

06 June 2016 | Corporate Update

SP Setia Berhad

Proposed Rights Issue To Raise Up To RM1.07b

Maintain BUY

Adjusted Target Price: RM3.65
(Previously RM3.70)

INVESTMENT HIGHLIGHTS

- **2-for-5 RCPS-i rights issue.**
- **Supported by major shareholder PNB.**
- **Neutral on the rights issue.**
- **Maintain BUY with adjusted Target Price of RM3.65.**

2-for-5 RCPS-i rights issue. SP Setia Berhad (SPSETIA) has proposed to raise up to RM1.07b via issuance of up to 1.07b new Islamic Redeemable Convertible Preference Shares (RCPS-i) at RM1.00 each. Entitlement will be two RCPS-i for every five ordinary shares of SPSETIA. Expected completion date for the corporate exercise is 4Q16. Upon issuance, the RCPS-i will be listed in Bursa Malaysia.

Supported by major shareholder PNB. We gather that PNB (the largest shareholder with 51% stake) has provided its written irrevocable undertaking to subscribe in full for its entitlement to the RCPS-i.

Expected preferential dividend rate is 6.49% annually for the perpetual RCPS-i (paid semi-annually). After 15 years, the preferential dividend rate will increase by 1.0% annually up to the maximum 20.0%. The RCPS-i is renounceable which means that the right to RCPS-i can be traded in the market.

Flexibility to convert the RCPS-i to shares. The RCPS-i can be converted into new SPSETIA shares at any time after the issuance date. Conversion ratio is 2 shares for every 7 RCPS-i shares hence effective conversion price of RM3.50. Under the maximum subscription and conversion assumption, additional shares will be 305.6m or 11.6% share base expansion to 2.93b. On the other hand, the RCPS-i is redeemable after 15 years.

Neutral on the rights issue. FY16 and FY17 EPS dilution is likely to be very minimal as we expect almost no share conversion in the first two years. We believe that any share conversion will only happen when SPSETIA share price is significantly above the effective conversion price of RM3.50 to compensate the expected dividend yield of 6.49%. Our Fully Diluted RNAV (FD RNAV) per share is reduced slightly to RM4.05 (from RM4.12) as the share base increase of 11.6% exceeds the estimated incremental RNAV of 9.9%. There is no impact to balance sheet as preference shares is categorized as equity under accounting rules.

RETURN STATS	
Price (3 Jun 2016)	RM3.16
Target Price	RM3.65
Expected Share Price Return	+15.5%
Expected Dividend Yield	+5.8%
Expected Total Return	+21.3%

STOCK INFO	
KLCI	1636.46
Bursa / Bloomberg	8664 / SPSB MK
Board / Sector	Main / Properties
Syariah Compliant	Yes
Issued shares (mil)	2628.51
Par Value (RM)	0.75
Market cap. (RM'm)	8,306.08
Price over NA	1.13
52-wk price Range	RM2.8 - RM3.41
Beta (against KLCI)	0.53
3-mth Avg Daily Vol	0.36m
3-mth Avg Daily Value	RM1.16m
Major Shareholders	
PNB	51.05%
SKIM ASB	15.01%
KWAP	9.43%
EPF	6.04%


INVESTMENT STATISTICS

FYE Dec (RM'm, unless otherwise stated)	FY13*	FY14*	FY15**	FY16F	FY17F
Revenue	3,261	3,810	6,746	6,272	6,632
Core EBIT	746	830	1,643	1,188	1,255
Core PBT	658	769	1,428	1,129	1,194
Net Income	418	406	918	714	788
Core Net Income	418	453	920	714	788
EPS (sen)	17.95	16.30	35.66	27.18	29.97
Core EPS (sen)	17.95	18.19	35.72	27.18	29.97
Net DPS (sen)	10.60	9.70	23.00	18.34	20.23
Net Dvd Yield	3.4%	3.1%	7.3%	5.8%	6.4%
Core PER	17.6	17.4	8.8	11.6	10.5
NTA/share (RM)	2.35	2.31	3.00	3.10	3.20
P/NTA	1.34	1.37	1.05	1.02	0.99
Core ROE	7.6%	7.7%	12.4%	9.3%	9.9%
Core ROA	3.5%	3.5%	5.6%	4.3%	4.6%

Source: Company, MIDF Research Forecast

*Financial Year End October

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

Maintain BUY with lower TP of RM3.65: Earnings estimates for FY16 and FY17 are maintained. Our Target Price has been reduced to RM3.65 (from RM3.70) in line with the lower FD RNAV of RM4.05 (from RM4.12). Valuation method of 10% discount to RNAV is unchanged. Despite the slight reduction in Target Price, we continue to like SPSETIA due to the following reasons: i) the recent confirmation of Dato' Khor Chap Jen as the CEO has removed the Company's leadership uncertainty, ii) its high dividend yield of 5.8%, and iii) the listing of RCPS-i may serve as a catalyst to boost the liquidity of the stock as its nominal price of RM1.00 may be perceived as a more suitable entry price for retailers. 

UTILISATION OF PROCEEDS

Details of Utilisation	Subscription Scenario	
	Minimum (RM m)	Maximum (RM m)
Existing projects and working capital requirement	300	300
Future property development and expansion plans	235	768.1
Defray expenses relating to the proposals	1.6	1.6
Gross proceeds	536.6	1069.7

Source: Company

DAILY PRICE CHART



Alan Lim, CFA
alan.lim@midf.com.my
03-2173 8464

Source: MIDFR, Company

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%	204.8
Setia EcoHill	Semenyih, Selangor	599	DCF @ WACC 9%	100%	110.5
Setia Walk	Puchong, Selangor	20	DCF @ WACC 9%	100%	3.8
Setia Sky Residences	Kuala Lumpur	235	DCF @ WACC 9%	100%	43.4
Putrajaya	Putrajaya	110	DCF @ WACC 9%	60%	12.2
Setia Eco Park	Shah Alam, Selangor	115	DCF @ WACC 9%	50%	10.6
Setia Eco Glades	Cyberjaya, Selangor	276	DCF @ WACC 9%	70%	35.7
KL Eco City	Kuala Lumpur	1356	DCF @ WACC 9%	100%	250.2
Ongoing Projects - Malaysia (Johor)					
Bukit Indah	Johor	236	DCF @ WACC 9%	100%	43.6
Setia Tropika	Johor	89	DCF @ WACC 9%	100%	16.4
Setia Indah	Johor	39	DCF @ WACC 9%	100%	7.2
Setia Eco Gardens	Johor	90	DCF @ WACC 9%	70%	11.6
Setia Eco Cascadia	Johor	126	DCF @ WACC 9%	100%	23.3
Setia Sky 88	Johor	248	DCF @ WACC 9%	100%	45.8
Ongoing Projects - Malaysia (Others)					
Setia Pearl Island	Bayan Lepas, Penang	138	DCF @ WACC 9%	100%	25.5
Setia Greens	Bayan Lepas, Penang	179	DCF @ WACC 9%	100%	33.0
11 Brook Residences	Georgetown, Penang	48	DCF @ WACC 9%	70%	6.2
Setia V Residences	Penang	210	DCF @ WACC 9%	100%	38.8
Aeropod	Kota Kinabalu, Sabah	171	DCF @ WACC 9%	100%	31.6

Ongoing Projects - International

Battersea	London, UK	3798	DCF @ WACC 9%	40%	266.8
Fulton Lane	Melbourne, Australia	382	DCF @ WACC 9%	100%	115.8
Parque	Melbourne, Australia	695	DCF @ WACC 9%	100%	177.6
18 Woodsville	Singapore	104	DCF @ WACC 9%	100%	19.3
Eco Sanctuary	Singapore	659	DCF @ WACC 9%	100%	122.4
Eco Lakes	Vietnam	18	DCF @ WACC 9%	100%	3.5
Eco Xuan	Vietnam	14	DCF @ WACC 9%	100%	2.7

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	62	100%	1961.0
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	61	70%	268.2
Setia EcoHill 1 and 2	Semenyih, Selangor	1435	62,508,600	25	100%	1537.7
Setia Eco Templer	Petaling Jaya, Selangor	195	8,494,200	245	100%	2084.0
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	50%	521.0
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	142	100%	216.8
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	1,298	40%	655.7
EcoXuan	Lai Thieu, Vietnam	11	479,160	43	95%	19.7
EcoLakes	My Phuoc, Vietnam	511	22,259,160	7	55%	87.3

Total Landbank Value

Investment Properties	726.4
Fixed Assets	260.1
Total	12222.8

Cash	3752.1
Other Assets	1220.5
Total Liabilities (excl. deferred tax liabilities & construction related payables)	-7365.6
RNAV before RCPS-I (RM m)	10816.3
No of shares (m)	2628.4
RNAV per share before RCPS-I (RM)	4.12
Discount	10%
FD RNAV per share before RCPS-I(RM)	3.70
Cash to be raised (RCPS-i)	1069.69
RNAV after RCPS-I (RM m)	11885.9
RCPS-i @ RM1 each (maximum scenario)	305.62
Fully Diluted No Of Shares	2934.00
RNAV per share after RCPS-I (RM)	4.05
Discount	10%
FD RNAV per share after RCPS-I(RM)	3.65

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
 (Bank Pelaburan)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	<i>Negative</i> total return is expected to be -15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.