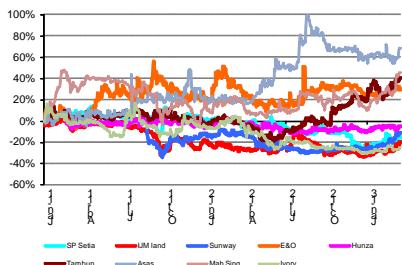


## Sector Update

## Property

NEUTRAL (maintain)



## Bright prospects for South S.Perai property market

## Takeaways from our 3-day visit to Seberang Perai and Penang Island

We recently travelled across Seberang Perai, Penang Island, Second Penang Bridge and met up with 8 corporates/ government body to gauge the island's latest property market trend and assess the potential impact of the Second Penang Bridge to Seberang Perai's economy and real estate market. Overall, we are bullish on the prospects of South Seberang Perai property market as we believe that the opening of Second Penang Bridge will increase traffic flow and economic activities, thereby lifting property demand and prices. On Penang Island, we are generally positive on the medium range condominium market (RM400-800 psf) but cautious on the high-end condominium market (>RM800 psf) in view of the segment's high competition and smaller buyer pool.

## Second Penang Bridge to open in September 2013

The construction of Second Penang Bridge is ahead of schedule, now targeted to commence operation in September 2013 (from November 2013). The construction work of the bridge is over 92% completed with a final section at the approach span to be connected by April 2013. The construction of Batu Maung interchange and Batu Kawan Expressway are within schedule but works on Batu Kawan Trumpet Interchange is slightly behind schedule. Upon commissioning, Jambatan Kedua Sdn Bhd expects the Second Penang Bridge to ease off the Penang Bridge traffic by 20-30%, translating into an initial daily traffic volume of 36,600 vehicles/day for the Second Penang Bridge (currently daily traffic volume of Penang Bridge is 140,400).

## Tambun Indah is a good proxy to South Seberang Perai

We expect the Second Penang Bridge to have a major positive impact to the development of South Seberang Perai. In Batu Kawan, Penang Development Corporation has sold 400-500 acres of industrial land to industry players and it had called for request for proposal to build a premium outlet in Batu Kawan. We believe that the economic activities and improved connectivity to Penang Island will have a positive impact on the South Seberang Perai property demand and price. Tambun Indah (Not rated), a Seberang Perai-based developer with over 540 acres of land bank in South Seberang Perai, is a good proxy to the South Seberang Perai property market. Over 2010-2012, Tambun Indah's property sales and net profit had grown strongly, partly driven by the strong take-up for its Pearl City project - a gated & guarded project in Simpang Ampat.

## Stiff competition in high-end condominium segment

Generally, we observed that the take-up for Penang's high-end condominium market (>RM800 psf) has slowed down as developers are facing strong competition amidst the small buyer pool. We believe that the latest launches in the Light, Southbay City and Seri Tanjung Pinang had only garnered a moderate take-up rate of 40-50%. Meanwhile, the demand for the medium-end condominium segment (RM400-800 psf) is still robust. We understand that Dijaya-Ivory JV has received strong interest for the Tropicana Bay Residences while Ivory has also achieved over 70% sales/ booking for its Latitude and City Residence project that are priced between RM600-800 psf.

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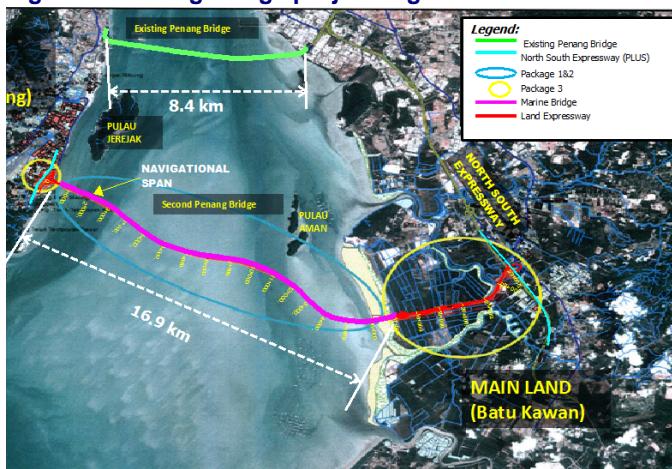
Stock	Rating	Sh Pr (RM)	TP (RM)	Mkt Cap (RMm)	Year End	Core PE (x)	EPS growth (%)	EV/EBITDA (x)	P/B (x)	ROE (%)	Div Yield (%)	FY13	FY14		
SP Setia	ADD	3.35	3.35	8,237	Oct	17.2	15.6	-3.8	10.2	17.2	1.8	9.8	9.3	4.8	5.4
Sunway	BUY	2.75	3.28	3,554	Dec	9.4	8.5	7.7	10.3	10.7	1.0	10.1	10.4	2.5	2.9
IJMLand	ADD	2.38	2.31	3,357	Mar	13.2	11.5	35.0	15.0	10.3	1.3	9.7	10.2	2.1	2.3
Mah Sing	Not Rated	2.39	na	2,678	Dec	9.0	7.4	28.8	21.9	7.1	2.2	19.6	20.5	4.4	5.3
E&O	Not Rated	1.57	na	1,737	Mar	13.2	11.0	7.7	20.4	11.1	1.3	9.7	10.1	2.4	2.7
Asas	Not Rated	1.50	na	286	Dec	na	na	na	na	0.7	na	na	na	na	na
Hunza	Not Rated	1.49	na	270	Jun	na	na	na	na	0.5	3.0	na	na	na	na
Tambun	Not Rated	0.84	na	260	Dec	5.2	4.2	22.1	25.0	2.3	1.2	21.0	22.9	7.2	8.6
Ivory	Not Rated	0.51	na	225	Dec	na	na	na	na	0.6	na	na	na	na	na

## Second Penang Bridge to open in September 2013

### Second Penang Bridge to open in September 2013

The construction of Second Penang Bridge is ahead of schedule, now targeted for opening in September 2013 (from November 2013). The construction work of the bridge is over 92% completed with a final section at the approach span to be connected by April 2013. The construction of the Batu Maung interchange and Batu Kawan Expressway are within schedule but works on Batu Kawan Trumpet Interchange is slightly behind schedule. When completed, the RM4.5bn Second Penang Bridge will be the longest bridge in South East Asia with a total length over water of 16.9km (vs 8.4km of Penang Bridge). Upon commissioning, Jambatan Kedua Sdn Bhd (concessionaire for the Second Penang Bridge project and a wholly-owned company of the Ministry of Finance) expects the Second Penang Bridge to ease off the Penang Bridge traffic burden by 20-30%, translating into an initial daily traffic volume of 36,600 vehicles/day for the Second Penang Bridge (currently daily traffic volume of Penang Bridge is 140,400). Bulk of the traffic is actually from the northern region and hence the potential traffic dispersion by the 2nd bridge is relatively small. This is also the rationale purported for the proposed 3rd link in the North.

**Fig 1: 2<sup>nd</sup> Penang Bridge project alignment**



Source: Jambatan Kedua Sdn Bhd

**Fig 2: The last part of the bridge that is to be connected**



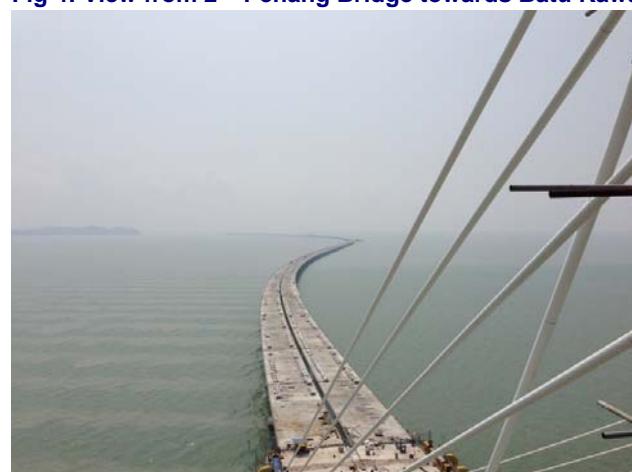
Source: Affin

**Fig 3: View from 2<sup>nd</sup> Penang Bridge towards Batu Maung**



Source: Affin

**Fig 4: View from 2<sup>nd</sup> Penang Bridge towards Batu Kawan**



Source: Affin

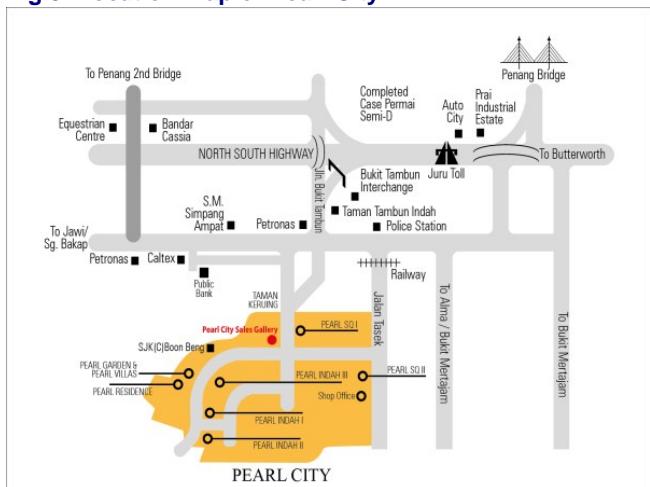
## Tambun Indah is a good proxy to South Seberang Perai

### Second Penang Bridge to spur development in South Seberang Perai

We expect the Second Penang Bridge to have a major positive impact on the development of South Seberang Perai. In Batu Kawan, Penang Development Corporation ("PDC") owns 6,717 acres of land bank, of which it plans to develop 1,640-acre of affordable residential units, 1,184-acres of industrial park, 641-acre of commercial area and other amenities/ infrastructure (government buildings, university, international golf & resort, etc). PDC has sold 400-500 acres of Batu Kawan industrial land at RM30psf and it has invited qualified companies to submit their request for proposal to build a premium outlet on a 40-acre piece of land in Batu Kawan. We believe that the ensuing economic activities following the improved connectivity to Penang Island will have a positive impact on the South Seberang Perai property demand and price.

Tambun Indah, a Seberang Perai-based developer with over 540 acres of land bank in South Seberang Perai, is a good proxy to the South Seberang Perai property market. Over 2010-2012, Tambun Indah's property sales and net profit had grown strongly, partly driven by the strong take-up for its Pearl City project - a gated & guarded project in Simpang Ampat.

**Fig 5: Location map of Pearl City**



Source: Company

**Fig 6: Scale model of Pearl City**



Source: Affin

**Fig 7: Newly completed houses in Pearl City**



Source: Affin

**Fig 8: Property under construction in Pearl City**



Source: Affin

## Stiff competition in high-end condominium segment

### Stiff competition in high-end condominium segment

We visited the sales office/ show rooms for IJM Land's The Light Waterfront project, Dijaya - Ivory Properties Penang World City project, Mah Sing's Southbay City and E&O's Seri Tanjung Pinang project. The Light, Southbay City and Seri Tanjung Pinang are essentially high-end mixed-development projects where the developers are offering high-end condominium with an average selling price of RM1,000-1,300 psf. Phase I of Penang World City, named Tropicana Bay Residences have an indicative selling price of RM700-800 psf.

Generally, we observed that the take-up for Penang's high-end condominium market (>RM800 psf) has slowed down and developers are facing strong competition amidst the smallish buyer pool. We believe that the latest launches in the Light, Southbay City and Seri Tanjung Pinang had only garnered a moderate take-up rate of 40-50%. Meanwhile, we gather that demand for the medium-end condominium segment (RM400-800 psf) has remained robust. The Dijaya-Ivory JV has received strong interests from potential buyers for its Tropicana Bay Residences while Ivory has also achieved over 70% sales/ booking for its Latitude and City Residence project which are priced between RM600-800 psf.

**Fig 9: Scale model of The Light**



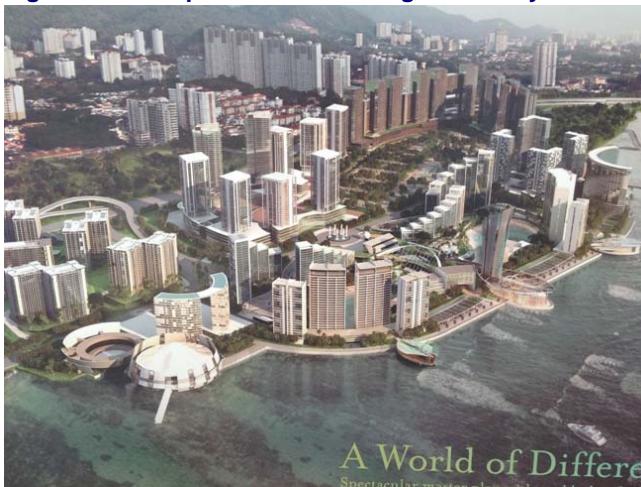
Source: Affin

**Fig 10: Aerial view on the Light Phase I and Phase II**



Source: Affin

**Fig 11: Artist impression on Penang World City**



Source: Affin

**Fig 12: The site of Penang World City**



Source: Affin

**Fig 13: Artist impression on Seri Tanjung Pinang Phase I**

#### INT RESORT CONDOMINIUMS

land facing the Andaman Sea, the luxury 1, 1+1, 2 and 3 bedrooms are the first in the region to come with a private swimming pool. Surrounded by a further 7 acres of landscaped gardens, this is the last parcel to be developed in Phase I. Residents will get to enjoy all the pleasures of Straits Quay, featuring an array of seafood restaurants, outdoor bars and the island's new centre for performing arts.



Source: Company

**Fig 14: Newly completed STP Quayside condo (left)**



Source: Affin

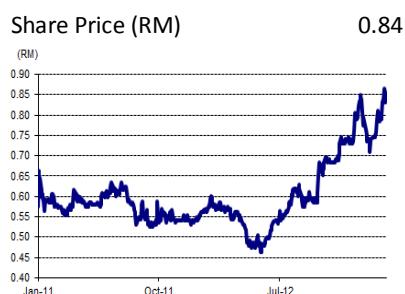
**Fig 15: Scale model of Mah Sing Southbay City**



Source: Affin

## Company Brief

### Tambun Indah



Mkt Cap (RMm)	260.1
Historical PE (x)	5.1
Curr PE (x)	5.2
Fwd PE (x)	4.2
P/B (x)	1.2
Net cash/(debt)	14.4

### Asas Dunia



Mkt Cap (RMm)	286.2
Historical PE (x)	10.4
Curr PE (x)	na
Fwd PE (x)	na
P/B (x)	0.7
Net cash/(debt)	14.9

### Hunza



Mkt Cap (RMm)	270.1
Historical PE (x)	2.7
+1 PE (x)	14.9
+2 PE (x)	17.3
P/B (x)	0.5
Net cash/(debt)	(167.3)

### Tambun Indah (Not rated)

Tambun Indah is, in our view, the best proxy to South Seberang Perai property market. The group has over 540 acres of land bank in South Seberang Perai. Its flagship project, the Pearl City project is Seberang Perai's first integrated township. With its modern design, gated & guarded and integrated township concept, the Pearl City's terrace houses are selling at over 15-20% premium to the nearby comparable properties. As at end-2012, Tambun Indah has a high unbilled sale of RM330m. The group has RM1.8bn GDV in the pipeline and it plans to launch RM256m worth of projects in 2013. To better integrate Pearl City, Tambun Indah is negotiating with a mall developer to set up a shopping mall in Pearl City. We like Tambun Indah for the strong management, strategic land bank, good product offerings, strong balance sheet and undemanding valuation of 5.2x CY13 consensus EPS.

### Asas Dunia (Not rated)

Asas Dunia owns over 1,100 acres of land bank in South Seberang Perai, including 443 acres in Valdor, 234 acres in Lima Kongsi and 138 acres in Simpang Ampat. We believe that the opening of Second Penang Bridge and the ensuing economic activities at South Seberang Perai will have a positive impact on the area's property demand and price. In addition, Asas Dunia has a low historical holding cost for its 1,100 acres of land bank, thereby giving the group strong competitive advantage in its pricing strategy.

Notwithstanding the favourable business environment, we understand that the group will remain conservative with their 2013 property launches, targeting property sales of RM120-130m for 2013 (slight growth from RM118-124m in FY11-12). Management views that land bank replenishment is a major challenge for local developers given the high asking prices. Hence, Asas will adopt a more conservative property development strategy where it will not drastically increase its new property launches so as to conserve its land bank for future development.

### Hunza Properties (Not rated)

The construction works for Hunza Properties' key project, the RM450m Gurney Paragon shopping mall will be completed soon. The Gurney Paragon is located next to Gurney Plaza. It has a total NLA of 700,000 sf, slightly smaller than the nearby Gurney Plaza (847,000 sf NLA). To date, we understand that management has leased out 75% of the NLA and is in negotiation to lease another 15% of the NLA. Management targets to open the shopping mall on 23 July 2013.

We like the concept, design and location of Gurney Paragon. That said, we note that Penang's retail market is historically a challenging segment where several major shopping malls have not fare well. The opening of Gurney Paragon could be a key re-rating catalyst for Hunza Properties' share price. The success of the mall is critical as the group has geared up substantially to undertake the project. Hunza Properties' other assets include a 40-acre piece of land in Bayan Baru (Penang Island) and several parcels of land in Kepala Batas and one in Segambut, KL.

IJM Land	
Share Price (RM)	2.38
(RM)	
3.30	
3.10	
2.90	
2.70	
2.50	
2.30	
2.10	
1.90	
1.70	
1.50	
Mar-10	
Dec-10	
Sep-11	
Jun-12	
Mar-13	
Mkt Cap (RMm)	3,356.6
Historical PE (x)	17.1
Curr PE (x)	18.1
Fwd PE (x)	12.1
P/B (x)	1.3
Net cash/(debt)	98.3

#### IJM Land (ADD, TP RM2.36)

IJM Land has recently launched the Light Collection III and we gather that the response is modest. Notwithstanding that, IJM Land is actively working on the Phase II development of the Light (the commercial plots). The reclamation works is ongoing and we understand that the group is actively talking to interested parties to jointly develop/ or to sell on-bloc some of its key components under the Light Phase II. Under the current master plan for the Light Phase II, IJM Land has planned for a convention centre, a shopping mall, hotels and office blocks. The group has chosen Singapore's Suntech to manage the operations of the Penang Waterfront Convention Centre, which is set to open in 2017 and we expect the group to make further announcement on its plan on the commercial components in 2H13-early 2014.

Ivory Properties	
Share Price (RM)	0.51
(RM)	
0.90	
0.85	
0.80	
0.75	
0.70	
0.65	
0.60	
0.55	
0.50	
0.45	
0.40	
Jul-10	
Apr-11	
Jan-12	
Oct-12	
Mkt Cap (RMm)	225.0
Historical PE (x)	5.5
Curr PE (x)	na
Fwd PE (x)	na
P/B (x)	0.6
Net cash/(debt)	(242.1)

#### Ivory Properties (Not rated)

We visited Dijaya-Ivory Properties' Penang World City sales office. The Dijaya-Ivory JV has unveiled the Phase 1 of its Penang World City development where the JVCo will launch 6 blocks of condominiums with a combined GDV of RM750m. The group intend to launch the first 4 blocks of its condominiums, named Tropicana Bay Residences in 2H2013. The 4 blocks of condominiums comprises of 907 units with a built up of 455 – 1,900 sf each. The condominiums will be priced from RM700-800 psf. We understand that the project had received overwhelming interest when the sales office was opened to public in February 2013. Elsewhere, Ivory Properties' new launches – The Latitude and The City Residence condominium has received good take up/ bookings of over 70%.

We observed that Ivory Properties has launched several new property projects over the past 6 months, an improvement from its more subdued/ slower launching pipeline in early 2012. We believe that the company's property sales and revenue are set to improve in 2013-14. However, the take-up rates for its key projects, bankers' support and capital availability will be essential in ensuring its long-term success given its geared balance sheet. Also, the Dijaya-Ivory JV Co need to repay the Penang state government around RM200m / year over the next 4 years for its purchase of the Bayan Mutiara land.

E&O	
Share Price (RM)	1.57
(RM)	
2.00	
1.80	
1.60	
1.40	
1.20	
1.00	
0.80	
0.60	
Mar-10	
Dec-10	
Sep-11	
Jun-12	
Mar-13	
Mkt Cap (RMm)	1,736.7
Historical PE (x)	13.0
Curr PE (x)	14.7
Fwd PE (x)	12.8
P/B (x)	1.3

#### E&O (Not rated)

E&O has recently opened its 4<sup>th</sup> tower at its Quayside Seafront condominium project for preview. We understand that E&O has received bookings for 50% of its units during the preview. The Quayside Tower 4 is priced at approximately RM1,300-1,400 psf, around 30% higher than the launch price of Tower 3. We understand that the Quayside Tower 3, currently under construction, has a take-up rate of 70%.

Overall, E&O has slowed down its launches in Seri Tanjung Pinang Phase 1 as the group has depleted most of the land bank under Phase 1. Under its current plan, the group has only 1 more condominium tower at Quayside and some super-link houses under Seri Tanjung Pinang Phase 1. E&O is now working on the development master plan for Seri Tanjung Pinang Phase 2 and we expect the group to submit its proposal in 2H2013. Key re-rating catalysts for the share price are obtaining government approvals for Seri Tanjung Pinang Phase 2 and better-than-expected take-up rates for its Medini project in Johor.

### **Equity Rating Structure and Definitions**

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<b>BUY</b>	Total return is expected to exceed +15% over a 12-month period
<b>TRADING BUY</b> <b>(TR BUY)</b>	Total return is expected to exceed +15% over a 3-month period due to short-term positive development, but fundamentals are not strong enough to warrant a Buy call. This is to cater to investors who are willing to take on higher risks
<b>ADD</b>	Total return is expected to be between 0% to +15% over a 12-month period
<b>REDUCE</b>	Total return is expected to be between 0% to -15% over a 12-month period
<b>TRADING SELL</b> <b>(TR SELL)</b>	Total return is expected to exceed -15% over a 3-month period due to short-term negative development, but fundamentals are strong enough to avoid a Sell call. This is to cater to investors who are willing to take on higher risks
<b>SELL</b>	Total return is expected to be below -15% over a 12-month period
<b>NOT RATED</b>	Affin Investment Bank does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation
<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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