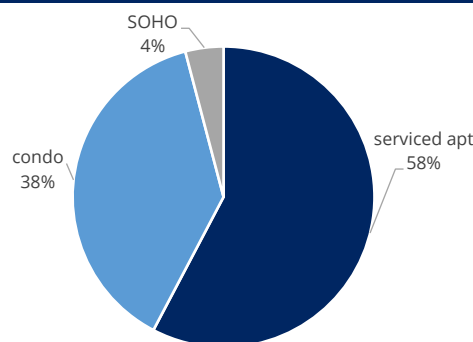
Completed but unsold residential units



Completed but unsold serviced apartments



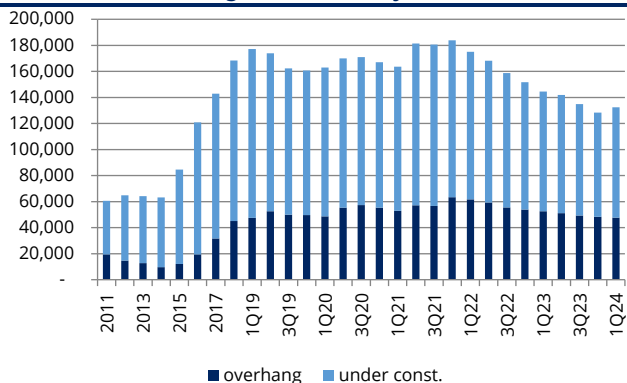
Overhang of high-rise properties



Source: AllianceDBS, NAPIC

On an aggregate basis, total unsold units (completed and under construction) are slowly reducing in the system to the lowest since 2016 as Malaysia’s economy remains on a healthy growth momentum. We believe the overall supply-demand dynamics will continue to improve on a gradual basis, in tandem with the growth trajectory of Malaysia’s economy.

Total unsold housing units in Malaysia



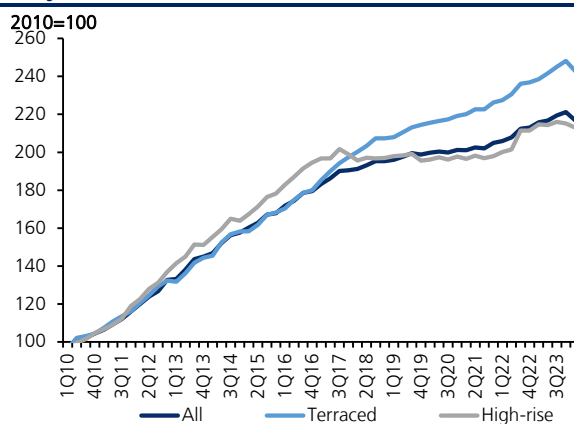
Source: AllianceDBS, NAPIC

Malaysia’s property market is expected to improve further in 2024 given notable improvements in the supply overhang. 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 70.3% in Mar 2024 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.

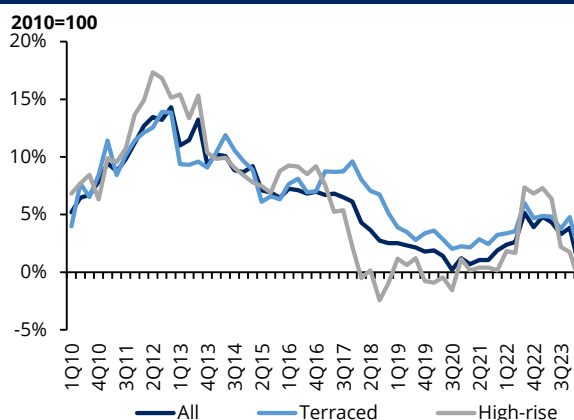
Property price growth in 1Q24 was relatively moderate at 0.5%, but this is after strong price appreciation over the past two years. We believe price growth is likely to remain on a healthy trend given the improvement in supply overhang, sustained growth trend in the overall economy and cost-push inflation for developers.

Malaysian House Price Index (MHPI)



Source: AllianceDBS, NAPIC

Malaysian House Price Index growth trend



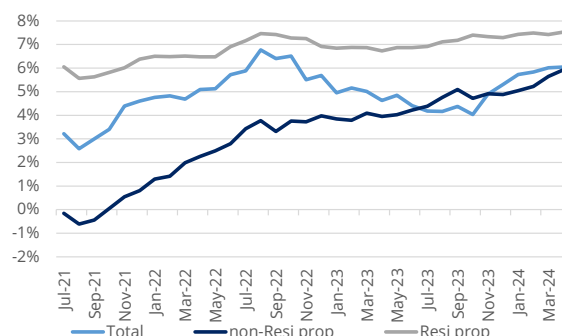
Source: AllianceDBS, NAPIC

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 has become a hotspot for data centres, thanks to its proximity to Singapore, spillover effects of the US-China trade war as well as comparatively cheaper land, water and power. The Johor state has been the largest beneficiary of this data centres boom, with several large industrial parks such as Nusajaya Tech Park, Sedenak Tech Park and YTL Green Data Centre Park capturing billions of investments from global leading players including the likes of Microsoft, Google, ByteDance and GDS Holdings. Malaysia’s industrial land has experienced a strong wave of price appreciation over the past few years, thanks to this data centre boom. In addition, the burgeoning data centre ecosystem will in turn create more demand for residential properties as more high-value employment opportunities are created.

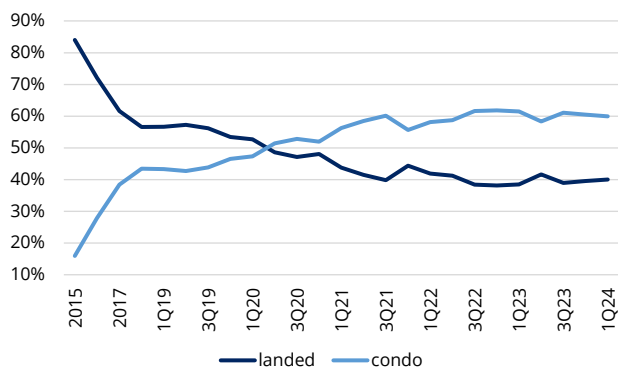
In addition, Malaysia’s property sector could be boosted by the major rail infrastructure projects that are in the pipeline. Several projects such as MRT3, Penang LRT, Johor LRT and KL-SG HSR are expected to see more progress in 2024 which bode well for transit-oriented developments. Taking cue from 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.

Strong residential loans growth



Source: AllianceDBS, BNM, CEIC

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 on a sustained recovery going forward given the more balanced supply-demand dynamics.

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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