

# Property Market Outlook

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**Investor Briefing**  
**22 March 2011**



**MALAYSIAN RATING CORPORATION BERHAD**  
Clarity and Integrity  
[www.marc.com.my](http://www.marc.com.my)



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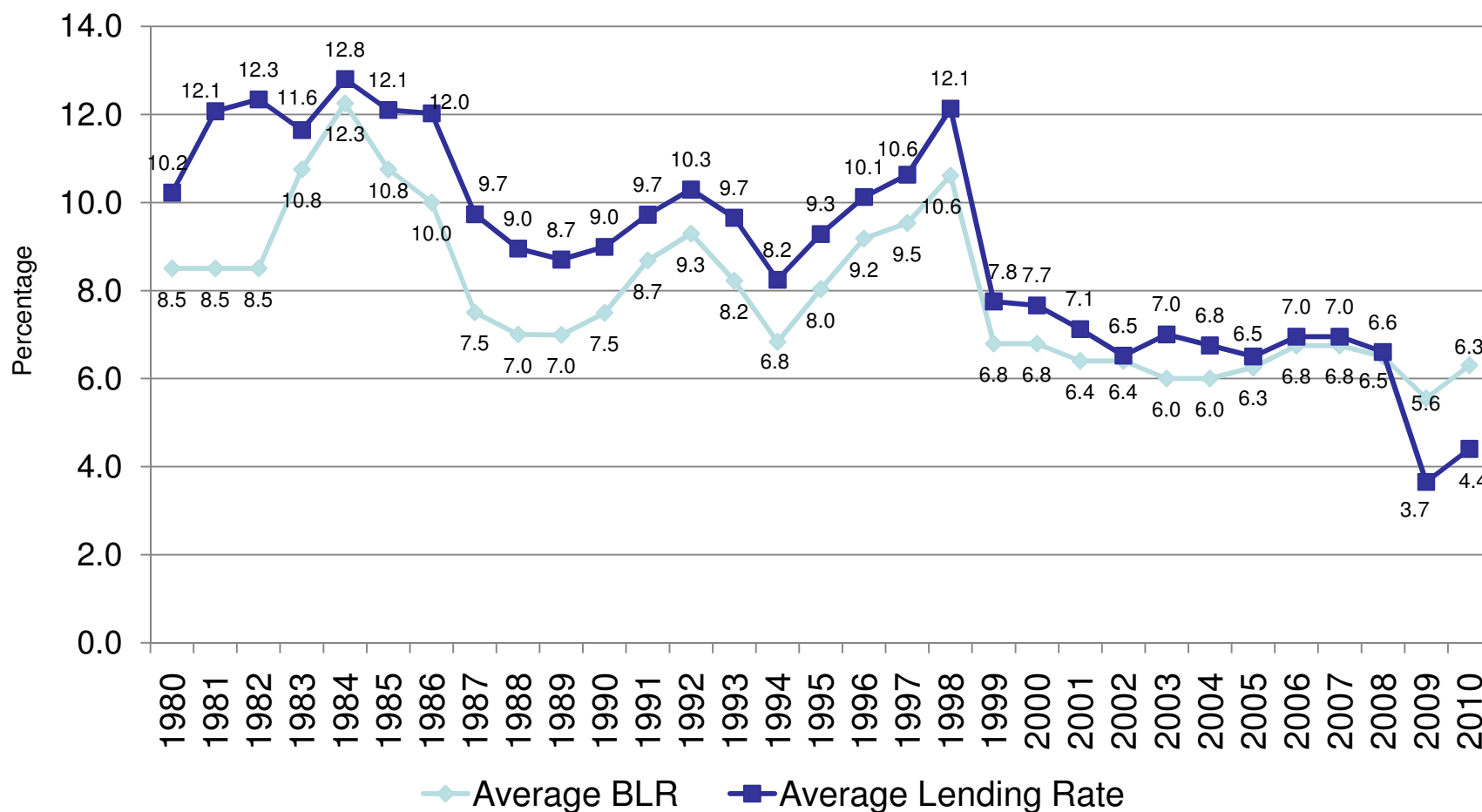
- **Strong performance of residential sector in recent years driven by:**
  - Low interest rate environment
  - Attractive mortgage financing
  - Ample liquidity in the banking system
  - Government policies
  
- **Will these factors hold in the near term?**

# Interest Rate Environment



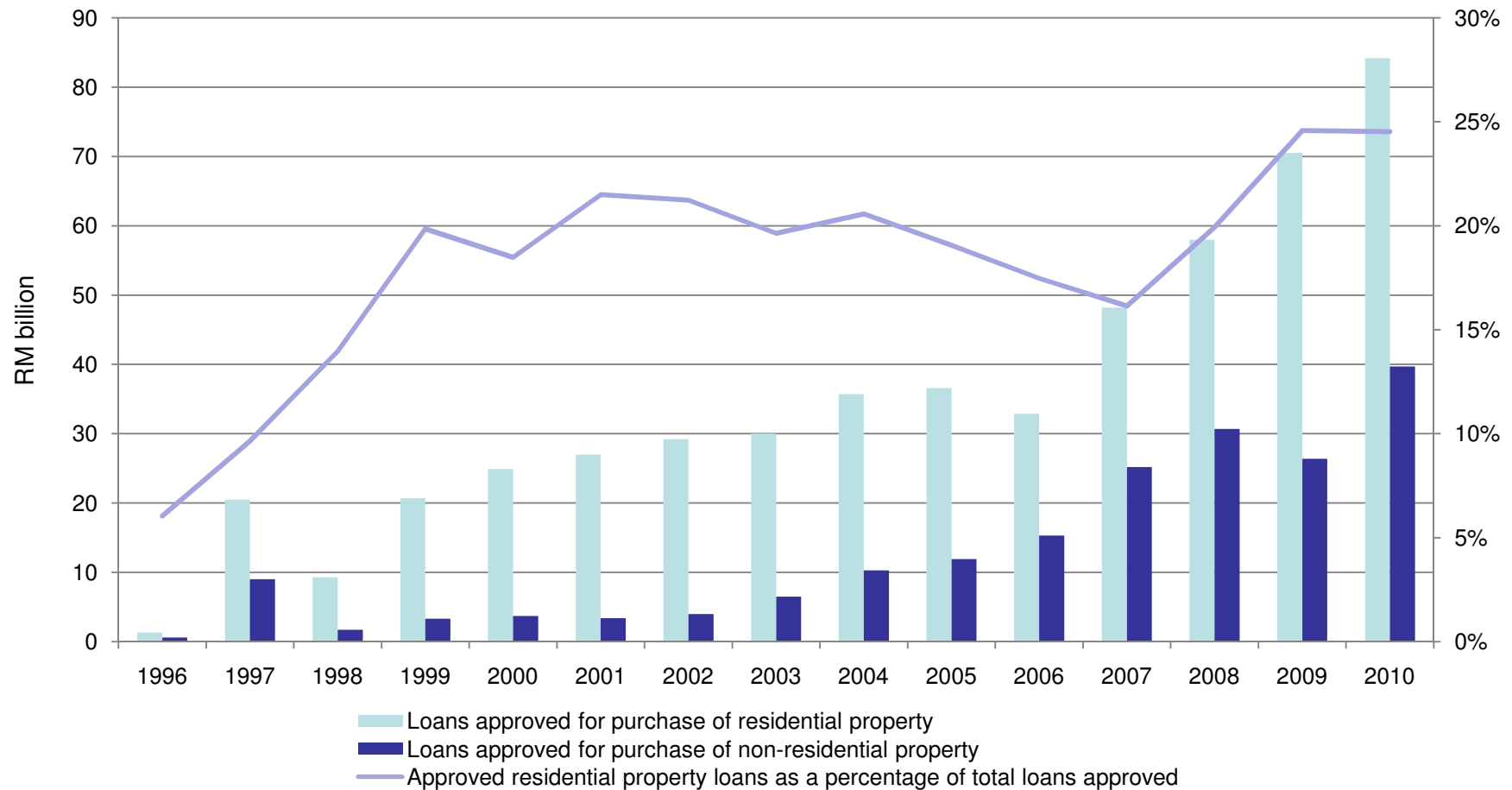
- OPR expected to increase by 25 bps to 50 bps by year end.
- Average BLR could increase from 6.3% pa to 6.8% pa.
- Average Lending Rate, however, will remain accommodative, supported by mortgage financing schemes.
- Additionally, fixed deposit rates remain relatively low, providing incentive to switch funds to property assets.

# Average BLR versus Average Lending Rate



Source: BNM

# Loans to Residential Sector

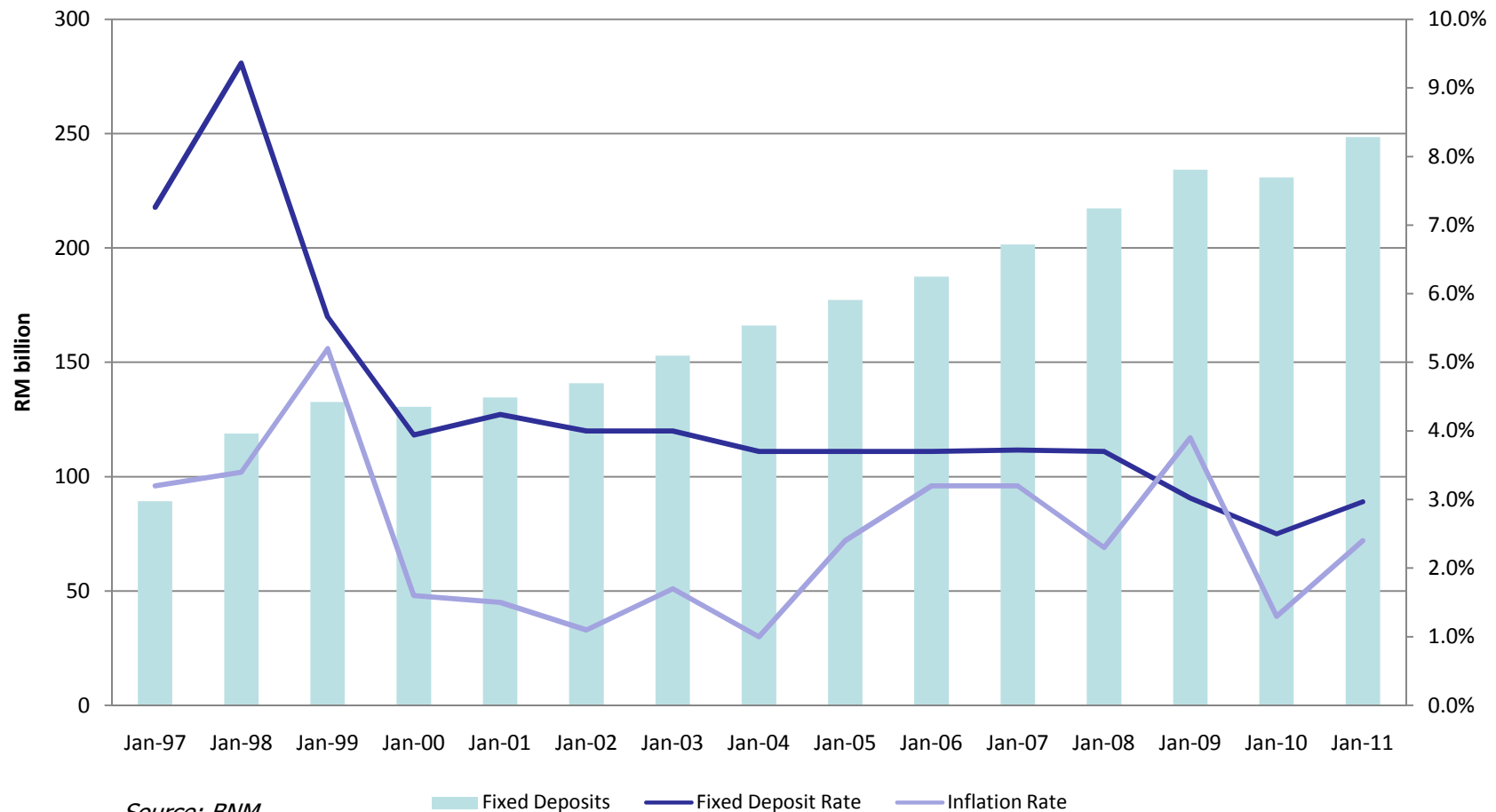


Source: BNM

# Low Fixed Deposit Returns



## Amount of individual fixed deposits (up to 1 year)



- **In general, government policy has been supportive of the housing sector:**
  - Loan-to-value reduction to 70% only imposed on third property mortgage onwards and is not seen as restrictive.
  - Imposition of 5% tax on gains is not seen as prohibitive.
  - Incentives for first-time buyers and low-income workers.
  - For government servants, maximum loan eligibility increased from RM360,000 to RM450,000 effective January 1.



# Buying sentiment weakening?



- **Declining rental yields**
  - May limit price gains compared to 2010.
  - Slower launches in the 3rd and 4th quarter 2010 signaling cautious sentiments taking hold.
- **Concerns that additional measures could be imposed**
  - LTV could be lowered further or introduced for other category of purchasers.
  - Higher stamp duties imposed.
- **Outlook for residential sector to moderate in 2011**

# Klang Valley Office Sector



Location	Existing Supply (mil sq ft)	Occupancy (mil sq ft)	Occupancy (%)	Incoming Supply (mil sq ft)
Central business areas	34.87	29.89	86%	4.60
Within city area	20.16	14.30	71%	5.03
Suburban areas	12.90	10.24	79%	1.31
<b>Total within KL</b>	<b>67.93</b>	<b>54.44</b>	<b>80%</b>	<b>10.94</b>
Total outside KL	24.19	17.69	73%	4.79
<b>Total within Klang Valley</b>	<b>92.12</b>	<b>72.13</b>	<b>78%</b>	<b>15.73</b>

# Klang Valley Retail Sector



Location	Existing Supply (mil sq ft)	Occupancy (mil sq ft)	Occupancy (%)	Incoming Supply (mil sq ft)
Kuala Lumpur	17.92	15.00	84%	4.60
Selangor	16.20	14.06	87%	5.03
Putrajaya	0.62	0.52	84%	1.31
<b>Total within Klang Valley</b>	<b>34.75</b>	<b>29.58</b>	<b>85%</b>	<b>10.94</b>

*Source: National Property Information Centre (Napic) 4Q2010*

- **Outlook challenging due to:**
  - Incoming supply outweighing demand.
  - Downward pressure on occupancy and rentals.
  - Reliant on strong GDP growth, KL rebranding efforts.
  - Retail sector depends on tourism arrivals, consumer sentiments.

# Financial Performance of Property Industry



Median	2010	2009	2008	2007
Operating margin	17.0%	14.8%	8.7%	18.8%
EBITDA interest coverage	3.4x	3.8x	3.6x	4.5x
Debt-to-equity	0.26x	0.29x	0.20x	0.34x
Debt to EBITDA	3.9x	3.3x	1.4x	3.0x
CFO interest coverage	3.5x	3.3x	3.6x	1.4x

# Key Indicators



- **Median operating profit has increased to 17% in 2010 (2009: 14.8%)**
- **Modest leverage**
  - Important for sustainability of operations through the business cycles.
- **Interest coverage measures remained relatively stable and healthy**

# Selected MARC-Rated Property Companies



Companies	Rating
Sunrise Berhad	A+/stable
Mulpha International Berhad	MARC-1 <sub>ID</sub> /A <sub>ID</sub> /stable
Dutaland Berhad	B/stable
Diversified Venue Sdn Bhd	AA <sub>IS</sub> /stable
Mega Palm Sdn Bhd*	MARC-1 <sub>(bg)</sub> /AAA <sub>(bg)</sub> /stable
MRCB Sentral Properties Sdn Bhd**	MARC-1 <sub>(fg)</sub> /AAA <sub>(fg)</sub> /stable
LBS Bina Sdn Bhd**	MARC-1 <sub>IS(fg)</sub> /AAA <sub>IS(fg)</sub> /stable

\* Bank Guaranteed

\*\*Danajamin Guaranteed

# Construction Industry Outlook

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# GDP versus Construction Growth



## Performance in 2010



	GDP growth	Construction growth
1Q2010	10.1%	8.7%
2Q2010	8.9%	4.2%
3Q2010	5.3%	2.8%
4Q2010	4.8%	5.6%

- Volatile performance, weakened in 2Q and 3Q 2010 before rebounding in 4Q2010.
- Underscores government stimulus efforts.
- Projects tended to be of lower margin.

# Return of Large-Scale Projects



Major Projects	Description	Costs
KL MRT	Sg Buloh-Kajang line	RM36.6 billion
KL International Financial District	75-acre mixed development project in Jalan Tun Razak	RM26.6 billion
Light Rail Transit Extension	17.7 km Kelana Jaya- Subang Jaya	RM7 billion
KL Eco City	Mixed development project opposite Mid-Valley	RM6 billion

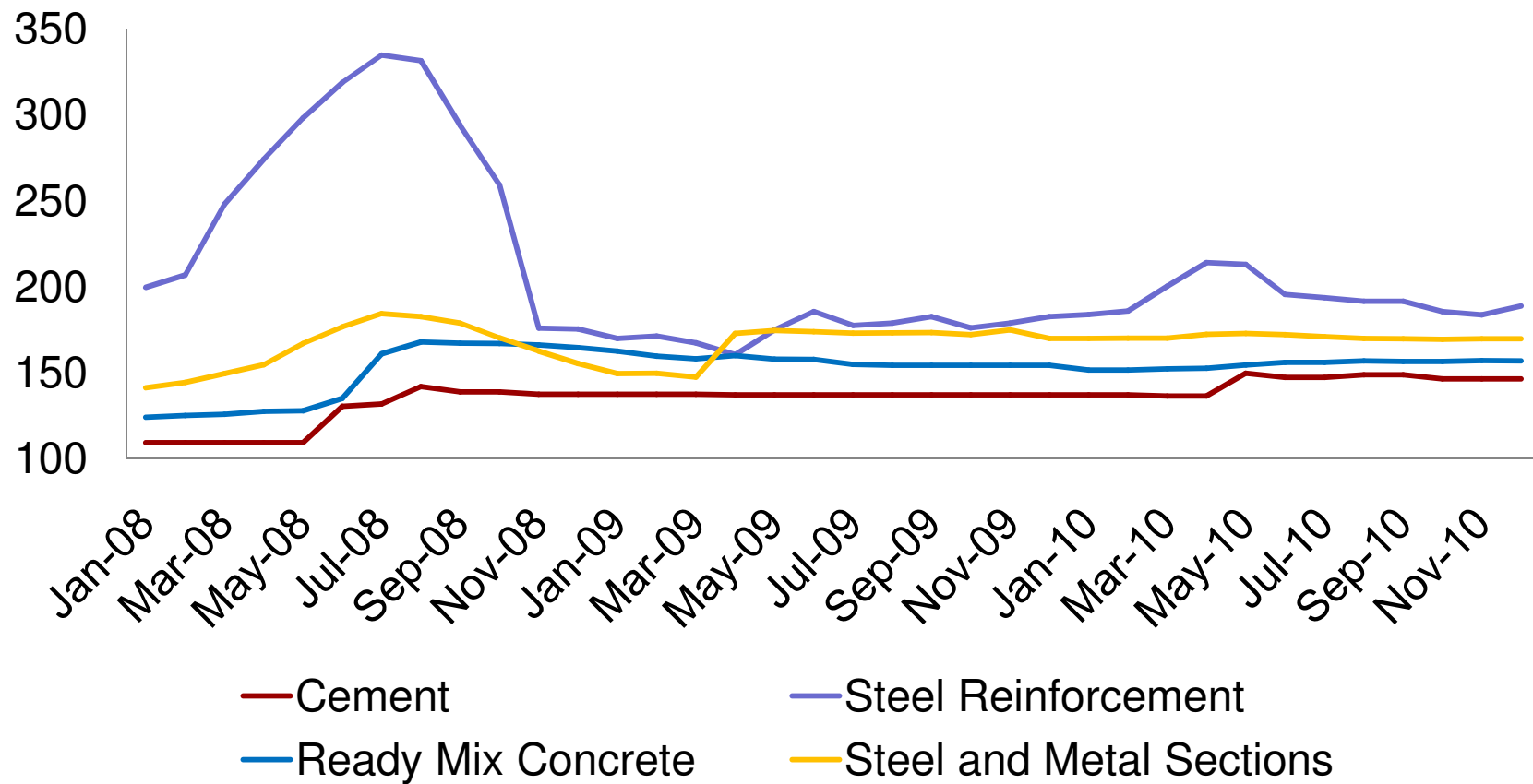
- 10th Malaysia Plan and the Economic Transformation Programme (ETP) have unveiled large-scale ambitious infrastructure projects.
- Expected to set the stage for construction sector rebound.

- **Implementation timeline**
  - dependent on government schedule.
  
- **Rising construction costs**
  - building material costs
    - cement, steel.
  - labour costs
    - levies, mandatory health insurance.

# Building Material Prices



Building Material Price Index (July 2002=100)



Source: CEIC

# Financial Performance of Construction Industry



Median	2010	2009	2008	2007
Operating Profit Margin	5.6%	5.9%	5.6%	9.8%
Debt-to-equity	0.34x	0.37x	0.46x	0.29x
Cash ratio	0.30x	0.21x	0.10x	0.09x
Days receivables	94.6	88.4	95.4	117.1
Days payables	130.5	169.7	169.0	159.9
CFO interest coverage	4.8x	3.2x	2.0x	3.7x

## MARC-Rated Construction Companies



Companies	Rating
IJM Corporation Berhad	MARC-1 / AA / stable
WCT Berhad	AA- / stable
Prinsiptek Corporation Berhad	MARC-2 <sub>ID</sub> / stable

# MARC-Rated Construction Companies



- Large construction companies have other business ventures that have been able to offset weaker construction margins.
- Diversified business profile coupled with strong cash positions have helped larger players to sustain ratings.
- Smaller companies have seen their liquidity position deteriorate.



A grayscale image of a large, empty conference room. A long, white, oval-shaped table is surrounded by numerous black office chairs with casters. The chairs are arranged in two rows, facing each other. The room has a high ceiling and large windows in the background, though the details are faded.

**Thank You**