

15 November 2018 | 3QFY18 Results Review

S P Setia Berhad

Value emerged

Upgrade to BUY
(Previously NEUTRAL)
Revised Target Price: RM2.66
(Previously RM3.10)

INVESTMENT HIGHLIGHTS

- **9MFY18 earnings below expectations**
- **Earnings dragged by low progress billing**
- **New sales of RM3.2b in 9MFY18**
- **Upgrade to BUY with a revised TP of RM2.66**

9MFY18 earnings below expectations. S P Setia 9MFY18 core net income came in below expectations, meeting only 40% and 37% of our and consensus full year estimates. Earnings were below expectations in 3QFY18 as acceleration of local projects progress billing was weaker than expected in 3QFY18.

Earnings dragged by low progress billing. On sequential basis, 3QFY18 core net income inched up by 17.9%qoq to RM76.2m mainly due to acceleration of local projects billing. However, the momentum of acceleration was weaker than expected. That brought cumulative income to RM184.6m (-74.9%yoy) in 9MFY18. 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 in our core net income calculations. The weaker earnings in 9MFY18 were due to lower progress billing as substantial large development phases of local projects are still at early stage of construction. The lower earnings in 9MFY18 were also due to high base in 9MFY17 whereby earnings in 9MFY17 were boosted by significant contribution of Phase 1 of the Battersea Power Station. Meanwhile, unbilled sales decreased slightly to RM7.92b in 3QFY18 from RM8.12b in 2QFY18, providing earnings visibility for 1.7 years.

New sales of RM3.2b in 9MFY18. S P Setia registered new property sales of RM1.1b in 3QFY18, higher than new sales of RM1b in 2QFY18. That brought total new sales to RM3.2b in 9MFY18, making up 64% of management new sales target of RM5b for FY18. Local projects contributed 72% of total new sales in 9MFY18 while the remaining 28% new sales were from international projects. Looking ahead, S P Setia targets to launch projects with total GDV of RM1.6b in 4QFY18. Upcoming launches will continue to focus on mid-range landed properties in the Klang Valley. Hence, management remains committed to meet its sales target of RM5b.

RETURN STATS	
Price (14 Nov 2018)	RM2.01
Target Price	RM2.66
Expected Share Price Return	32.3%
Expected Dividend Yield	3.5%
Expected Total Return	35.8%

STOCK INFO	
KLCI	1,688.41
Bursa / Bloomberg	8664 / SPSB MK
Board / Sector	Main / Properties
Syariah Compliant	Yes
Issued shares (mil)	3,889.85
Market cap. (RM'm)	7,953
Price over NA	0.96
52-wk price Range	RM2 - RM4
Beta (against KLCI)	1.09
3-mth Avg Daily Vol	2.12m
3-mth Avg Daily Value	RM5.23m
Major Shareholders (%)	
YAYASAN PELABURAN BUMIPUTERA	25.71%
SKIM ASB	24.16%
EPF	10.33%
KWAP	7.64%

Upgrade to BUY with a revised TP of RM2.66. We revise downwards our FY18/19F earnings forecast by 34%/24% to factor in the slower-than-expected progress billing of local projects. We also revise our TP for S P Setia to RM2.66 from RM3.10 as we widen our RNAV discount to 40% from 30%. Despite the weak earnings visibility in near-term, we upgrade our call on S P Setia to Buy from Neutral as we see value emerged following the recent decline in share price. Valuation of S P Setia is undemanding, trading at 45% discount to NTA per share of RM3.63. Besides, management expects the sale of commercial assets of Battersea Power Station – Phase 2 to PNB and EPF to be finalised imminently.

INVESTMENT STATISTICS

FYE Oct	FY15A	FY16A	FY17A	FY18F	FY19F
Revenue	6,746	4,957	4,520	3,661	4,248
Core EBIT	1,643	1,187	1,006	775	643
Core PBT	1,428	1,141	1,149	461	582
Net Income	918	808	933	305	396
Core Net Income	920	764	810	305	396
EPS (sen)	35.66	29.82	27.27	8.65	11.57
Core EPS (sen)	35.72	28.19	23.69	8.65	11.57
Net DPS (sen)	23.00	20.00	15.50	7.00	8.00
Net Dvd Yield	11.4%	10.0%	7.7%	3.5%	4.0%
Core PER	5.6	7.1	8.5	23.2	17.4
NTA/share (RM)	2.81	2.83	3.49	3.52	3.56
P/NTA	0.72	0.71	0.58	0.57	0.56
Core ROE	12.4%	8.3%	6.8%	2.5%	3.2%
Core ROA	5.6%	4.1%	2.9%	1.1%	1.4%

Source: Company, MIDF Research

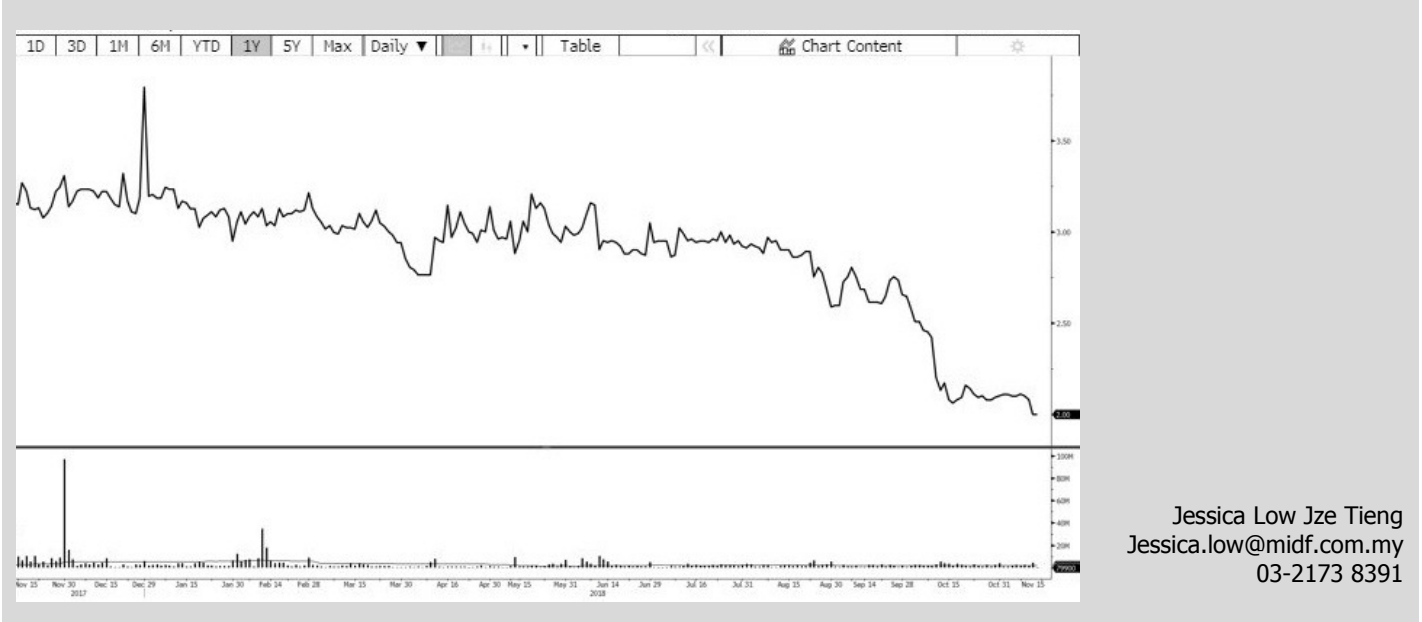
*Financial Year End October

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

3QFY18 Results Summary

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	3QFY18	%YoY	%QoQ	FY18	%YoY
Revenue	993.0	-6.1%	7.2%	2574.5	-12.8%
Core EBIT	243.2	-28.3%	4.6%	614.2	-19.3%
Core PBT	168.0	-64.3%	7.1%	401.6	-55.5%
Net Income	65.2	-81.3%	-85.3%	569.4	-20.0%
Core Net Income	76.2	-78.8%	17.9%	184.6	-74.9%
EPS (sen)	1.67	-83.1%	-85.4%	14.9	-26.4%
Core EPS (sen)	1.95	-80.8%	16.6%	4.8	-76.7%
Net DPS (sen)	0.00	NA	NA	4.0	NA
NTA/share (RM)	3.63	NA	NA	3.6	NA
Net Gearing (x)	0.44	NA	NA	0.4	NA
Core EBIT Margin	24.5%	NA	NA	23.9%	NA
Core PBT Margin	16.9%	NA	NA	15.6%	NA

DAILY PRICE CHART



Jessica Low Jze Tieng
 Jessica.low@midf.com.my
 03-2173 8391

Source: Bloomberg

SPSETIA RNAV

Landbank/Buildings	Location	Remaining GDV (RM m)	Methodology	Stake	Value (RM m)
Ongoing Projects - Malaysia (Central)					
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
Ongoing Projects - Malaysia (Johor)					
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)						
Setia Pearl Island	Bayan Lepas, Penang	138	DCF @ WACC 9%	100%	21.8	
Setia Greens	Bayan Lepas, Penang	179	DCF @ WACC 9%	100%	28.3	
11 Brook Residences	Georgetown, Penang	48	DCF @ WACC 9%	70%	5.3	
Setia V Residences	Penang	210	DCF @ WACC 9%	100%	33.2	
Aeropod	Kota Kinabalu, Sabah	171	DCF @ WACC 9%	100%	27.1	
Ongoing Projects - International						
Battersea	London, UK	3602	DCF @ WACC 9%	40%	250.6	
Fulton Lane	Melbourne, Australia	382	DCF @ WACC 9%	100%	115.2	
Parque	Melbourne, Australia	695	DCF @ WACC 9%	100%	175.2	
A'Beckett	Melbourne, Australia	1370	DCF @ WACC 9%	100%	225.5	
18 Woodsville	Singapore	104	DCF @ WACC 9%	100%	16.9	
Eco Sanctuary	Singapore	659	DCF @ WACC 9%	100%	107.2	
Toh Tuck Land	Singapore	1462	DCF @ WACC 9%	100%	103.7	
Eco Lakes	Vietnam	18	DCF @ WACC 9%	100%	3.0	
Eco Xuan	Vietnam	14	DCF @ WACC 9%	100%	2.4	
Remaining Landbank - Malaysia (Central)						
		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 Bangsar, Kuala Lumpur	5	217,800	315	100%	68.6
Setia Federal Hill	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
Remaining Landbank - Malaysia (Others)						
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
Remaining Landbank - International						
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
Total Landbank Value						19946.8
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
RNAV before RCPS-I (RM m)						14106.8
No of shares (m)						2853.6
RNAV per share before RCPS-I (RM)						4.94
Discount						10%
FD RNAV per share before RCPS-I(RM)						4.45
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
RNAV after RCPS-I, RCPS-IB, Rights Issue and Placement	18772.1
Fully Diluted No Of Shares	4234.94
RNAV per share after RCPS-I, RCPS-IB and Rights Issue (RM)	4.43
Discount	40%
FD RNAV per share after RCPS-I and Rights Issue (RM)	2.66

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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.