Property sector set for modest second-quarter earnings recovery

PETALING JAYA: Property developers in Malaysia are expected to see a modest earnings recovery sequentially in the second quarter of financial year 2026 (2Q26) corporate earnings period, according to MBSB Research.

The improvement is expected to be driven by a pick up in new property sales, thus providing better visibility on future earnings.

Rising construction and operating costs remain a key concern, with inflationary pressures likely to weigh on margins, the research house stated in a sector report.

Earnings growth is expected to be modest, reflecting a cautious outlook for the remainder of 2026 for the sector.

Recent data on loan approvals and demand trends reinforce this neutral stance of MBSB Research.

It noted total loan applications for property purchases in June were flattish at RM56.6bil (0.1% month-on-month or m-o-m), following a sharp decline in May.

On a year-on-year (y-o-y) basis, applications rose 7.8%, bringing cumulative first half of financial year 2026 (1H26) applications to RM319.6bil (2.5% y-o-y).

Bank Negara Malaysia data showed approved loans for June amounted to RM24.1bil (0.1% m-o-m, 7.8% y-o-y), with cumulative 1H26 approvals at RM134.9bil (plus 1.2% y-o-y). The loan approval ratio remained steady at 42.5%, suggesting buying sentiment is lukewarm amid higher living cost pressures.

This points to a sector that is stable but lacking strong catalysts for growth, MBSB Research noted.

"Overall, we expect a neutral earnings outlook for developers, with better sequential earnings in 2Q26 but largely flattish earnings for the full year," the research house stated in the report.

It maintained a "neutral" call on the property sector, noting while earnings are expected to remain stable, cost pressures and softer sentiment may cap upside.

MBSB Research's top picks are Matrix Concepts Holdings Bhd, IOI Properties Group Bhd (IOIPG) and Mah Sing Group Bhd.

It has a "buy" call on Matrix with a target price (TP) of RM1.55 a share, supported by expected FY27 earnings recovery and a compelling 6.1% dividend yield.

MBSB Research likes IOIPG ("buy", TP: RM4.64), as the company is positioned to unlock value through land monetisation and the proposed listing of properties in a real estate investment trust form. Mah Sing ("buy", TP: RM1.25) is also a top pick due to its focus on affordable housing and potential land sales to support earnings.