Sector update

Singapore Residential Sector – Ending 2020 on a high

Research Team

Singapore | Real Estate

Investment summary

URA released its flash estimates for the private residential property price index for 4Q20. The overall increase came in at 2.1% on a QoQ basis, which was above ours and the street's expectations. This was also the strongest QoQ increase registered since 2Q18. For the full-year, the URA Private Residential Property Price Index saw an increase of 2.2% from end-2019 levels. This came in above our +0-1% forecast. Overall growth was still achieved despite the debilitating effects of Covid-19 on the economy. Looking ahead, Singapore's economy is expected to rebound by 5.5% in 2021, based on Bloomberg consensus projections. We forecast Singapore's private residential property prices to increase 2-4% this year. We believe this would be underpinned by an economic recovery in the region, expected improvement in unemployment rates, low mortgage rate environment, potential return of foreign buyers and higher expected construction costs due to Covid-19. These could be partially offset by a bump in number of new launches, some of which were pushed back from 2020. The FTSE ST Real Estate Holdings and Development Index (FSTREH) underperformed in 2020 due to the negative impact from Covid-19. However, the FSTREH outperformed the broader Singapore market slightly in the last two months of the year. Despite the recent re-rating, valuations remain cheap, in our view. The FSTREH is trading at a forward P/B ratio of 0.46x, which is still 1.6 standard deviations (s.d.) below its 10-year average (0.69x). We expect the path to recovery to be bumpy for developers, and any negative news over the Covid-19 situation would result in volatility in share prices. However, we remain **OVERWEIGHT** on Singapore developers as we see room for continued rotation into value and cyclical sectors which will benefit from the re-opening and normalisation in economic activities ahead. Our preferred sector top picks in order of preference are **CapitaLand Limited (CAPL SP)**, **UOL Group (UOL SP)** and **City Developments Limited (CDL) (CIT SP)**.

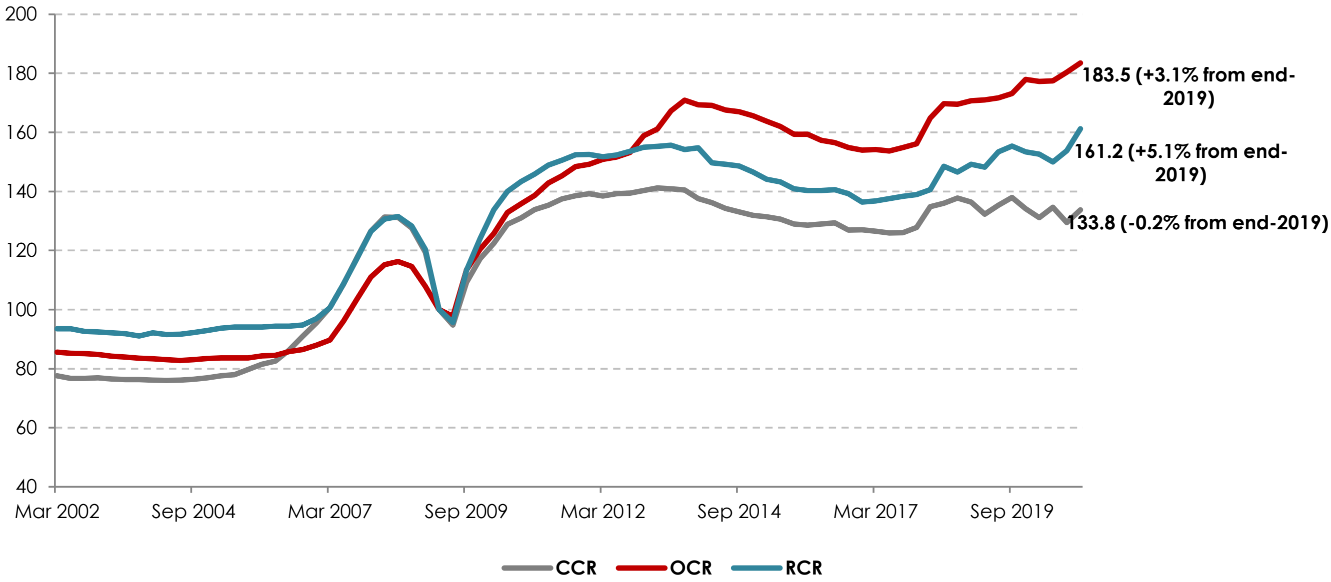
- 4Q20 flash URA Private Residential Property Price Index rose 2.1% QoQ; full-year up 2.2%
- Positive price growth likely in 2021
- Preferred sector picks in order of preference: CAPL SP, UOL SP and CIT SP

URA flash estimates showed a 2.1% QoQ increase in private residential prices

URA released its flash estimates for the private residential property price index for 4Q20. The overall increase came in at 2.1% on a QoQ basis, which was above ours and the street's expectations. This was also the strongest QoQ increase registered since 2Q18 (+3.4%), which was prior to the last round of property cooling measures introduced in Jul 2018. The improvement seen during 4Q20 was driven by the non-landed properties segment, which saw prices rising by 3.2% QoQ. This helped to offset the decline in landed property prices by 2.1%. Within the non-landed segment, all sub-markets saw positive QoQ growth. Private home prices in the Rest of Central Region (RCR), Core Central Region (CCR) and Outside Central Region (OCR) grew 4.8%, 3.3% and 1.7% QoQ in 4Q20, respectively.

For the full-year, the URA Private Residential Property Price Index saw an increase of 2.2% from end-2019 levels. This came in above our +0-1% forecast. For the non-landed segment, the RCR and OCR saw an increase of 5.1% and 3.1%, respectively, while the CCR recorded a marginal decline of 0.2% Overall growth was still achieved despite the debilitating effects of Covid-19 on the economy. According to the Ministry of Trade and Industry's advanced estimates, Singapore's 4Q20 GDP contracted 3.8% YoY (3Q20: -5.6%). For the whole of 2020, Singapore's GDP fell 5.8%. Looking ahead, Singapore's economy is expected to rebound by 5.5% in 2021, based on Bloomberg consensus projections. We forecast Singapore's private residential property prices to increase 2-4% this year. We believe this would be underpinned by an economic recovery in the region, expected improvement in unemployment rates, low mortgage rate environment, potential return of foreign buyers and higher expected construction costs due to Covid-19. These could be partially offset by a bump in the number of new launches, some of which were pushed back from 2020.

Exhibit 1: Price trend by segment for private non-landed properties (flash estimates for 4Q20)

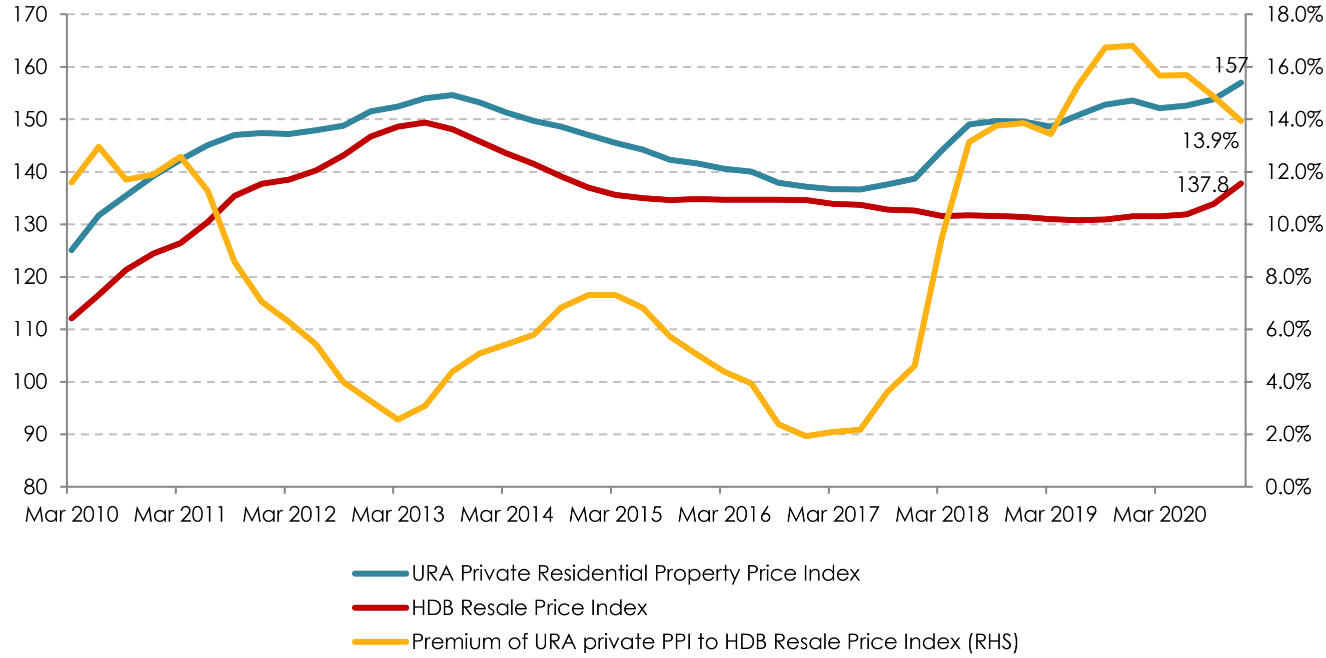


Source: URA, Internal estimates

HDB resale market also saw positive price momentum in 4Q20

HDB also released its flash estimate for public resale housing. The 4Q20 HDB Resale Price Index increased 2.9% QoQ, and this was an acceleration as compared to the 1.5% increase registered in 3Q20. In 2020, the HDB Resale Price Index is up 4.8%. Given the better performance of the HDB Resale market relative to the private market in 2020, the premium between the URA Private Residential Property Price Index and the HDB Resale Price Index has now narrowed from a peak of 16.8% in 4Q19 to 13.9%. We believe this trend would continue to support upgrader demand for the mass market segment.

Exhibit 2: Trend between URA Private Residential Price Index and HDB Resale Price Index (flash estimate for 4Q20)



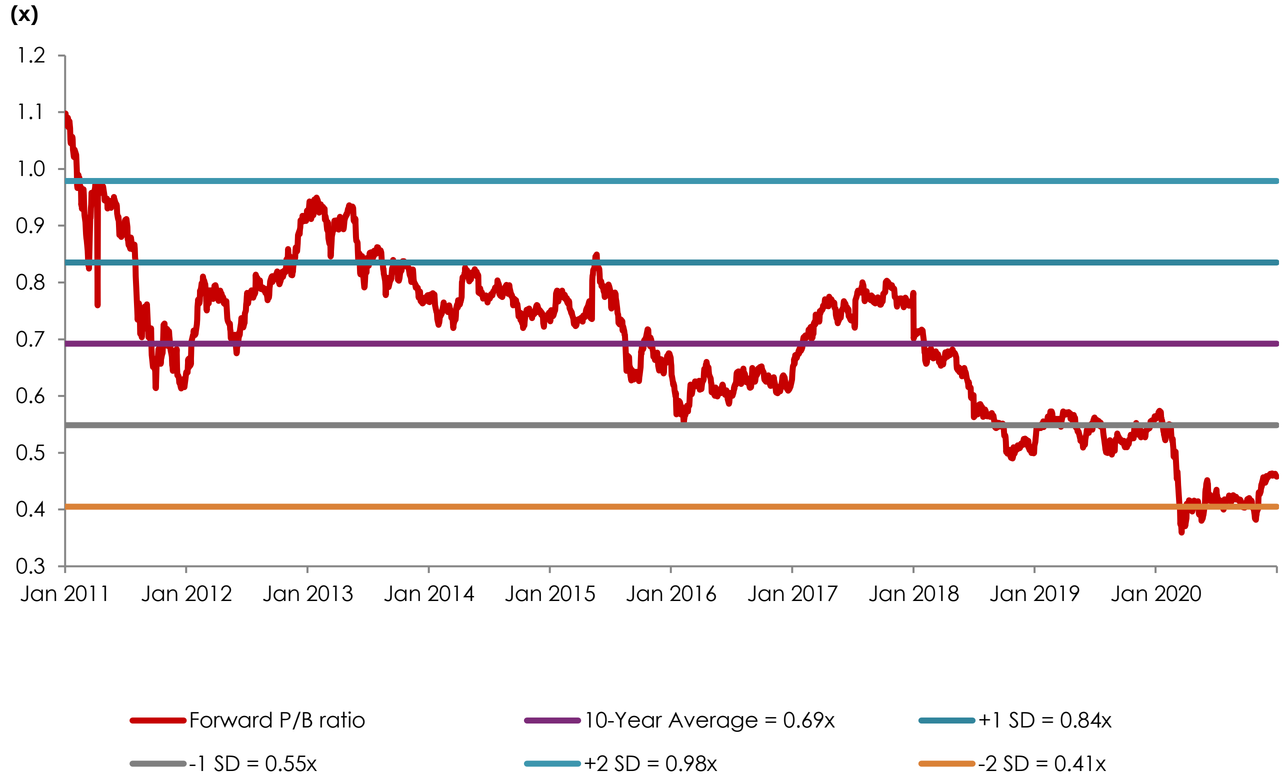
Source: URA, Internal estimates

Singapore developers re-rated over the past two months but valuations still cheap

The FTSE ST Real Estate Holdings and Development Index (FSTREH) underperformed in 2020 due to the negative impact from Covid-19, registering total returns of -16.1%, versus the STI's -8.1% return. However, the FSTREH outperformed the broader Singapore market slightly in the last two months of the year, delivering total returns of 19.0% from Nov to Dec (STI: 17.7%).

Despite the recent re-rating, valuations remain cheap, in our view. The FSTREH is trading at a forward P/B ratio of 0.46x, which is still 1.6 standard deviations (s.d.) below its 10-year average (0.69x). As we had highlighted in our previous report, we expect the path to recovery to be bumpy for developers, and any negative news over the Covid-19 situation would result in volatility in share prices. However, we remain **OVERWEIGHT** on Singapore developers as we see room for continued rotation into value and cyclical sectors which will benefit from the re-opening and normalisation in economic activities ahead. Our preferred sector top picks in order of preference are **CapitaLand Limited (CAPL SP)**, **UOL Group (UOL SP)** and **City Developments Limited (CDL) (CIT SP)**. For CDL, there continues to be some negative newsflow given the resignation of two Independent Non-Executive Directors. This follows from the earlier resignation of a Non-Executive and Non-Independent Director back in Oct last year. While details were scant, the key reason for the resignations appear to be over disagreements in relation to CDL's investment into Sincere Property Group (51.0% interest) in China. While we believe the concerns are valid, we believe management is taking the right steps to address the issues. Besides appointing Deloitte & Touche as an External Financial Advisor to evaluate its investment in Sincere, CDL also announced on 4 Jan that it has set up a special working group to improve the liquidity and profitability of Sincere. This would include potential asset divestments and restructuring of existing liabilities. We await further details from these efforts.

Exhibit 3: Forward P/B trend of FSTREH



Source: Bloomberg, Internal estimates

Exhibit 4: Preferred SG developer picks

Company	Share price (S$)	FY20F P/B	FY21F P/B	RNAV/ share (S$)	P/RNAV (x)	Discount to RNAV	Fair Value (S$)	Discount to RNAV applied	Rating
CapitaLand Limited	3.28	0.69	0.66	4.69	0.70	30.0%	3.75	20%	**BUY**
UOL Group	7.71	0.61	0.59	12.12	0.64	36.4%	8.48	35%	**BUY**
City Developments Limited	7.80	0.66	0.65	14.85	0.53	47.5%	9.65	30%	**BUY**

Source: Refinitiv, Internal estimates, as at 4 Jan 2021 closing prices

ANALYST DECLARATION:

For analysts' shareholding disclosure on individual companies, please refer to the latest reports of these companies.

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