



SECTOR UPDATE

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NEUTRAL

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PROPERTY

Looking Into Year 2010 Valuations



The rally in property stocks from their March '09 lows caught us by surprise as we had initially thought that such a rally would only take place in early 2010 when the market would be likely to aggressively accumulate property stocks 12 months ahead of the 2011 upcycle. Consequently, the prices of most property stocks have surpassed our CY09 target prices. This rally, we believe, can best be explained by the existence of two major groups of investors in the market today. The first group comprises those who believe in a robust V-shaped recovery in the sector and may have priced in an early upcycle in 2010. On the other hand, there are also investors with a huge risk appetite who may have bought into year 2010 valuations in anticipation of an upcycle in 2011. This group of investors will consider the current valuation sustainable until mid- to late-2010.

The performance of property stock prices will very much depend on how these two main groups of investors play out their strategies in the next few months. As we believe that the real estate sector is still very much a buyer's market, a correction in property stock prices in the short-term is inevitable as emerging evidence in the next few months would likely disappoint those who have been overly-optimistic on a robust sector recovery in 2010. However, as investors who are already looking into year 2010 valuations may take the opportunity to buy into dips, the expected correction in the near term will likely be moderate.

In view of the possibility of certain investors having bought into 2010 valuations, we are upgrading all the property stocks under our coverage to year 2010 target prices while keeping our earnings forecasts unchanged. Consequently, we are also upgrading the sector to NEUTRAL (from Underweight). Despite the upgrades, we still believe that a moderate correction in property stock prices is inevitable in the short term. As most of these stocks are already trading close to their 2010 fair value anyway, the current risk-reward ratio appears to be unfavourable and as such investors are generally advised to accumulate only after a meaningful price correction.

Stock	Price RM	Target RM	P/NTA (x)		FY0 ROE %	FY1 DY %	Rel. Performance %			FY1 PER (x)	Rating
			FY1	FY2			1-mth	3-mth	12mth		
BRDB	1.56	1.83	0.5	0.4	6.9	1.9	15.1	16.6	-19.9	9.6	Buy
IGB	1.79	1.88	1.0	0.9	5.8	1.6	-12.0	0.6	20.4	22.0	Neutral
Sunrise	2.06	2.22	0.9	0.9	18.0	0.0	27.3	34.1	-6.4	6.3	Neutral
SP Setia	4.40	3.47	2.2	2.0	11.2	3.0	6.8	1.7	20.6	26.9	Sell
YNH Prop.	1.95	1.84	1.1	1.0	12.3	1.5	16.4	37.6	-11.9	12.8	Neutral
UMLand	1.37	1.75	0.4	0.4	-0.4	1.8	6.5	8.9	5.9	19.7	Buy
Hunza Prop.	1.46	1.31	0.6	0.6	17.2	4.8	0.3	-12.0	-8.0	6.3	Neutral
Plenitude	2.66	2.76	0.5	0.5	14.2	4.3	7.8	7.8	11.1	6.6	Neutral

Foreword

An astounding rally. From the lows of March '09, the prices of most property stocks have to date appreciated on average by >50%, surpassing our year 2009 target prices. As we had earlier advised investors to take a relook at the property sector only in early 2010 as the market would by then be likely to aggressively accumulate property stocks 12 months ahead of the 2011 upcycle, this rally had caught us by surprise.

Real sector fundamentals do not support current valuations. This rally, however, is not supported by any solid improvement in the real sector outlook, which implies that these stocks are likely to be 'overvalued'. The fundamentals of certain major sub-segments such as the Klang Valley luxury condos remain fragile as developers/owners/landlords compete for whatever little market demand amid rapidly growing supply. Another massive supply shock in late 2009 may again rattle the Klang Valley luxury condos market, thus forcing the sub-segment into another period of consolidation in 2010. Secondly, the diversion of liquidity by the 1950s Baby Boomers to the safer residential real estate asset class such as mid- to high-end landed properties as a hedge against the current uncertainties will not, by itself, generate sufficient demand momentum to spark the next upcycle. Such hedging by what is apparently a group of savvy middle class affluent investors has so far been limited to mature and well-established locations only rather than across-the-board.

In addition, the office space market is currently in the early days of a downcycle. Significantly slower economic activities and dimmer prospects for corporates at a time when millions sq feet of office space are swamping the Klang Valley market certainly does not bode well for the sub-sector, especially in the Petaling Jaya and Bangsar/Pantai markets. Rental rates and asset prices are already facing some downward pressure in 2009.

The expensive valuations explained. In our view, the current expensive stock valuation probably implies that there are two main groups of investors in the market. The first group is those who believe in a robust V-shaped recovery in the sector, who may have mistakenly priced in an early upcycle in 2010. Going by our earlier argument that this is unlikely, these investors may be prompted to sell when more evidence contrary to the popular belief begins to emerge in the next few months. However, with the system flush with liquidity and given an environment of low interest rates, there is also a second group of investors who may have been more willing to bear higher risks and would perhaps also be more willing to 'prematurely' buy into 2010 valuations in anticipation of an upcycle in 2011. In this case, this group of investors will consider the current valuations sustainable until mid- to late-2010, with perhaps a little more upside potential from the current levels.

Property stocks are ripe for correction, but... The performance of property stock prices will very much depend on how these two main groups of investors will play out their strategies in the next few months. We believe that a correction in property stock prices in the short-term is inevitable, as the reality that will emerge soon would likely disappoint those who have been overly-optimistic on a robust sector recovery in 2010. However, as investors who are already looking at year 2010 valuations may take the opportunity to buy into dips, the expected correction in the near term is likely to be moderate. Therefore, the valuations of these stocks, despite the anticipated correction, may not retest their March '09 lows.

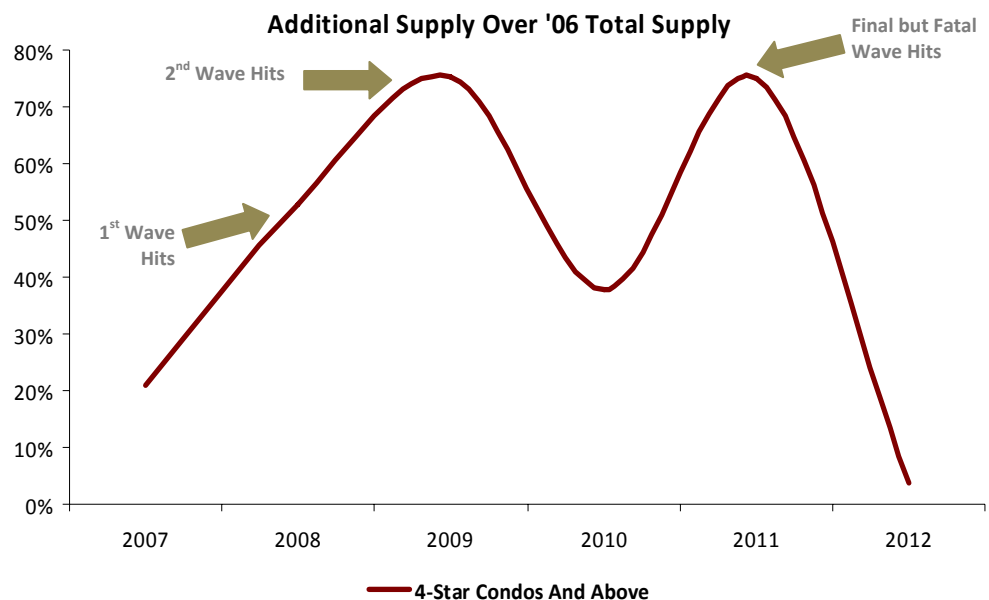
Conclusion. In view of the possibility of certain investors having already bought into 2010 valuations, we are upgrading all the property stocks under our coverage to year 2010 target prices while keeping our earnings forecasts unchanged. Consequently, we are also upgrading the sector to **NEUTRAL** (from Underweight). Having said that, we retain our SELL call on SP Setia as the stock is trading at a significant premium even to its expected CY10 fair value. Despite the upgrades, we still believe that a moderate correction in property stock prices is inevitable in the short term. As most of these stocks are already trading close to their 2010 fair value anyway, the current risk-reward ratio appears to be unfavourable and as such investors are generally advised to accumulate only after a meaningful price correction.

Recovery In Klang Valley Luxury Condos?

Developers still cautious. It is said that luxury condo developers' risk appetite is returning. The fact is that developers of Klang Valley luxury condos are still largely cautious although they believe that the worst is over for the sector, at least for now. Many prudent developers are still uncommitted to the timing and pricing of their future launches, which reflects their belief that the luxury condo market has yet to completely stabilise at this juncture. The success of a luxury condo project launch in the Klang Valley during the current period will, as the following example will show and all else being equal, depend on how much earnings margin a developer is willing to sacrifice given the intense competition in the secondary market.

A case in point. One example often cited by the property bulls is the recent successful launch of Phase 1 of E&O's St. Mary Residence in Bukit Bintang. The success of the launch, which achieved a take-up rate of 80% within a week, was mainly attributed to the hard-to-resist packages offered by the developer. A 15% discount was offered to purchasers during the first 3 weeks of launch, following which a 10% discount was offered. In addition, staff and business partners were eligible for an additional 5% discount over and above the 15% and 10%! Some 75% of the 80% take-up rate comprised the developer's "staff and business partners". Despite the average RM1,000 psf price tag reported in the media, the average net selling price was in fact only about RM800-850psf after the discounts. Further accounting for the impact of the 10/90 financing scheme, whereby all interest costs will be borne by the developer during the construction period, this may be equivalent to an additional discount of close to 10% for the property buyer. No wonder speculators flocked to the development. It was not because the sub-segment is due for an upcycle but because the units were offered at good discounts comparable with what one can get from the secondary market's distressed prices!

Figure 1: Depiction Of The Klang Valley Luxury Condos Supply Cycle Priced >RM400psf (Four-star And Above)



Notes: End-06 is chosen as the base year as it represents the eve of the most recent phase of upcycle in 2007/08, the period during which developers embarked on aggressive launches of properties, particularly in the higher-end segment.

Source: JLW, OSK Research

Still very much a buyer's market. The point of the story is, unlike other regional markets such as Singapore where recent new property sales have been accompanied by rising property prices, the improved new property sales in Malaysia had been at the expense of developers' earnings margin via discounts and innovative financing packages. Therefore, the recent improved sales of luxury condos had been just that and must not be misconstrued as a sign of an early upcycle. The fundamentals of the luxury condo/serviced apartment sub-segments are still fragile as they brace for an oversupply amid a much smaller pool of demand. In addition, depending how well the economy is able to absorb the supply at current valuations, there is another potential hurdle towards the later part of this year when more units are completed (see Figure 1), thus quashing any hopes of an early upcycle in 2010. The fact is, the willingness of certain developers to compromise on their earnings margins to meet their respective sales targets does in fact indicate that this is still very much a buyer's market. *Our estimate is that a real upcycle for this sub-segment will only occur sometime in early 2011, and not in 2010 as expected by many.*

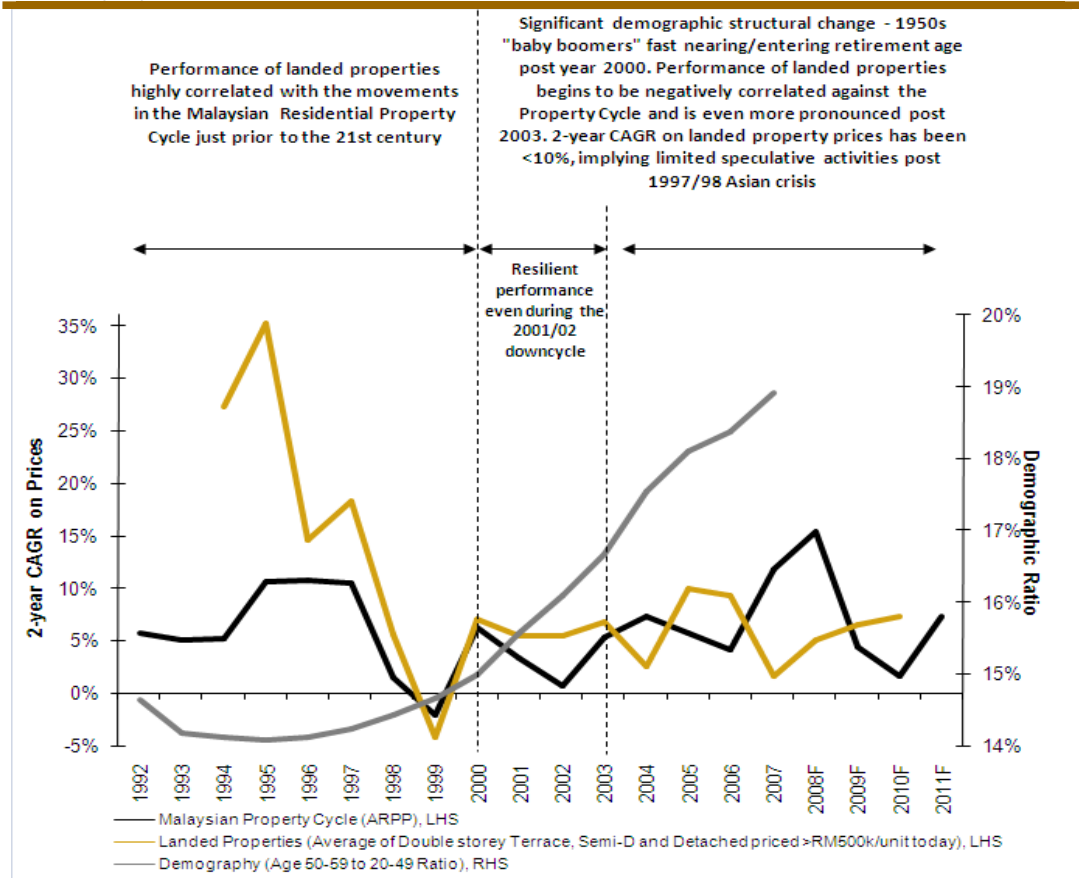
Klang Valley Landed Properties - The Better Hedge

The investment case. True to our prediction in November '08 (refer to our Nov 6, '08 report, *Fulfilling The Peak-Trough Cycle Theory*), the Klang Valley's mid- to-high end landed properties in most well-established locations have indeed outperformed the rest of the sector in this downturn, with prices of such properties even appreciating during this period! Take certain well-established locations such as Desa Park City for example: the price of a 2-storey Nadia Parkhomes terrace house appreciated by an average 14% y-o-y to about RM730,000 in late 2008. By mid-09, the current asking price for a property with similar specifications averages about RM850,000!

Mutiara Damansara in Petaling Jaya is no exception. A 2-storey terrace house launched in 2000 was worth on average RM530,000 in late 2007. By late 2008, it had appreciated on average 8% y-o-y to RM575,000. Today, the price has appreciated by a further 18% y-o-y to about RM680,000 in the secondary market.

Bewildering? Indeed, transactions involving mid- to high-end landed properties, particularly the completed ones in mature and well-established locations, have remained vibrant even during the current economic downturn. The intriguing question is: how could it be possible for this particular residential real estate asset class to outperform the entire sector during a general downturn in the sector? Perhaps Figure 2 could provide more clarity on this scenario.

Figure 2: Mid- to High-End Average House Prices in Taman Tun Dr. Ismail: A Proxy To Well-Established Landed Property Performance In Kuala Lumpur Vs the Malaysian Residential Property Cycle



Notes: Taman Tun is chosen as a rough proxy for the performance of landed properties in KL because it is a well-established area for mid-to-high end landed properties with observable long-term price performance trend. As such, findings above may not necessarily be a genuine representation for all townships in the Klang Valley especially the new developing and/or less established ones.

Source: JLW, OSK Research

A case in point. Figure 2 highlights that post-2000, the performance of mid- to high-end landed properties in well-established locations had been somewhat negatively correlated with the overall Malaysian residential property cycle and this has been even more pronounced since 2003. In the 2001/02 downcycle, the performance of higher-end landed properties continued to show resilience amid the tough global macro-environment (DotCom bubble burst, 9/11 terrorist attack, war against terrorism and SARS epidemic). Again, during the 2005/06 downcycle when the mass housing market collapsed, more investments poured into higher-end landed properties. As such, with the downcycle in 2009, we are seeing a similar trend for this particular residential asset class in 2009/10. But why would such a trend occur only post-2000?

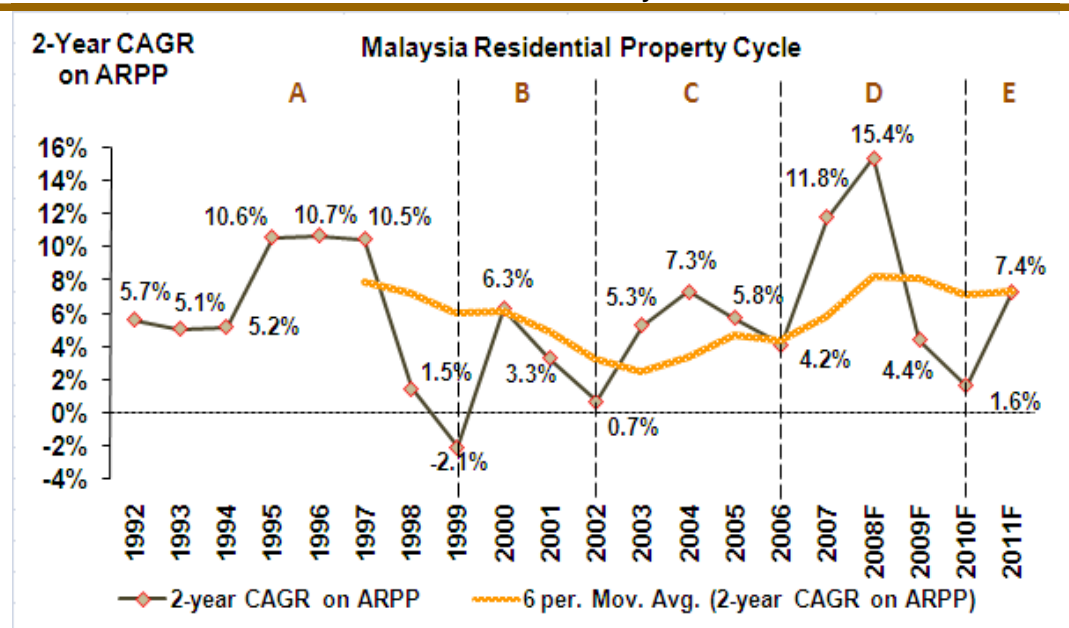
Demography explains it. The first batch of the 1950s Baby Boomers brought on winds of change when they reached pre-retirement age at the turn of the century, an age at which most would be planning for their eventual retirement. Given their advanced age and the costly lessons learned from the 1997/98 Asian Financial Crisis, this group of investors is likely to be very risk-averse and would therefore prefer safer investments such as real properties with decent yield and stable return in the long run rather than more volatile asset classes such as the equity market. This age group is also more affluent than the younger generation and as such has developed a preference for higher-end landed properties in well-established locations. Recent history also shows that this group of people tends to own more than one property for investment purposes or for their children.

The divergence of liquidity into safer asset classes. The ability of higher-end landed properties to outperform the property cycle in times of adversity demonstrates that investors, especially the older generation, have the tendency to hedge their wealth in this particular residential asset class, which is still fundamentally sound during such times. Coupled with the fact that household liquidity is still abundant, people in this age group are unlikely to plough most of their wealth back into the banking system given the low deposit rates amid an environment of very low interest rates. Given the limited choices, it is only natural that real properties should be an attractive investment proposition for these 1950s Baby Boomers. Indeed, as demonstrated above, mid-to-high end landed properties have consistently been this age group's favourite investments in hedging their wealth during times of adversity. As long as these 1950s Baby Boomers are planning ahead for their retirement, this trend is likely to persist until early next decade (the last batch of the Baby Boomers, i.e. those born in 1960, will likely to reach their retirement age at around 2015).

Conclusion. This theory, proposed a year ago, has proven correct so far. Not only have the prices of most mid-to-high end landed properties in the Klang Valley remained resilient, but prices in certain regions, particularly mature locations, have edged up even further during the current downturn as more household liquidity is diverted to this asset class. Our point is simple – as we see the performance of the real property cycle continue to be sub-par until sometime in 2013/14 (see Figure 3 below), investing in mid-to-high end landed properties - at least in the Klang Valley's mature and well-established locations - will likely yield an investor with a more superior return in most of the time for the next 4-5 years vis-à-vis other real estate asset classes.

Property Cycle Says There's No Real Property Bull Yet

Figure 3: OSK's Malaysian Long-Term Residential Property Cycle Model, 2-year CAGR On ARPP: Weaker Momentum Indicates A Potential Downturn



Note: "ARPP" denotes Average Residential Property Prices, which studies the dynamics between demand and supply in the real estate market. The conventional method of using only "total-volume-transacted" as a gauge of the property cycle is flawed as it fails to account for the impact of supply on the fortunes of market players.

Source: JLW, OSK Research

Too early to call an end to the downcycle. The diversion of liquidity by these 1950s Baby Boomers into the safer residential real estate asset class (i.e. mid-to-high end landed properties) as a hedge against the current uncertainties will not, by itself, generate sufficient demand momentum to spark the next upcycle and counter the significant slowdown/downward pressure currently faced by other major residential asset classes. Firstly, such hedging by what is apparently a group of savvy middle class affluent investors have so far been limited to mature and well-established locations rather than across-the-board.

Secondly, the fundamentals of other major sub-segments in the sector such as the luxury condo segment remain extremely fragile as developers/owners/landlords compete for whatever little demand there is left in the market amid rapidly growing supply. Prices of this particular residential asset class have already tapered off by an average 20%-30% from the peak in late 2008 and another massive supply shock in late 2009 may again rattle the Klang Valley luxury condos market, thus forcing the sub-segment into another period of consolidation in 2010. In addition, the mass housing market has been in the doldrums since 2005 and will not see a meaningful recovery until early next decade when we may see a more robust new family formation taking place in Malaysia (more on this in our next sector report).

Next real upcycle to be in 2011, not 2010. Contrary to popular belief, our Property Cycle Model suggests that the current downcycle in the residential property market, led mainly by residential asset classes which rode high during the 2007/08 boom (e.g. luxury condos), is only likely to bottom sometime in 2010. Based on the same model, an easing incoming supply of new properties in 2010 will give the sector a little breathing space in 2011. Coupled with an expected gradual economic recovery commencing 2010, this will likely set the stage for a mild property upcycle in 2011 (see Figure 3 above). During this period, developers will see a small window of opportunity to liquidate their inventory with ease and launch certain development projects which were significantly scaled back during the 2-year downcycle in Phase D (2009/10). However, the sustainability of this upcycle beyond 2011 will be put to the test as the market would still have to absorb the final - but fatal - wave of new property supplies by late 2011, a legacy from the aggressive construction of properties during the 2007/08 upcycle (for examples, refer to Figure 1).

Klang Valley Office Segment To Languish For Some Years

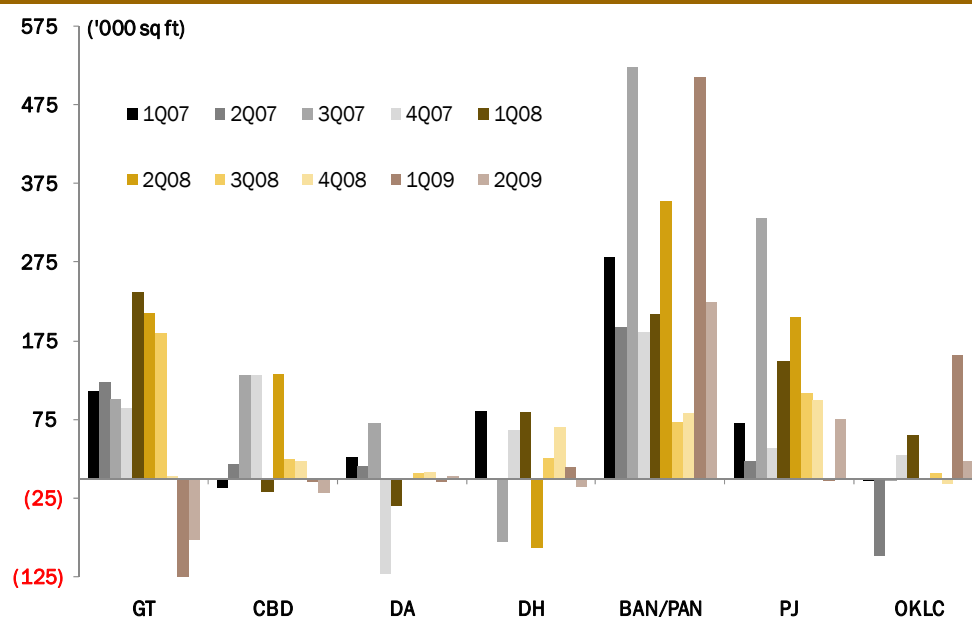
Figure 4: Incoming Supply Of Office Space to the Klang Valley Market

Location	Existing Supply	Existing Supply	Existing Supply	Distribution of Additional Incoming Supply				TOTAL NEW SUPPLY
	('m sq ft)	('m sq ft)	('m sq ft)	(million sq ft under construction)				
	As of End-06	As of End-07	As of End-08	End-09	End-10	End-11	Post-2011	
Golden Triangle	23.715	23.715	24.200	1.134	0.878	2.269	5.158	9.439
<i>Cumulative New Supply over Existing Supply</i>				4.7%	8.3%	17.7%	39.0%	39.0%
Central Business District	15.464	15.609	15.737	0.63	0.775	0	0.340	1.745
<i>Cumulative New Supply over Existing Supply</i>				4.0%	8.9%	8.9%	11.1%	11.1%
Decentralised Area	5.646	5.717	5.774	0.816	0.567	0.317	3.394	5.094
<i>Cumulative New Supply over Existing Supply</i>				14.1%	24.0%	29.4%	88.2%	88.2%
Damansara Heights	5.292	5.692	5.692	0	0	0	0.971	0.971
<i>Cumulative New Supply over Existing Supply</i>				0.0%	0.0%	0.0%	17.1%	17.1%
Bangsar/Pantai	4.120	5.387	6.687	2.123	0.000	1.029	2.822	5.974
<i>Cumulative New Supply over Existing Supply</i>				31.7%	31.7%	47.1%	89.3%	89.3%
TOTAL KL CITY	54.237	56.120	58.090	4.703	2.22	3.615	12.685	23.223
<i>Cumulative New Supply over Existing Supply</i>				8.1%	11.9%	18.1%	40.0%	40.0%
Petaling Jaya	6.682	7.300	8.105	1.594	0.93	0.308	7.555	10.387
<i>Cumulative New Supply over Existing Supply</i>				19.7%	31.1%	34.9%	128.2%	128.2%
Subang Jaya	1.649	1.781	1.781	0.268	0	0	0.859	1.127
<i>Cumulative New Supply over Existing Supply</i>				15.0%	15.0%	15.0%	63.3%	63.3%
Shah Alam	1.897	2.040	2.040	0	0	0	2.911	2.911
<i>Cumulative New Supply over Existing Supply</i>				0.0%	0.0%	0.0%	142.7%	142.7%
Klang	0.340	1.082	1.427	0.215	0	0	0.22	0.435
<i>Cumulative New Supply over Existing Supply</i>				15.1%	15.1%	15.1%	30.5%	30.5%
TOTAL OUTSIDE KL CITY	10.568	12.203	13.353	2.077	0.93	0.308	11.545	14.86
<i>Cumulative New Supply over Existing Supply</i>				15.6%	22.5%	24.8%	111.3%	111.3%

Source: JLW, OSK Research

Rental rate and asset prices under pressure in '09. In addition to the aggressive measures by corporates in cutting occupancy cost amid the subdued business outlook in 2009, the Klang Valley prime office market will also be hit by the incoming new supply in the same year, especially in the decentralised regions (see Figure 4). As we doubt that the sub-sector would be able to effectively deal with this significant change in demand-supply dynamics within a short timespan, this will put massive downward pressure on occupancy, rental rates and subsequently, asset prices. The Petaling Jaya and Bangsar/Pantai markets are the biggest concerns, with both potentially seeing a supply growth of 19.7% (+1.6m sq ft) and 31.7% (+2.1m sq ft) respectively by end-2009. As mentioned, a sudden flood of supply at a time when demand is shrinking may potentially “choke” the office sub-sector in some of these markets. The effects of this inevitable reality, mainly due to the harsh economic environment, were felt in 1H09, particularly in the Golden Triangle, which saw some notable downsizing measures and relocation to cheaper outer suburban office alternatives (see Figure 5).

Figure 5: Quarterly Net Take-ups Of Prime Office Space In The Klang Valley



Notes: GT = Golden Triangle, CBD = Central Business District, DA = Decentralised Area, DH = Damansara Heights, BAN/PAN = Bangsar/ Pantai, PJ = Petaling Jaya, OKLC = Outside KL City (comprising Shah Alam, Subang Jaya and Klang).

Source: JLW, OSK Research

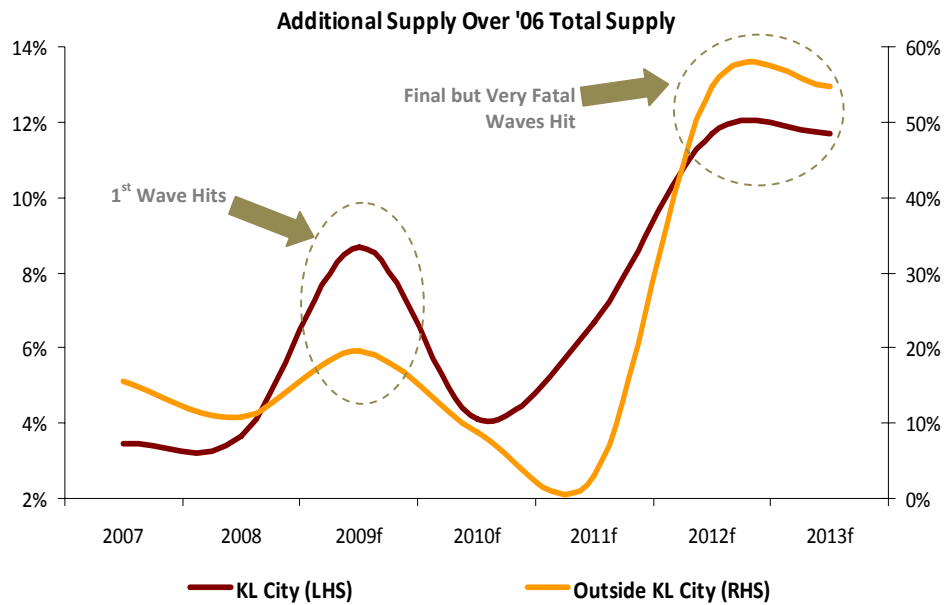
A case in point. Hap Seng Consolidated Bhd recently acquired a 50% stake in Menara Citibank for RM828psf, equivalent to an estimated gross capitalisation rate of 7.5% for the office component. Although rental rates have remained stable, the acquisition price was at a 17% discount to the RM1,000 psf that IOI Corp was once willing to pay in late 2008. For those unfamiliar with the recent history of Menara Citibank, IOI Corp won the bid to acquire the office building for RM1,000 psf in September '08, which translated into a gross cap rate of approximately 6.0%, a record-high valuation in the Klang Valley at that time. However, with the onset of the global financial crisis a few months later, IOI Corp pulled out of the deal and had its RM73.4m deposit forfeited.

Golden Triangle and Central Business District to fare 'relatively' better for now. Although the GT and CBD markets may also come under downward pressure, office space in these markets in 2009 should fare *relatively* better than others given the limited incoming new supply in these enclaves for now. However, the impending strong competition in Bangsar/Pantai and Petaling Jaya commencing 2009 and factors such as over-congestion and astronomically high rental rates in centralised areas are likely to intensify the decentralisation trend. Having said that, we do not expect many MNCs in such a situation to move into cheaper outer suburban office alternatives. In our view, most foreign CEOs are likely to prefer to maintain their proximity to the city infrastructure and city-based clientele.

PJ and Bangsar/Pantai markets to fear the most. Decentralisation from the city centres in recent years has led to a boom in new commercial centres and the revival of previously abandoned projects, especially in Petaling Jaya and Bangsar/Pantai. KL Sentral, located in Bangsar/Pantai, has itself added millions of sq ft of new office space in recent years. The annual net take-up of office space for both markets during the peak of the cycle stood at an average of 500,000 and 1,000,000 sq ft respectively in 2007/08. Even if we were to assume that such an optimistic demand is maintained for the next few years - which of course is unrealistic - it is clear that the economy would be unable to absorb the enormous new supply within a short time (compare with Figure 4). This, however, will not just end in 2009. Although the momentum will somewhat ease in 2010/2011, this supply cycle will deliver its final blow sometime in 2012/13, thus affecting almost all major markets in the Klang Valley especially, and again, in the Petaling Jaya and Bangsar/Pantai areas.

Actual year of reckoning to commence in 2012/13. While markets in especially the centralised areas (e.g. the Golden Triangle and Central Business District) are likely to escape the overwhelming supply cycle in 2009, the final wave in 2012/13 would be the most painful, not only to the decentralised regions but also the centralised ones (see Figure 6). This is added to the fact that the economy would then have to absorb the slack from the 2009/10 downcycle. In perspective, this new supply would swamp that which will come on-stream from 2009-2011, thus forcing the market into a long period of consolidation to digest the excesses. Obviously, landlords during that period will not want to be caught in an economic downturn during which the market will be inundated by new office buildings. As such, product differentiation (such as in location) and price competitiveness will be the major recurring themes between 2009 and 2013.

Figure 6: Depiction Of The Prime Office Space Supply Cycle

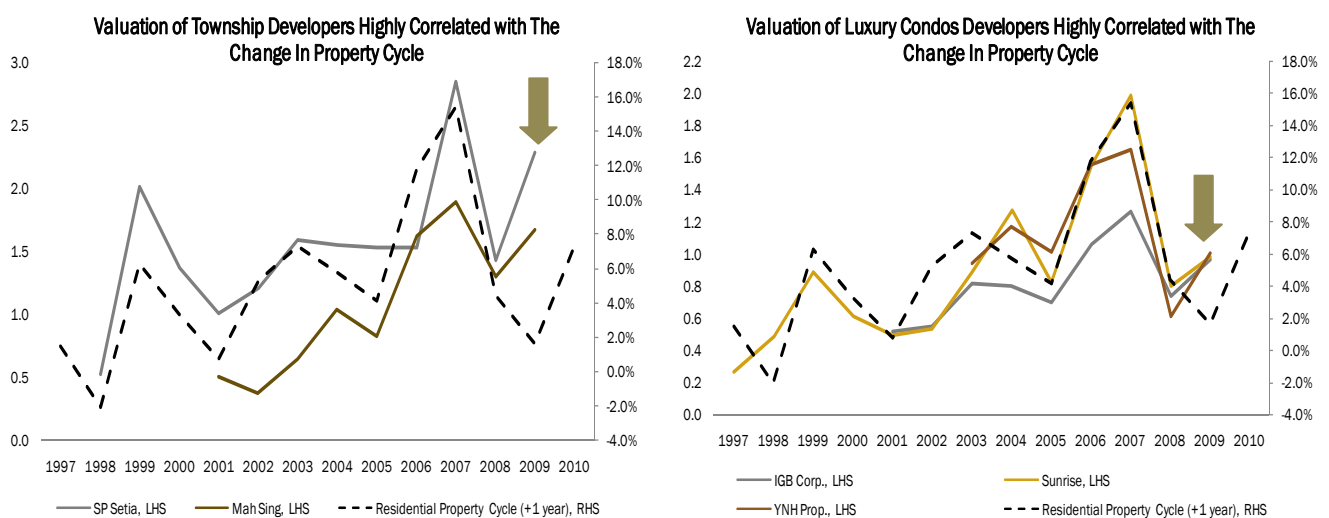


Source: JLW, OSK Research

Reconciling With The Current Expensive Stock Valuations

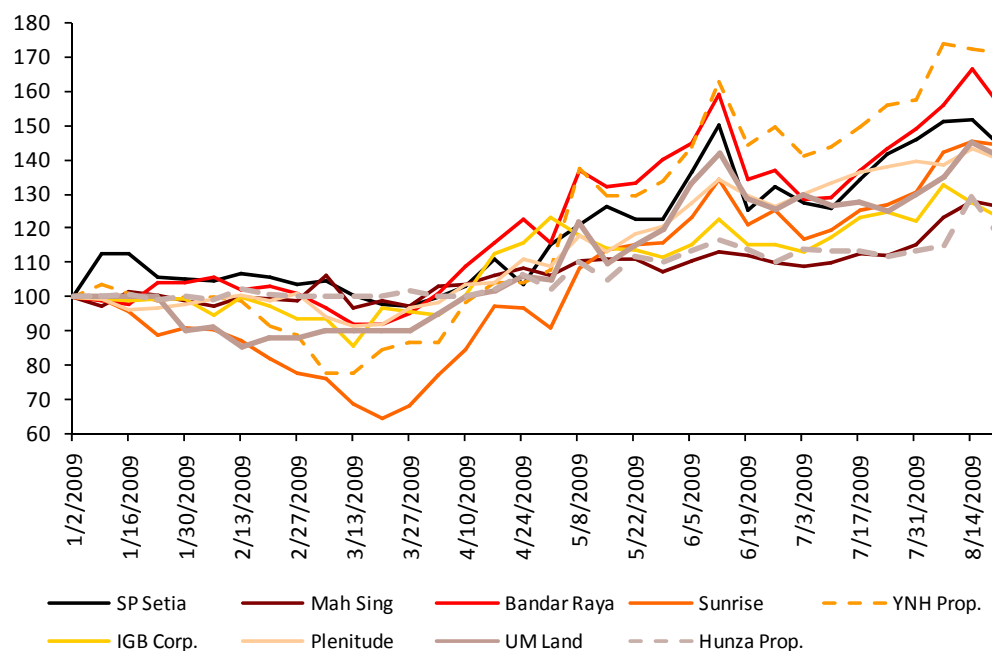
Stock performance closely track OSK's Property Cycle Model prior to 2009. Our analysis shows that the valuations of property stocks prior to year 2009 tracked the performance of the property cycle very closely and tended to react about 12 months ahead of any imminent change in the direction of the property cycle (see Figure 7). For example, an investor with an investment horizon of 12 months will take profit on property stocks 12 months prior to the cycle peak and vice versa, to accumulate property stocks 12 months prior to any sign of a rebound. In the most recent peak in the property cycle, this had again happened – investors began to take profit on property stocks in early 2008, prior to the cycle peak later that year. As such, according to our model, given that we had expected the next real upcycle to occur in 2011, the rally in property stocks should have, in theory, only commenced in early 2010.

Figure 7: Historical Valuations Of Property Stocks Correlate Closely To The Malaysian Property Cycle. Since early 2009, however, most stock valuations have moved in a completely opposite direction to the Property Cycle, implying that the market may be overly optimistic on a 2010 upcycle.



Source: OSK Research, Bloomberg

However, 2009 took us by surprise. Based on the theory above, we had earlier advised investors in our previous reports to take a relook at the property sector only in early 2010 as the market would by then be likely to aggressively accumulate property stocks 12 months ahead of the 2011 upcycle. The recent rally in property stocks from their March '09 lows, therefore, caught us by surprise as this rally would appear to be *'premature'*. As such, based on their current prices and assuming earlier fundamentals, property stocks currently appear to be 'Overvalued'. For example, Figure 7 shows that SP Setia (SELL) and Mah Sing (Not Rated) are not only trading way beyond their respective 2009 fair values but are approaching their respective peak valuations during the 2007/08 upcycle. Similarly, albeit with less exaggeration, certain stocks such as IGB Corp. (NEUTRAL), Sunrise (NEUTRAL) and YNH Prop (NEUTRAL), are now trading very close to their respective 2010 fair values. Another point to note is that this rally has so far been limited to stocks with big market capitalisation while many stocks with much smaller market capitalisation continue to trade at their respective 2009 fair values (see Figures 8 and 9).

Figure 8: Weekly Share Price Performance Index, Base = 1st Week Of January '09

Source: Bloomberg

How do we reconcile with the expensive valuations? In our view, the current expensive stock valuation probably implies that there are two main groups of investors in the market. The first group of investors, i.e. those who believe in a robust V-shaped recovery in the sector, may have priced in an early upcycle in 2010. Going by our earlier argument that an early upcycle is unlikely, these investors may be prompted to sell soon when more evidence contrary to the popular belief begins to emerge in the next few months. For example, when developers decide to scale back on their discounts and innovative financing schemes once their sales targets for the year have been met, new property sales may languish again, which would in turn quash any hopes of a robust recovery in 2010.

With the system flush with liquidity and given an environment of low interest rates, there is also a second group of investors who may have been more willing to bear higher risks and would perhaps also be more willing to *'prematurely'* buy into 2010 valuations in anticipation of an upcycle in 2011. Supporters of this camp of thought will cite the current valuations of many property stocks, which are now trading close to their respective expected 2010 fair values. In this case, this group of investors will consider current valuations sustainable until mid- to late-2010, with perhaps a little more upside potential from the current levels.

Stocks ripe for correction, but... The performance of property stock prices will very much depend on how these two main groups of investors will play out their strategies in the next few months. We believe that a correction in property stock prices in the short-term is inevitable, as the impending reality that will emerge soon would likely to disappoint those who have been overly-optimistic on a robust sector recovery in 2010. However, as certain groups of investors who are probably already looking into year 2010 valuations may take the opportunity to buy into dips, the expected correction in the near term will likely to be moderate. Therefore, the valuations of these stocks, despite the anticipated correction, may not retest their March '09 lows.

Introducing 2010 year-end target prices. In view of the possibility of certain quarters of the investment community having already bought into 2010 valuations, we are upgrading all the property stocks under our coverage to year 2010 target prices (see Figure 9), while keeping our earnings forecasts unchanged. Consequently, we are also upgrading the sector to NEUTRAL (from Underweight). Having said that, we retain our SELL call on SP Setia as it is currently trading at a significant premium even to its expected CY10 fair value.

Figure 9: Valuations For Each Property Stock Under Coverage For CY09 and CY10

Companies	Targeted CY09 P/NTA (x)	Targeted CY10 P/NTA (x)	CY09 Target Price (RM)	CY10 Target Price (RM)	Current Price (RM)	Previous Call	Call for CY10
Sunrise	0.52	0.98	1.08	2.22	2.06	Sell	Neutral
Bandar Raya	0.42	0.52	1.42	1.83	1.56	T. Profit	Buy
YNH Property	0.52	0.98	0.91	1.84	1.95	Sell	Neutral
IGB Corp.	0.56	0.98	1.04	1.88	1.79	T. Profit	Neutral
SP Setia	1.07	1.69	2.10	3.47	4.4	Sell	Sell
Plenitude	0.42	0.52	2.10	2.76	2.66	Neutral	Neutral
Hunza Properties	0.42	0.52	0.93	1.31	1.46	Sell	Neutral
UM Land	0.42	0.52	1.38	1.75	1.37	Neutral	Buy

Notes: CY09 Target Prices were our previous target prices for the respective stocks prior to the upgrade.

Source: OSK Research

Conclusion: Start accumulating only after a meaningful price correction. Despite the upgrade in target prices, we still believe that a moderate correction in property stock prices is inevitable in the short term. As most of these stocks are already trading close to their 2010 fair value anyway, the current risk-reward ratio appears to be unfavourable and as such investors are advised to accumulate only after a meaningful price correction.

OSK Research Guide to Investment Ratings**Buy:** Share price may exceed 10% over the next 12 months**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months**Take Profit:** Target price has been attained. Look to accumulate at lower levels**Sell:** Share price may fall by more than 10% over the next 12 months**Not Rated:** Stock is not within regular research coverage

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