

24 August 2018 | 2QFY18 Results Review

## S P Setia Berhad

*Lower earnings in 1HFY18*

### INVESTMENT HIGHLIGHTS

- **1HFY18 earnings below expectations**
- **Lower earnings in 1HFY18**
- **New sales of RM2.1b in 1HFY18**
- **Earnings forecast reduced**
- **Downgrade to Neutral with a revised TP of RM3.10**

**1HFY18 earnings below expectations.** S P Setia 1HFY18 core net income of RM108.4m came in below expectations, meeting only 17% and 18% of our and consensus' full year estimates respectively. The variance was mainly attributed to the slower-than-expected progress billing of local projects. Dividend of 4 sen per share was announced.

**Lower earnings in 1HFY18.** S P Setia recorded core net income of RM64.6m (-75.3%yoy) in 2QFY18, bringing cumulative core net income to RM108.4m (-71.1%yoy) in 1HFY18. Note that we have excluded mainly RM343.8m one-off provisional fair value gain arising from remeasurement of equity stake in Setia Federal Hill Sdn Bhd. Core net income in 1HFY18 fell by 71.1%yoy as substantial large development phases of local projects namely Setia Eco Templer, Trio by Setia and Setia EcoHill2 are still at early stage of construction. Meanwhile, unbilled sales increased to RM8.12b in 2QFY18 from RM7.95b in 1QFY18, providing earnings visibility for 1.8 years.

**New sales of RM2.1b in 1HFY18.** S P Setia recorded new sales of RM1b in 2QFY18, bringing total new sales to RM2.1b in 1HFY18. Local projects contributed 67% of total new sales in 1HFY18 while the remaining 33% new sales were from international project. New sales in 1HFY18 make up 42% of management FY18 new sales target of RM5b. Looking ahead, S P Setia targets to launch projects with total GDV of RM4.05b in 2HFY18. Launches in 2HFY18 will be continue on the local market with emphasis given to the launches of mid-range landed properties in the Klang Valley with combined GDV of RM2.23b. Hence, management remains positive of achieving its sales target of RM5b.

**Downgrade to NEUTRAL**  
**(Previously BUY)**  
**Revised Target Price: RM3.10**  
**(Previously RM3.69)**

RETURN STATS	
Price (23 Aug 2018)	RM2.93
Target Price	RM3.10
Expected Share Price Return	5.8%
Expected Dividend Yield	3.2%
<b>Expected Total Return</b>	<b>9.0%</b>

STOCK INFO	
KLCI	1,810.87
Bursa / Bloomberg	8664 / SPSB MK
Board / Sector	Main / Properties
Syariah Compliant	Yes
Issued shares (mil)	3,889.85
Market cap. (RM'm)	11,469
Price over NA	0.96
52-wk price Range	RM2.77 - RM4
Beta (against KLCI)	1.12
3-mth Avg Daily Vol	2.24m
3-mth Avg Daily Value	RM6.78m
Major Shareholders (%)	
YAYASAN PELABURAN BUMIPUTERA	25.65%
SKIM ASB	24.10%
EPF	9.87%
KWAP	7.71%

**Downgrade to Neutral with a revised TP of RM3.10.** We revise downwards our FY18/19F earnings forecast by 29%/14% to factor in the slower-than-expected progress billing of local projects. We revise our TP for S P Setia to RM3.10 from RM3.69 as we widen our RNAV discount to 30% from 20% in view of the weak earnings visibility in near-term. We downgrade our call on S P Setia to Neutral from Buy due to the weak earnings outlook and limited upside.



## INVESTMENT STATISTICS

FYE Oct	FY15A	FY16A	FY17A	FY18F	FY19F
Revenue	6,746	4,957	4,520	4,194	4,807
Core EBIT	1,643	1,187	1,006	1,017	825
Core PBT	1,428	1,141	1,149	703	764
Net Income	918	808	933	465	520
Core Net Income	920	764	810	465	520
EPS (sen)	35.66	29.82	27.27	12.97	15.19
Core EPS (sen)	35.72	28.19	23.69	12.97	15.19
Net DPS (sen)	23.00	20.00	15.50	9.50	13.3
Net Dvd Yield	7.8%	6.8%	5.3%	3.2%	4.6%
Core PER	8.2	10.4	12.4	22.6	19.3
NTA/share (RM)	2.81	2.83	3.49	3.53	3.59
P/NTA	1.04	1.04	0.84	0.83	0.82
Core ROE	12.4%	8.3%	6.8%	3.8%	4.2%
Core ROA	5.6%	4.1%	2.9%	1.7%	1.9%

Source: Company, MIDF Research

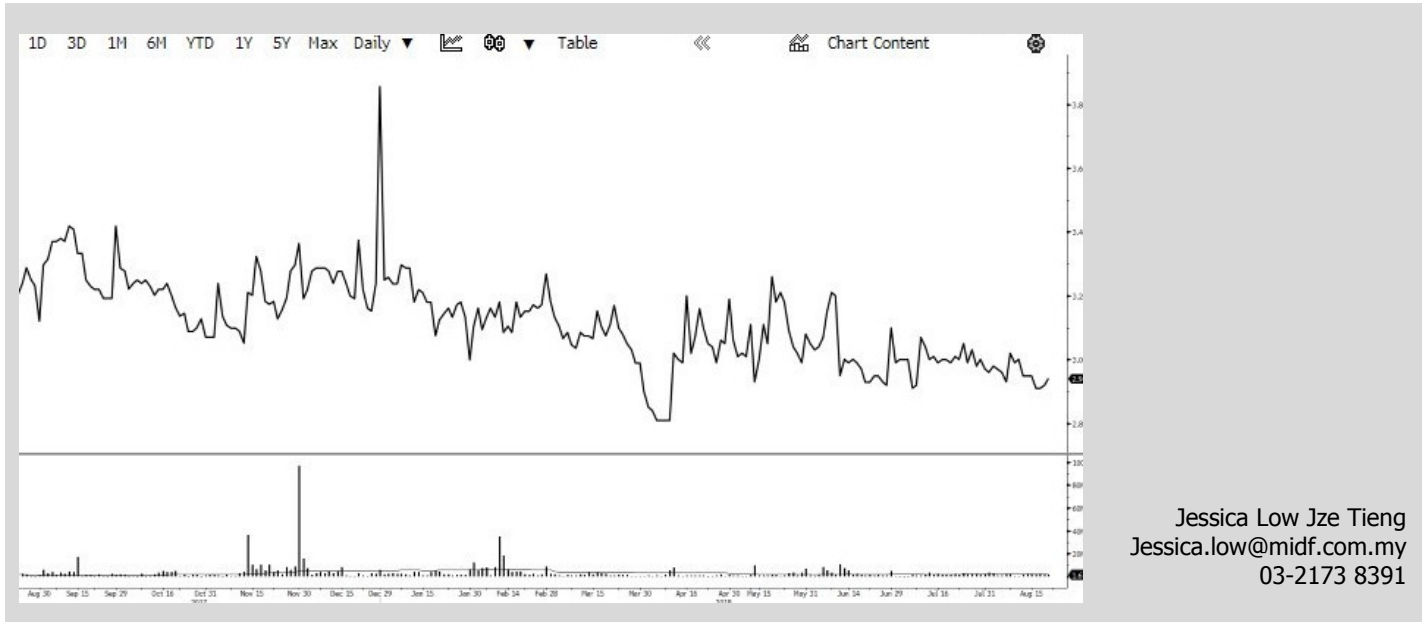
\*Financial Year End October

\*\*FY15 reflects 14 months period (Nov-2014 to Dec-2015)

## 2QFY18 Results Summary

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	2QFY18	%YoY	%QoQ	FY18	%YoY
Revenue	926.0	6.9%	41.3%	1581.5	-16.5%
Core EBIT	232.4	16.8%	67.6%	371.0	-12.0%
Core PBT	156.9	-35.9%	104.6%	233.6	-45.8%
Net Income	442.7	76.7%	620.1%	504.2	39.0%
Core Net Income	64.6	-75.3%	47.5%	108.4	-71.1%
EPS (sen)	11.48	61.6%	573.9%	13.2	28.2%
Core EPS (sen)	1.68	-77.4%	38.1%	2.9	-72.8%
Net DPS (sen)	4.00	0.0%	NA	4.0	0.0%
NTA/share (RM)	3.64	NA	NA	3.6	NA
Net Gearing (x)	0.44	NA	NA	0.4	NA
Core EBIT Margin	25.1%	NA	NA	23.5%	NA
Core PBT Margin	16.9%	NA	NA	14.8%	NA

## DAILY PRICE CHART



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Source: Bloomberg

## SPSETIA RNAV

Landbank/Buildings	Location	Remaining GDV (RM m)	Methodology	Stake	Value (RM m)
<b>Ongoing Projects - Malaysia (Central)</b>					
Setia Alam	Shah Alam, Selangor	1110	DCF @ WACC 9%	100%	175.6
Setia EcoHill	Semenyih, Selangor	599	DCF @ WACC 9%	100%	94.8
Setia Walk	Puchong, Selangor	20	DCF @ WACC 9%	100%	3.2
Setia Sky Residences	Kuala Lumpur	235	DCF @ WACC 9%	100%	37.2
Putrajaya	Putrajaya	110	DCF @ WACC 9%	60%	10.4
Setia Eco Park	Shah Alam, Selangor	115	DCF @ WACC 9%	50%	9.1
Setia Eco Glades	Cyberjaya, Selangor	276	DCF @ WACC 9%	70%	30.6
KL Eco City	Kuala Lumpur	1356	DCF @ WACC 9%	100%	214.6
Bangi	Selangor	2740	DCF @ WACC 9%	100%	286.0
<b>Ongoing Projects - Malaysia (Johor)</b>					
Bukit Indah	Johor	236	DCF @ WACC 9%	100%	37.3
Setia Tropika	Johor	89	DCF @ WACC 9%	100%	14.1
Setia Indah	Johor	39	DCF @ WACC 9%	100%	6.2
Setia Eco Gardens	Johor	90	DCF @ WACC 9%	70%	10.0
Setia Eco Cascadia	Johor	126	DCF @ WACC 9%	100%	19.9
Setia Sky 88	Johor	248	DCF @ WACC 9%	100%	39.2

## Ongoing Projects - Malaysia (Others)

Project Name	Location	Size (ac)	DCF @ WACC 9%	Stake	Value (RM m)
Setia Pearl Island	Bayan Lepas, Penang	138	21.8	100%	21.8
Setia Greens	Bayan Lepas, Penang	179	28.3	100%	28.3
11 Brook Residences	Georgetown, Penang	48	5.3	70%	5.3
Setia V Residences	Penang	210	33.2	100%	33.2
Aeropod	Kota Kinabalu, Sabah	171	27.1	100%	27.1

## Ongoing Projects - International

Project Name	Location	Size (ac)	DCF @ WACC 9%	Stake	Value (RM m)
Battersea	London, UK	3602	250.6	40%	250.6
Fulton Lane	Melbourne, Australia	382	115.2	100%	115.2
Parque	Melbourne, Australia	695	175.2	100%	175.2
A'Beckett	Melbourne, Australia	1370	225.5	100%	225.5
18 Woodsville	Singapore	104	16.9	100%	16.9
Eco Sanctuary	Singapore	659	107.2	100%	107.2
Toh Tuck Land	Singapore	1462	103.7	100%	103.7
Eco Lakes	Vietnam	18	3.0	100%	3.0
Eco Xuan	Vietnam	14	2.4	100%	2.4

## Remaining Landbank - Malaysia (Central)

Project Name	Location	Size (ac)	Size (Sq ft)	Price (RM/sqft)	Stake	Value (RM m)
Setia Alam	Shah Alam, Selangor	732	31,885,920	65	100%	2080.6
Setia City	Shah Alam, Selangor	91	3,963,960	62	100%	243.8
Setia Eco Park	Shah Alam, Selangor	305	13,294,512	62	50%	408.8
Setia Eco Glades	Cyberjaya, Selangor	145	6,307,488	73	70%	321.8
Setia EcoHill 1 and 2	Semenyih, Selangor	1435	62,508,600	30	100%	1875.3
Setia Eco Templer	Petaling Jaya, Selangor	195	8,494,200	261	100%	2217.0
KL Eco City	Kuala Lumpur	11	479,160	400	100%	191.7
Setia Sky Seputeh	Kuala Lumpur	5	217,800	315	100%	68.6
Setia Federal Hill	Bangsar, Kuala Lumpur	52	2,265,120	460	100%	1042.0
British High Commission	Kuala Lumpur	3	130,680	2,200	100%	287.5
Kenny Hills Grande	Kuala Lumpur	6	261,360	273	100%	71.4
Putrajaya	Kuala Lumpur	161	7,013,160	42	60%	176.7

## Remaining Landbank - Malaysia (Johor)

Bukit Indah	Johor Bahru, Johor	80	3,484,800	30	100%	104.5
Setia Indah	Johor Bahru, Johor	10	435,600	50	100%	21.6
Setia Tropika	Johor Bahru, Johor	157	6,838,920	36	50%	123.1
Setia Eco Gardens	Gelang Patah, Johor	298	12,980,880	30	100%	389.4

Setia Eco Cascadia	Johor Bahru, Johor	101	4,399,560	50	100%	218.2
Setia Business Park II	Gelang Patah, Johor	98	4,268,880	30	100%	128.1
<b>Remaining Landbank - Malaysia (Others)</b>						
Setia Pearl Island	Bayan Lepas, Penang	21	914,760	200	100%	183.0
Setia Greens	Bayan Lepas, Penang	6	261,360	200	100%	52.3
Setia Eco Forest	Tg. Bungah, Penang	35	1,524,600	145	100%	221.6
Setia Raintrees Residences	Balik Pulau, Penang	21	914,760	31	100%	28.4
Setia Sky Vista	Relau, Penang	19	827,640	200	100%	165.5
Jelutong	Penang	9	392,040	200	100%	78.4
Setia Sky Hill	Taman Sri Nibong, Penang	4	174,240	104	100%	18.1
Setia Sky Cube	Teluk Kumbar, Penang	3	130,680	51	100%	6.7
Balik Pulau	Penang	9	392,040	33	100%	12.9
SPICE	Penang	3	130,680	100	100%	13.1
Bukit Dumbar	Penang	6	261,360	450	100%	117.6
Aeropod	Tanjong Aru, Sabah	38	1,655,280	60	100%	100.0
<b>Remaining Landbank - International</b>						
Battersea	London, UK	29	1,263,240	1,231	40%	621.8
EcoXuan	Lai Thieu, Vietnam	11	479,160	43	95%	19.7
EcoLakes	My Phuoc, Vietnam	511	22,259,160	7	55%	87.3
Market Value of I&P Land		4276	186,262,560	33	100%	6146.7
<b>Total Landbank Value</b>						<b>19946.8</b>
Investment Properties						1016.0
Fixed Assets						271.5
Cash						3031.0
Other Assets						1925.3
Total Liabilities (excl. deferred tax liabilities & construction related payables)						-8433.7
Cash paid to acquire I&P						-3650.0
<b>RNAV before RCPS-I (RM m)</b>						<b>14106.8</b>
No of shares (m)						2853.6
<b>RNAV per share before RCPS-I (RM)</b>						<b>4.94</b>
Discount						10%
<b>FD RNAV per share before RCPS-I(RM)</b>						<b>4.45</b>
Cash to be raised (RCPS-i)						1069.69
RCPS-i @ RM1 each (maximum scenario)						305.62

Cash to be raised (RCPS-I B)	1199.57
RCPS-i B @ RM0.89 each (maximum scenario)	299.52
Cash to be raised (Rights Issue)	1196.21
No of shares from Rights Issue	421.20
Cash to be raised (Placement)	1199.90
No of shares from Placement	355.00
<b>RNAV after RCPS-I, RCPS-IB, Rights Issue and Placement</b>	<b>18772.1</b>
Fully Diluted No Of Shares	4234.94
<b>RNAV per share after RCPS-I, RCPS-IB and Rights Issue (RM)</b>	<b>4.43</b>
Discount	30%
<b>FD RNAV per share after RCPS-I and Rights Issue (RM)</b>	<b>3.10</b>

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.