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**LISTED PROPERTY COMPANIES IN MALAYSIA :
A COMPARATIVE PERFORMANCE ANALYSIS**

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Abstract

This paper measures and analyses the investment performance of listed property companies for the 1991 to 2000 period. The investment performance is compared with shares (represented by Kuala Lumpur Composite Index, EMAS Index, Second Board Index, the Property Trust and Plantation Sector Sub-indices) and direct residential property (represented by the Malaysian House Price Index).

The aims of this study are to determine :-

- (a) whether listed property companies achieved higher risk adjusted return than shares and direct investment in residential properties;*
- (b) whether listed property companies could offer portfolio diversification potential when included in an investment portfolio;*
- (c) whether listed property companies could act as substitute for direct residential property investments.*

The results show that on a broad sector basis, property shares represented by the Property Index do not perform better than shares on a risk adjusted basis. But selected individual property development company shares perform better than shares. For property investment company shares, the performance is mixed. Overall, listed property shares could not offer diversification possibilities due to high correlation with shares and do not act as substitutes to direct residential investment due to negative correlation.

Keywords : Listed property companies, Malaysian House Price Index,
risk-return analysis

1.0 Introduction

Since the property market recovery in 1988-89, the number of listed property companies have doubled in numbers on the Property Sector of the Kuala Lumpur Stock Exchange (KLSE). Despite the increase in the number of property companies, the market capitalisation of the Property Sector has increased by a mere 13.8% over 1989 (refer Figure 1). This is in contrast with the pre-currency crisis of RM57.8 billion market capitalisation of the Property Sector in 1996. Among the property asset intensive sectors, the market capitalisation of the Property Sector is about the same size as the Plantation Sector as at end 2000 (refer Figure 2). It is interesting to note that the market capitalisation of the Property Sector moves in tandem closely to that of the Plantation Sector.

Currently, there are 77 property companies listed on the KLSE. Most of these companies are active as property development companies carrying out housing development. Property shares are popular among investors particular small investors.

2.0 Brief Introduction to the Kuala Lumpur Stock Exchange

The predecessor of the KLSE is the Malayan Stock Exchange formed in 1960 which began public trading on 9th May 1960. With the termination of currency interchangeability between Malaysia and Singapore, the then Stock Exchange of Malaysia and Singapore (SEMS) was separated into Kuala Lumpur Stock Exchange Bhd. and the Stock Exchange of Singapore (SES). Despite the separation, Malaysian companies continued to be listed on SES and vice-versa.

Beginning 1st January 1990, Singapore incorporated companies including property companies and hotels were delisted from the KLSE and vice-versa.

Currently, the security industry in Malaysia is governed by the following acts :-

- (a) Securities Industry Act 1983,
- (b) Securities Industry (Central Depositories) Act 1991,
- (c) Securities Commission Act 1993,
- (d) Companies Act 1965.

The regulatory bodies responsible for the supervision and management of the securities industry are the Securities Commission, Registrar of Companies, Foreign Investment Committee, and the Kuala Lumpur Stock Exchange.

3.0 KLSE Listing Requirements for Property Companies

For the listing of property development companies, the KLSE requires the company to possess a minimum land bank of 1,000 acres (405 hectares). The company should have sufficient ongoing property development projects to be able to sustain reasonable earnings for at least five years after listing. Other listing requirements include an aggregate after-tax profit of not less than RM30 million for five full financial years.

These listing requirements inevitably made all new property companies de-facto property development companies.

Nevertheless, there are property investment companies in Malaysia in the form of listed property trusts. A property trust is an investment scheme organised in the form of a unit trust that pools the capital of a large number of investors in order to invest exclusively in real estate. Property trusts are introduced to provide a wider range of alternative investment instruments available to the Malaysian public and at the same time to deepen the local capital market.

4.0 Characteristics of Malaysian Listed Property Companies

Some of the pertinent characteristics are :-

(a) Township developers

The large capitalised property companies on the KLSE are mostly property development corporate entities that are involved in the development of residential townships. The size of these townships ranges from 500 acres and above. The development period may take about ten years or more.

Table 1 : Townships development by Listed Property Companies

Property companies	Townships
Sime UEP	UEP Subang Jaya, Putra Heights, Seafield Estate
IOI Properties	Puchong Jaya, Bandar Puteri
SP Setia	Pusat Bandar Puchong, Putrajaya
I & P	Bandar Kinrara
CHHB	Country Height
MK Land	Bandar Damansara Perdana, Bukit Merah Laketown
Talam Corporation	Bukit Sentosa, Saujana Puchong

(b) Development focus are in the Klang Valley and major cities

Property development activities are concentrated in major urban areas in Peninsular Malaysia i.e. Klang Valley, Putrajaya, Penang and Johor Bahru where there are high concentrations of population and employment opportunities.

(c) Developers of high and medium cost housing schemes

The townships are normally a mix of housing types ranging from low cost to high cost housing. During buoyant economic situations, developers would take advantage of the opportunity to launch high cost residential units. During slower economic growth period, developers would market medium cost housing.

Currently with the economic slowdown, property companies are now focused on the construction of medium cost housing (less than RM250,000 per unit) to cater for mass demand.

In the case of Sime UEP, the company has launched as many as 3,000 units during the peak property cycle. To be competitive, the houses are well designed with quality finishes, economical layout and comprehensive township development.

(d) Subsidiaries of plantation holding companies

Being subsidiaries of plantation companies enable the property development companies to have a steady supply of development land in the form of agricultural land from the parent companies and the establishment of land bank for future development.

(e) Small market capitalisation

The contribution of the Property Sector to the KLSE market capitalisation is small, about 4.4% at the end of year 2000.

It should be noted that there are conglomerates and well diversified corporate companies in other sectors of the KLSE which also holds considerable property interests such as the Trading/Services Sector (e.g. Berjaya Land, Boustead, Courts Mammoth, Jaya Jusco, Kinta Kellas, Metrojaya, Mulpha, Metroplex, Store Corporation and Pernas International) and in the Industrial Products sector (e.g. YTL and Lion Land). Thus the role property play in the KLSE market capitalisation is greater that of the Property Sector alone.

- (f) Few are property investment companies

Malaysia being an emerging market provides ample opportunities for property development. New entrants into the market are focused on property development. The infrastructure and framework for property investment are not well developed. Thus there are not many property investment companies and their property portfolios are not big.

Table 2 : Property investment companies and investment holdings

Property companies	Investment Properties
Selangor Property	Retail : Claremont Shopping Center, Perth Queen Street Mall, Brisbane Hotel : Wenworth Hotel, Kuala Lumpur (KL) Office : Kompleks Pejabat Damansara, KL Wisma Damansara, KL Wisma Perdana, KL
IGB	Retail : Mid Valley Megamall, KL Queen Victoria Building, Sydney Office : Plaza IGB, KL
Tan & Tan	Office : Menara Tan & Tan, KL Hotel : Micasa Service Apartments Sucasa Service Apartments
A P Land	Office : Empire Tower, KL Retail : City-Square Shopping Center, KL Hotel : Crown Princess, KL Hotel Fairlane, KL Ferringhi Beach Hotel, Penang Rushcutters Harbourside Hotel, Sydney
Lien Hoe	Retail : Lien Hoe Complex, KL Attria Shopping, Complex, Plaza Amada, Office : Menara Lien Hoe
Selangor Dredging	Office : Wisma Dredging, KL
UDA Holdings	Retail : BB Plaza, KL

(g) Thinness of trading of property shares on the KLSE.

Trading of property shares continue to be thin with a large majority of the counters with annual turnover of less than 50% of the listed share per year (refer Table 3).

Table 3 : Market capitalisation of top ten property companies in Malaysia
(as at 26.12.2000)

Property Companies	Listed shares ('000 units)	Par value (RM)	Market capitalisation (RM'000)	Annual turnover in 2000 ('000 units)	% of turnover (Turnover/no. of listed shares)
Sime Property	404,459	1.00	1,561,213	16,955	4.2
IOI Property	282,668	1.00	1,300,272	25,132	8.9
SP Setia	334,055	1.00	898,609	41,121	12.3
I & P	232,585	1.00	697,754	18,981	8.2
Country Height	275,699	1.00	689,249	135,087	49.0
Selangor Property	343,617	1.00	580,712	26,599	7.7
IGB	593,953	0.50	564,255	133,937	22.6
UM Land	231,634	1.00	555,922	1,076	0.5
MK Land	355,178	1.00	522,111	102,019	28.7
HL Prop	700,458	0.50	462,303	135,106	19.3

Source : Investors Digest, KLSE January 2001

4.0 Background to the Study

Liow (1997) examined Singapore property share returns for 1975 - 1995 and concluded that property share do not perform better than the stock market and performed poorer on a risk-adjusted basis. A more recent study by Liow (2000) concluded that direct properties in Singapore outperformed property stocks and the stock market on a risk adjusted basis. While these two studies are conducted on Singapore shares, there are few similar recent studies in the Malaysian context.

Neoh (1990) had made a study on five property stocks i.e. IGB, Bandar Raya, I & P, Sime Property and Pelangi for the 1981 to 1990 period and found the following :-

- (a) the average return on shareholders equity of these five companies was only 6.9%;
- (b) the average annual return is 1 to 4% per annum;
- (c) high variability of annual returns.

Neoh (ibid) attributed the poor stock performance to :-

- (a) Declining profit margin
The declining profit margin is on a declining trend for the past 10 years due to a maturing housing industry and a more competitive business environment;
- (b) Low asset turnover ratios
The asset turnover ratios of the property companies are low and are declining steadily due to the large land banks owned by the property companies.

Despite the poor performance of property shares, Neoh (ibid) is confounded by the popularity of property stocks among small investors and why new companies continue to join the property development bandwagon.

This paper updates on the comparative performance analysis of direct property, indirect property and shares.

5.0 Objectives of Study

The objectives of this paper are to examine :-

- (a) whether listed property companies achieved higher risk adjusted returns than shares and direct investment in residential properties;
- (b) whether listed property companies could offer portfolio diversification potential when included in an investment portfolio;
- (c) whether listed property companies could act as substitute for direct investment in residential property.

The first objective is answered by carrying out a risk-return analysis followed by the calculation of Sharpe Index. The second objective is answered by examining the correlation of returns between the listed property shares and Kuala Lumpur Composite Index, EMAS Index and Second Board Index. The third objective is answered by comparing the risks-returns and the correlation of returns of the listed property shares with the Malaysian House Price Index (MHPI).

The study covers a full property cycle. The property market recovers in 1989 from the 1986-87 recession. The property market downturn happens in 1998 after the currency crisis in 1997. Currently the property market still suffers from property oversupply and overhang particularly the commercial and high cost residential units.

6.0 Data Sources

Data on annual closing prices of the property sector and the related KLSE indices are obtained from the Investors Digest, a monthly publication of the Kuala Lumpur Stock Exchange. The Kuala Lumpur Composite Index (KLCI) is used as a proxy for the performance of large capitalisation stocks, while the EMAS Index represents the overall performance of the Kuala Lumpur Stock Exchange and the Second Board Index is used to represent small capitalisation stocks. Direct residential property investment is represented by the Malaysian House Price Index published by National Property Information Center (NAPIC).

The study period is from 1991 to 2000. The beginning period for the year 1991 is chosen as it coincides with the maximum period covering all the investment options to be compared. In order to allow comparisons with the MHPI, only year-end values and indices are used in this study as semi-annual MHPI are only available beginning June 1997.

To allow comparisons of performance, other property related shares/index i.e. listed property trusts and Plantation Sector Index are also included in the study.

In addition to the property and share indices, five property development companies and five property investment companies From the Property Sector are selected to further enhance the study. Property development companies are represented by Sime Property, IOI Property, SP Setia, I & P and Bandar Raya. Selected property investment companies are Selangor Property, IGB, Lien Hoe, Selangor Dredging and AP Land. These companies are selected based on its performance, reputation and its long listing history on the KLSE.

7.0 Risk-return analysis for the period 1991 to 2000

For the risk-return analysis, the returns are computed based on :-

$$R_t = (P_t - P_{t-1}) / P_{t-1}$$

where R_t = return for the period t

P_t = price of security at period t

P_{t-1} = price of security at previous period

Total return is not adopted as total return indices for shares and MHPI are not currently available.

Risk is measured by the standard deviation of the annual returns which quantifies the variability of the returns over time. The standard deviation provides a statistical summary of the dispersion of the assets return.

An analysis of the annual risks and returns are carried out and the results are shown in Table 4. To provide a meaningful assessment of the performances of the various investment options, the Sharpe Index has been used as an index of performance for risk adjusted returns :-

$$\text{Sharpe index} = \frac{\uparrow - R_f}{s}$$

where \uparrow = average return for investment option

R_f = average risk free return

s = risk for investment option

The risk free return of 8.35% for the Sharpe Index is based on the average coupon rate of the Malaysian Government Securities for the same period. By using on the Sharpe indices, investment options are able to be ranked on risk adjusted performance.

8.0 Analysis of Results

8.1 Overall performance

Table 4 shows the Sharpe Index and risk adjusted ranking for the investment options. The result shows property development companies performs better than property investment companies and listed property trusts.

Property development shares have performed reasonably well with IOI Property and Sime Property having the best risk-adjusted performance compared with other investment options.

Table 4 : Average annual risks and returns of investment options (1991 – 2000)

Investments Options	Average Annual Return (%)	Annual Risk (%)	Sharpe Index	Risk adjusted ranking	Risk/Return Ratio
<u>Property Development Companies</u>					
Sime Prop	18.86	55.90	0.188	2	2.96
I & P	5.77	46.87	-0.055	17	8.12
IOI Prop	57.21	142.06	0.344	1	2.48
HL Prop	32.17	142.21	0.168	5	4.42
Bandar Raya	21.02	80.64	0.157	6	3.84
<u>Property Investment Companies</u>					
Selangor Prop.	8.29	38.24	-0.002	15	4.61
IGB	3.90	43.98	-0.101	19	11.28
Lien Hoe	27.17	147.46	0.128	8	5.43
Selangor Dredging	18.35	102.16	0.098	9	5.57
AP Land	14.07	66.23	0.086	10	4.71
<u>Listed Property Trusts</u>					
AMFPT	7.75	59.22	-0.010	16	7.64
FMPT	25.01	129.29	0.129	7	5.17
AHP	38.90	181.54	0.168	4	4.67
<u>Shares</u>					
KLCI	9.57	40.38	0.03	13	4.22
EMAS Index	11.47	51.96	0.06	12	4.53
Second Board Index	19.78	63.68	0.179	3	3.22
Property Sector	9.90	71.52	0.022	14	7.23
Plantation Sector	14.34	73.64	0.081	11	5.14
<u>Direct Residential Property</u>					
Malaysian House Price Index	7.65	10.12	-0.069	18	1.32

Compared to the broad stock market performance, several of the individual property development companies (i.e. IOI Property, Sime Property and HL Prop. and Bandar Raya) and investment companies (i.e. Lien Hoe, Selangor Dredging and AP Land) have performed better than shares.

But compared on a overall basis, the property sector represented by the Property Index do not perform better than shares represented by KLCI, EMAS Index and Second Board Index.

8.2 Correlation

Table 5 shows the correlation matrix for all the investment options. For the period of analysis, property shares and the property index show a high positive correlation with the stock market (i.e. EMAS Index), large cap shares (i.e. KLCI) and with correlation coefficients greater than 0.70.

Thus property shares could not offer portfolio diversification potential when incorporated in a share portfolio due to its high positive correlation with the stock market returns.

Property shares also have high returns correlation with each other and with the Property Index.

Also, listed property shares cannot be viewed as substitutes for conventional direct investment in residential property as exhibited by the low negative correlation coefficient between listed property shares and MHPI returns.

Limitations of study

Currently there is no commercial property indices being developed in Malaysia. The lack of such property performance measures hampers any analysis that compares the performance of listed property shares with direct commercial property investments (i.e. office, retail and hotel) in commercial properties.

The results of the performance analysis have been constrained by the lack of a higher frequency Malaysian House Price Index. The results of the analysis could have exhibited a higher volatility on risk and returns due to the data used is based on an annual basis.

Further during the study period from 1991 to 2000, there was an episode of over-speculation in the KLSE from December 1993 to February 1994. This has lead to highly excessive returns for the property shares with a monthly (Dec.1993) return of 70% to 436%. As a result of the speculation, the risk-return profiles of the listed property shares could have been distorted.

9.0 Conclusions

Selected property development and investment company shares is found to perform better than shares on a risk adjusted basis. However overall property shares represented by the Property Sector Index do not perform better than shares.

The listed property shares do not offer portfolio diversification when included in an equity investment portfolio due to its high correlation with shares. Also property shares do not act as substitute to direct residential investment due to its low negative correlation.

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