



S P Setia Berhad

(8664 | SPSB MK) Main | Property

Maintain BUY

Earnings Dragged by High Tax Rate

Revised Target Price: RM1.08
(Previously RM1.25)

KEY INVESTMENT HIGHLIGHTS

- **9MFY23 earnings below expectations**
- **Earnings dragged by high tax rate**
- **9MFY23 new sales at RM3.89b**
- **Earnings forecast revised downwards**
- **Maintain BUY with a revised TP of RM1.08**

9MFY23 earnings below expectations. S P Setia Berhad 9MFY23 core net earnings of RM153.5m came in below expectations, making up 56% and 53% of our and consensus full year estimates respectively. The negative deviation was due to the high tax rate in 3QFY23.

Earnings dragged by high tax rate. Sequentially, 3QFY23 core net income was lower at RM42.9m (-29%qoq) despite higher topline (+14.5%qoq) mainly due to the high tax rate of 53.7% in 3QFY23 against tax rate of 51.6% in 2QFY23. The higher revenue in 3QFY23 was mainly due to earnings recognition of UNO Melbourne (Stage 2) which was handed over during the quarter. On yearly basis, 3QFY23 core net income was higher (+5.6%yoy), bringing cumulative 9MFY23 core net income to RM153.5m (-8.7%yoy). Earnings were lower due to (i) higher expenses, (ii) weaker contribution from joint ventures, (iii) higher finance cost following hike in OPR, and (iv) higher tax rate of 50.5% in 9MFY23 against tax rate of 30% in 9MFY22. Tax rate was high at in 9MFY23 due to certain non-tax-deductible expenses and non-recognition of deferred tax assets. Meanwhile, unbilled sales eased marginally to RM6.76b in 3QFY23 from RM6.82b in 2QFY23, proving earnings visibility for 1.5 years.

9MFY23 new sales at RM3.89b. S P Setia registered new sales of RM1.33b in 3QFY23, marginally lower than new sales of RM1.5b in 2QFY23. That brought total new sales in 9MFY23 to RM3.89b which is close to management new sales target of RM4.2b for FY23. New sales in 9MFY23 were mainly driven by local projects which contributed to 87% of total new sales. Meanwhile, S P Setia secured total booking of RM450m as of September 2023, which should sustain new sales momentum going forward.

Land disposal in Setia City. On a separate note, S P Setia announced disposal of 17.99 acres of land in Setia City to KSL Bestari Sdn Bhd for a total consideration of RM228.8m. The land disposal is part of S P Setia asset monetisation exercise and to unlock the value of its landbank. S P Setia is expected to realise disposal gain of RM140.6m from the disposal. Meanwhile, proceed from the disposal is expected to be utilised for funding of new projects and to pare down gearing. Net gearing is expected to improve to 0.56x from 0.57x in 3QFY23 post disposal of land. The land disposal is expected to complete in 2QFY24.

RETURN STATISTICS

Price @ 23 rd Nov 2023 (RM)	0.845
Expected share price return (%)	+27.8
Expected dividend yield (%)	1.9
Expected total return (%)	+29.7

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-3.4	-4.4
3 months	-18.0	3.4
12 months	49.6	48.6


INVESTMENT STATISTICS

FYE Dec	2023E	2024F	2025F
Revenue	4,206	4,150	4,155
Operating Profit	573	715	666
Profit Before Tax	395	434	488
Core PATAMI	225	281	340
Core EPS	5.77	7.22	8.72
DPS	1.60	1.65	1.80
Dividend Yield	1.89%	1.95%	2.13%

KEY STATISTICS

FBM KLCI	1,453.29
Issue shares (m)	4,067.98
Estimated free float (%)	24.57
Market Capitalisation (RM'm)	3,509
52-wk price range	RM0.51-RM1.06
3-mth average daily volume (m)	16.21
3-mth average daily value (RM'm)	14.75
Top Shareholders (%)	
Amanah Saham Nasional Bhd	34.22
Yawasan Pelaburan Bumiputra	25.53
KWAP	9.63

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Maintain BUY with a revised TP of RM1.08. We revise our earnings forecast for FY23F/24F/25F by -18%/-11%/-7% to factor in the higher expenses and higher tax rate. Nevertheless, earnings in 4QFY23 is expected to pick up mainly due to contribution from UNO Melbourne (Stage 2). We revise our **TP** for S P Setia from RM1.25 to **RM1.08** as we update our RNAV figures and also narrowed RNAV discount to 75% from 70% in view of the weaker earnings visibility. Nevertheless, we maintain our **BUY** call on S P Setia as valuation of S P Setia remains undemanding, trading at steep 76% discount to NTA per share of RM3.48. Besides, balance sheet of S P Setia is expected to improve due to the active asset monetisation. 

SPSETIA: 3QFY23 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	3QFY23	%YoY	%QoQ	FY23	%YoY
Revenue	1079.4	25.4%	14.5%	2989.8	8.9%
Core EBIT	236.8	40.1%	-5.8%	806.2	52.2%
Core PBT	126.8	45.6%	-7.7%	486.2	51.8%
Net Income	51.8	-26.2%	20.3%	150.3	-31.0%
Core Net Income	42.9	5.6%	-29.0%	153.5	-8.7%
EPS (sen)	1.27	-26.3%	20.4%	3.7	-31.1%
Core EPS (sen)	1.05	5.4%	-29.0%	3.8	-8.7%
Net DPS (sen)	0.00	NA	NA	0.0	NA
NTA/share (RM)	3.484	NA	NA	3.5	NA
Net Gearing (x)	0.57	NA	NA	0.6	NA
Core EBIT Margin	21.9%	NA	NA	27.0%	NA
Core PBT Margin	11.7%	NA	NA	16.3%	NA

Figure 1: Location of land (disposal to KSL)



Source: Company

S P SETIA RNAV

S P Setia RNAV				
	Stake	Est remaining GDV (RM m)	WACC (%)	Value (RM m)
Projects				
Setia Alam	100%	1006.61	10%	62.53
Setia City	100%	8961	10%	407.47
Setia Alaman	100%	4177.98	10%	206.85
Setia Ecohill	100%	1883	10%	111.60
Setia Ecohill 2	100%	1883	10%	263.79
Glengowrie	100%	2160	10%	83.63
Setia Mayuri	100%	740.98	10%	46.03
Setia Eco Park	50%	1860	10%	42.29
Precinct Arundina @ Setia Eco Park	100%	230	10%	14.29
Setia Eco Glades	70%	853	10%	32.29
Setia Safiro	70%	784	10%	31.06
Setia Eco Templer	100%	833	10%	47.14
Setia Warisan Tropika	100%	558	10%	30.18
KL Eco City	100%	2203.62	10%	119.17
Setia Federal Hill	100%	20190	10%	533.56
Setia Alamsari North	100%	909.95	10%	51.50
Setia Alamsari South	100%	3198	10%	172.95
Putrajaya	60%	361.88	10%	13.49
Setia Trio	70%	1.2	10%	0.06
QSPH	50%	16298	10%	292.49
Bandar Kinrara	51%	2721	10%	75.05
Setia Bayuemas (I&P)	52%	2374	10%	56.03
Setia Bayuemas (PG)	100%	372.9	10%	19.29
Alam Damai	70%	629	10%	27.35
Setia AlamImpian	99.9%	7579	10%	344.29

S P Setia RNAV				
	Stake	Est remaining GDV (RM m)	WACC (%)	Value (RM m)
Temasya Glenmarie	66%	2822	10%	75.10
Setia Fontaines	100%	11914	10%	314.85
Setia Eco Forest @ Tanjung Bungah	100%	960	10%	49.66
Setia Pearl Island	100%	635	10%	32.85
Bukit Dumbar	100%	539	10%	35.12
Setia Sky Vista	100%	450	10%	23.28
Setia Sky Hill	100%	341	10%	17.64
Seri Bayu	100%	240	10%	12.41
Setia Raintree Residence	100%	200	10%	10.34
Setia Sky Ville	100%	153	10%	7.91
Setia Miracca (Setia Sky Cubes)	100%	235	10%	13.93
Pangsapuri Rimbung	100%	18	10%	0.93
Setia Indah Johor	100%	229.36	10%	14.95
Setia Tropika	100%	1096	10%	56.69
Setia Eco Cascadia	100%	1645.63	10%	81.48
Setia Business Park II	100%	293.67	10%	19.14
Bukit Indah Johor	100%	528.45	10%	29.91
Setia Eco Gardens	70%	1248	10%	45.19
Setia Business Park I	70%	312	10%	11.30
Taman Perling	100%	222.49	10%	13.82
Taman Pelangi	100%	1658.7	10%	93.87
Taman Rinting	89%	763	10%	35.16
Taman Pelangi Indah I	100%	2004	10%	83.96
Taman Industri Jaya	100%	53.49	10%	3.17
Taman Pelangi Indah II	100%	7939	10%	274.65
Mukim Tanjung Kupang	100%	1763	10%	76.92
Mukim Serkat, Pontian	100%	311	10%	15.40

S P Setia RNAV				
	Stake	Est remaining GDV (RM m)	WACC (%)	Value (RM m)
Aeropod @ Tanjung Aru	100%	1350	10%	73.01
Lintas Land	100%	925	10%	57.46
Shangri-La Melbourne Hotel	100%	1643	10%	107.07
Battersea Power Station	40%	28216	10%	535.30
EcoLakes, My Phuoc	57%	640	10%	22.76
EcoXuan, Lai Thieu	95%	608	10%	32.77
Setia Izumisano City Centre	100%	2488.49	10%	123.21
Unbilled sales		6760		397.87
Total				5,883.4
Shareholder Funds				14,217.5
Total RNAV				20,100.93
Fully Diluted Number of shares				4670
RNAV per share				4.30
Discount				75%
Target Price (RM)				1.08

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	3,763	4,454	4,206	4,150	4,155
Core EBIT	735	828	573	715	666
Core PBT	557	547	395	434	488
Net Income	284	308	225	281	340
Core Net Income	299	290	225	281	340
Core EPS (sen)	7.3	6.6	5.8	7.2	8.7
Core PER (x)	11.5	3.5	14.7	11.7	9.7
NTA/share	3.47	3.50	3.52	3.55	3.58
P/NTA	0.24	0.24	0.24	0.24	0.24
Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Investment properties	2,046	2,058	2,088	2,109	2,130
Inventories	12,534	12,523	11,020	9,477	9,648
Total non-current assets	19,920	19,556	20,201	20,989	21,451
Inventories - Property dev cost	2,895	2,677	2,623	2,571	2,596
Short term deposits	206	774	1,508	1,929	2,412
Cash and bank balances	1,463	1,859	1,516	1,613	1,662
Other assets	6,700	4,954	4,944	5,651	6,474
Total Assets	31,184	29,819	30,792	32,753	34,596
LT Borrowings	9,309	6,959	7,586	7,965	8,522
ST Borrowings	3,247	4,420	5,304	6,525	8,025
Other Liabilities	2,997	3,093	2,432	2,571	2,147
Total Liability	15,553	14,473	15,322	17,060	18,695
Share capital	8,490	8,500	8,500	8,500	8,500
Other Equity	7,142	6,847	6,970	7,193	7,402
Total Equity	15,632	15,346	15,470	15,693	15,901
Equity + Liability	31,184	29,819	30,792	32,753	34,596
Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
Cash flows from operating activities					
Net income before taxation	542	564	395	434	488
Net cash from operating activities	1118	1692	1675	1696	1662
Cash flows from investing activities					
Addition to inventories	-345	-306	-309	-235	-202
Net cash used in investing activities	-1010	-122	-125	-111	-84
Cash flows from financing activities					
Drawdown of bank borrowings	1428	1951	1658	1128	1015
Net cash from/(used in) financing activities	7	-2052	-1023	-1066	-1044
Net increase/(decrease) in cash and cash equivalents	115	-482	528	518	533
Cash and cash equivalent at 1 January	2821	2942	2495	3024	3542
Cash and cash equivalent at 1 December	2942	2495	3024	3542	4074
Profitability Margins	2021A	2022A	2023E	2024F	2025F
Core EBIT margin	19.5%	18.6%	13.6%	17.2%	16.0%
Core PBT margin	14.8%	12.3%	9.4%	10.5%	11.7%
PAT margin	7.6%	6.9%	5.3%	6.8%	8.2%
Core PATAMI margin	7.9%	6.5%	5.3%	6.8%	8.2%
ROE	2.1%	2.1%	1.5%	1.8%	2.1%
ROA	1.0%	1.0%	0.7%	0.9%	1.0%

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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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology