S P Setia Berhad

(8664 | SPSB MK) Property| Property

Maintain BUY

Looking forward to a better 2HFY20

***Revised* Target Price: RM1.24**
(Previously RM1.42)

KEY INVESTMENT HIGHLIGHTS

- **1HFY20 earnings below expectations**
- **Looking forward to a better 2HFY20**
- **Striving to meet new sales target of RM3.8b as new sales momentum picks up**
- **Earnings estimates revised downward**
- **Maintain BUY with a revised TP of RM1.24**

1HFY20 earnings below expectations. S P Setia 1HFY20 core net income of RM26.1m came in below expectations, making up only 12% and 14% of our and consensus full year estimates due to the weaker-than-expected earnings in 2QFY20 as S P Setia slipped into the red.

Looking forward to a better 2HFY20. S P Setia slipped into the red in 2QFY20 by recording core net loss of RM1.6m. Note that we have excluded impairment loss of completed inventories in our core net income calculations. The weak earnings in 2QFY20 was mainly owing to Movement Control Order (MCO) whereby construction works of property projects came into standstill during MCO and Conditional MCO period in 2QFY20. That brought cumulative earnings in 1HFY20 lower at RM26.1m (-82.9%yoy). Looking forward, we expect earnings to recover in 2HFY20 as construction works resume. Nevertheless, progress billing is expected to improve gradually due to the Standard Operating Procedures (SOPs) at construction sites. Meanwhile, unbilled sales of RM9.68b provides earnings visibility of 2.5 years.

Striving to meet new sales target of RM3.8b. S P Setia registered new property sales of RM405m in 2QFY20 despite the disruption to business by MCO, bringing cumulative new sales to RM875m in 1HFY20. Local projects contributed 80% whilst international projects contributed 20% to new sales. Looking forward, S P Setia is striving to meet its sales target of RM3.8b despite 1HFY20 new sales made up only 23% of the new sales target. S P Setia will focus on clearing completed inventories and launching mid-range landed units in established townships to cater for demand of owner-occupiers. Meanwhile, sales momentum is encouraging in 3QFY20 whereby S P Setia secured new sales of RM579m during the first 40 days in 3QFY20 and has booking of RM1.5b in the pipeline.

Maintain BUY with a revised TP of RM1.24. We revise our FY20/FY21F earnings forecasts by -25.5%/-20.7% to factor in lower progress billing. Our TP is revised downward to RM1.24 from RM1.42 as we widen our RNAV discount to 72% from 68%. We maintain BUY call on S P Setia due to its attractive valuation and better sales outlook in 2HFY20. S P Setia is trading at a discount of 77% to its NTA per share of RM3.50.of RM3.50.

RETURN STATISTICS	
Price @ 13 Aug 2020 (RM)	0.79
Expected share price return (%)	57.0
Expected dividend yield (%)	0.6
Expected total return (%)	**57.6**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-2.5	-1.1
3 months	-6.5	-9.7
12 months	-55.1	-54.4

KEY STATISTICS	
FBM KLCI	1576.42
Syariah compliant	Yes
Issue shares (m)	4042.48
Estimated free float (%)	18.06
Market Capitalisation (RM'm)	3204.80
52-wk price range (RM)	RM0.55 - RM1.82
Beta vs FBM KLCI (x)	1.56
Monthly velocity (%)	0.00
Monthly volatility (%)	27.34
3-mth average daily volume (m)	10.95
3-mth average daily value (RM'm)	9.94
Top Shareholders (%)	
Amanah Saham Nasional Bhd	36.08
Yayasan Pelaburan Bumiputra	26.13
Kumpulan Wang Persaraan Diperbadan	9.92

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INVESTMENT STATISTICS

FYE Dec	FY17A	FY18F	FY19F	FY20F	FY21F
Revenue	4,520	3,594	3,929	2,170	2,795
Core EBIT	1,006	383	791	73	570
Core PBT	1,149	555	561	245	341
Net Income	933	671	344	167	232
Core Net Income	810	243	307	167	232
EPS (sen)	27.27	17.4	9	4.28	5.95
Core EPS (sen)	23.69	6.3	7.7	4.28	5.95
Net DPS (sen)	15.50	8.6	1.0	0.50	1.00
Net Dvd Yield	19.6%	10.8%	1.3%	0.6%	1.3%
Core PER	3.3	12.5	10.3	18.5	13.3
NTA/share (RM)	3.49	3.59	3.55	3.56	3.58
P/NTA	0.23	0.22	0.22	0.22	0.22
Core ROE	6.8%	1.7%	2.1%	1.2%	1.6%
Core ROA	2.9%	0.8%	1.0%	0.6%	0.8%

Source: MIDF Research

SPSETIA: 2QFY20 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	**Quarterly Results**			**Cumulative**	
	2QFY20	***%YoY***	***%QoQ***	**FY20**	***%YoY***
Revenue	331.3	*-75.2%*	*-52.8%*	1034.0	*-53.0%*
Core EBIT	34.9	*-81.9%*	*-79.3%*	203.4	*-50.3%*
Core PBT	-22.4	*NA*	*NA*	80.8	*-72.2%*
Net Income	-141.5	*NA*	*NA*	-113.1	*NA*
Core Net Income	-1.6	*NA*	*NA*	26.1	*-82.9%*
EPS (sen)	-3.50	*NA*	*NA*	-2.8	*NA*
Core EPS (sen)	-0.04	*NA*	*NA*	0.6	*-83.2%*
Net DPS (sen)	0.00	*NA*	*NA*	0.0	*NA*
NTA/share (RM)	3.497	*NA*	*NA*	3.5	*NA*
Net Gearing (x)	0.63	*NA*	*NA*	0.6	*NA*
Core EBIT Margin	10.5%	*NA*	*NA*	19.7%	*NA*
Core PBT Margin	-6.8%	*NA*	*NA*	7.8%	*NA*

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	100%	27.1

			9%			
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	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
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					72%
FD RNAV per share after RCPS-I and Rights Issue (RM)					**1.24**

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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 *rise* 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 *fall* 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.