

Equity Beat

1Q10 Result Update

SP Setia Bhd

On track despite softer 1Q performance

Reiterate **NEUTRAL**

Revised Target Price (TP): RM4.30 (from RM3.99)

- SP Setia's (SPSB) 1Q10 earnings came in short of expectations, accounting for only 16.3% and 19.2% of ours and consensus forecasts.
- Nevertheless, we believe investors' confidence are returning. Sales have been impressive, at RM760m YTD despite the imposition of RPGT and fears of a sluggish economic recovery. The group's FY10 sales target of RM2.0b will be driven by both Setia Eco Park, and Setia Alam developments; while its traditional main sales driver Johor, will continue to provide the base for sales growth via Setia Eco Gardens and Setia Tropika.

STOCK INFO

Price (18 Mar 10)	RM4.15	KLCI	1,301.94
Issued shares (mil)	1,016.8	Bursa / Bloomberg	8664 / SPSB MK
Par Value (RM)	0.75	Board / Sector	Main/ Property
Market cap. (RM'm)	4,219.74	Syariah Compliant	Yes
Price over NA	2.03x		
52-wk price Range	RM2.76– RM4.76	Major Shareholders	
Beta (against KLCI)	0.89	Skim Amanah Saham Bumiputera	20.96%
3-mth Avg Daily Vol	1.46m	EPF	14.26%
3-mth Avg Daily Value	RM6.05m	Tan Sri Liew Kee Sin	11.10%

- We maintain our **NEUTRAL** recommendation for SPSB with an increased Target Price of RM4.30, derived from a 25% (from 30% previously) discount against RNAV. The lower discount rate is warranted as the group continues to ride on the (i) present market demand for mid to high-end properties, (ii) ability to factor higher pricing on its products and (iii) proven market leadership position on mid-high end residential developments. Nevertheless, we are retaining our earnings forecast as we are wary of the impact on demand with the rising cost of financing and an end to promotional tie-ups with financial institutions.

Lower margins undertone softer performance. EBIT margins weakened against corresponding and sequential quarters by -9.6%pts and -1.37%pts respectively. Despite strong top-line growth, higher sales and marketing expenses (>100%) resulted from its previous '5/95' program and present 'Best of the Best' campaign weighed on margins growth. Nevertheless, SPSB's improved pricing power supported earnings growth.

Product demands still garnering interest. We note take-up rates across all products is around 80%. In the recent months, we understand the shift in customer profile balance changing from investment purposes to owner-occupancy. This wires the strong sales figures despite the introduction of RPGT, looming threat of abolishing cheap-credit and fears of a lackluster economy.

Reiterate NEUTRAL. We reaffirm our NEUTRAL recommendation with a revised Target Price of RM4.30, derived from a 25% discount to RNAV. Earnings visibility will be supported by GDV and unbilled sales of RM27.8b. Some of

FYE Oct	FY08	FY09	FY10E	FY11F
Revenue (RM'm)	1,471.3	1,408.4	1,500.7	1,853.3
EBIT (RM'm)	310.9	239.1	313.6	395.6
Pretax Profit (RM'm)	297.8	231.1	308.0	390.6
Net Profit (RM'm)	213.1	171.2	234.1	296.8
EPS (sen)	21.0	16.8	23.0	29.1
EPS growth (%)	-17.1%	-19.9%	36.9%	26.5%
PER(x)	19.7	24.7	18.0	14.2
Gross Dividend (sen)	12.7	14.0	15.0	15.0
Net Dividend Yield (%)	3.0	3.3	3.6	3.6

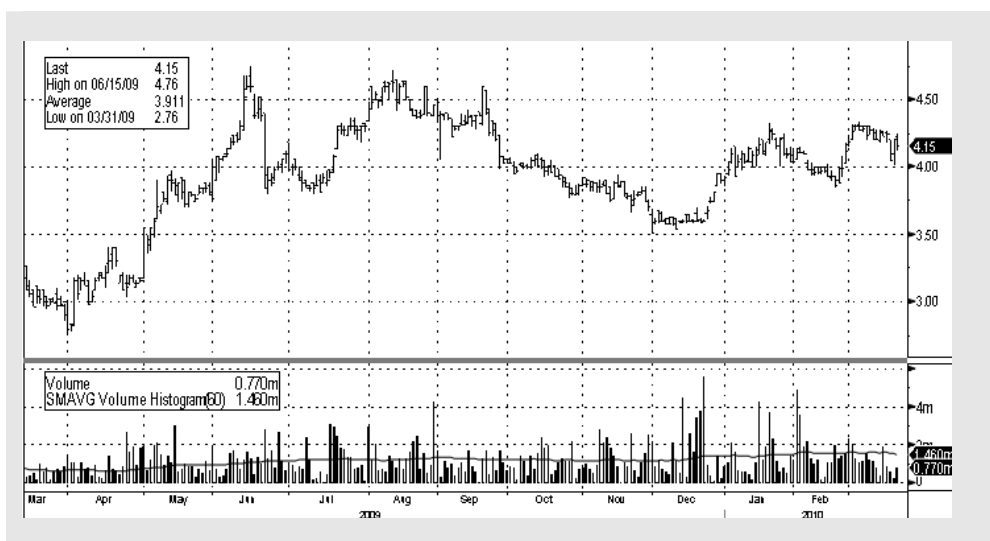
Source: Company, Forecasts by MIDFR ;Note: *excluding the dividend-in-specie

the notable forthcoming launches are Brooke Residences (Penang), Setia Pearl, Phase II of Setia Sky Residence, the Aeropod (Sabah) and more importantly the KL EcoCity slated to launch by Oct 2010. The counter is currently trading at 18.0x EPS10, higher valuations against its peers of 18.3x and its 5-year average of 15.7x.

Future earnings will be driven by more commercial developments, given its higher margins. For its international ventures (apart from its Vietnam projects which has seen substantial developments), we believe the take-off for SPSB's foreign developments will be slow, and not providing any immediate earnings contributions. We understand most of the proposed foreign developments are awaiting governmental and building approvals. Hence, we do not expect any impact on FY10 earnings.



DAILY PRICE CHART



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SP SETIA BHD: 1QFY10 RESULTS SUMMARY

FYE Oct (RM'm)	Quarterly Results			Comments
	1Q10	%YoY	%QoQ	
Revenue	363.89	40.01%	24.02%	Stronger property development contribution namely from Setia Eco Park and Setia Alam projects. Able to raise product prices concurrently. Nevertheless, SPSB's balance GDV and unbilled sales of c.RM27.8b should provide some support towards top-line growth.
Gross Profit	82.71	35.61%	0.81%	Stronger top-line outpaced rise in cost of sales (+0.5-%pts).
EBIT	54.63	21.01%	-24.07%	Lower against previous quarter due to higher SME expenses (+>100%) and admin & general expenses (+6.1%). Total expenses were to support the group's "Best of the Best" campaign, eating slightly into margins. Quarterly EBIT margins came in lower at 14.9% against 4Q09's 24.5%. Nevertheless, higher against corresponding 1Q09 due to the previous lower base.
Pre-tax profit	52.35	17.54%	-24.86%	Met 16.9% of our FY10 estimates. Lower contribution from associates and earnings from investments.
Tax	14.16	5.98%	10.52%	Lower due to higher deferred tax allowance.
Net profit	38.18	22.50%	-32.83%	ROE @ 1.83%. Partially affected by "Best of the Best" campaign.
EPS (sen)	3.76	22.48%	-32.74%	-
Revenue Breakdown	1Q10	%YoY	%QoQ	
Property Development	328.44	38.86%	-26.78%	Contributions from <i>Central</i> developments : Setia Alam and Eco Park, Setia Walk(Puchong), Setia Sky Residences. As for <i>Southern</i> projects: Bukit Indah, Setia Indah, Setia Tropika and Setia Eco Garden (JB). While Setia Pearl added to SPSB's <i>Northern</i> contributions.
Construction	41.44	284.81%	-57.31%	-
Other Operations	31.34	-5.90%	4.47%	-

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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	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

OVERWEIGHT	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.
UNDERWEIGHT	The sector is expected to underperform the overall market over the next 12 months.