S P Setia Berhad

(8664 | SPSB MK) Property| Property

Maintain BUY

Sales target of RM3.8b maintained

***Revised* Target Price: RM0.84**
(Previously RM0.89)

KEY INVESTMENT HIGHLIGHTS

- **9MFY20 earnings below our expectation**
- **Return to the black in 3QFY20**
- **Sales target of RM3.8b maintained**
- **Earnings estimates revised downwards**
- **Maintain BUY with a revised TP of RM0.84**

9MFY20 earnings below our expectation. S P Setia 9MFY20 core net income of RM99.5m came in within consensus expectation but below ours, making 60% of our full year estimate. The negative earnings deviation could be attributed to the higher-than-expected cost of sales in 3QFY20.

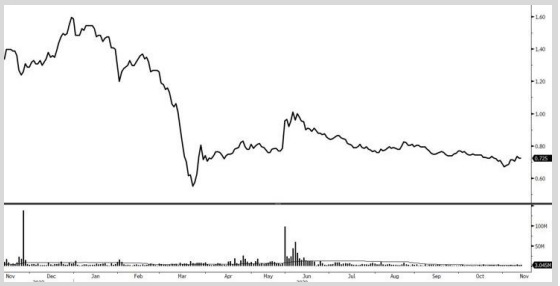
Return to the black in 3QFY20. S P Setia returned to the black in 3QFY20 after recording core net profit of RM73.4m against core net loss of RM1.6m in 2QFY20. Note that we have excluded impairment provisions of RM336m on its Battersea Power Station project as a result of soft property market in London. Earnings in 3QFY20 improved as construction works resumed in 3QFY20 post MCO in 2QFY20. Meanwhile, cumulative earnings were lower at RM99.5m (-54.5%yoy) as earnings were dragged by construction works stoppage during MCO. Besides, higher cost of sales has also dragged earnings in 9MFY20 due to higher sales of product mix with lower margin in 3QFY20. On the other hand, unbilled sales increased marginally to RM9.82b in 3QFY20 from RM9.68b in 2QFY20, providing earnings visibility of 2.5years.

Sales target of RM3.8b maintained. S P Setia registered higher new property sales of RM1.38b in 3QFY20 as compared to new sales of RM405m in 2QFY20 as sales momentum improved post MCO. Local projects contributed 82% to new sales whilst international projects contributed 18% to new sales. Going forward, S P Setia is maintaining its new sales target of RM3.8b for FY20 as its new sales as at October 2020 stood at RM2.86b while sales momentum should support by secured bookings of RM1.67b.

Maintain BUY with a revised TP of RM0.84. We revise our FY20/FY21F earnings forecasts by -22.5%/-3% to factor in higher cost of sales. Our TP is revised downward to RM0.84 from RM0.89 as we widen our RNAV discount marginally to 81% from 80%. We maintain Buy call on S P Setia due to its attractive valuation as it is trading at steep discount of 79% to its NTA per share of RM3.41. Besides, sales outlook for S P Setia is stable as it is on track to meet its sales target.

RETURN STATISTICS	
Price @ 13 Nov 2020 (RM)	0.715
Expected share price return (%)	17.5
Expected dividend yield (%)	0.7
Expected total return (%)	**18.2**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-2.7	-7.1
3 months	-5.8	-9.6
12 months	-46.3	-45.7

KEY STATISTICS	
FBM KLCI	1,589.69
Syariah compliant	Yes
Issue shares (m)	4042.48
Estimated free float (%)	18.31
Market Capitalisation (RM'm)	2,901
52-wk price range (RM)	RM0.55 - RM1.63
Beta vs FBM KLCI (x)	1.54
Monthly velocity (%)	4.19
Monthly volatility (%)	28.83
3-mth average daily volume (m)	2.15
3-mth average daily value (RM'm)	1.64
Top Shareholders (%)	
Amanah Saham Nasional Bhd	36.08
Yayasan Pelaburan Bumiputra	26.13
KWAP	9.89

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INVESTMENT STATISTICS

FYE Dec	FY17A	FY18F	FY19F	FY20F	FY21F
Revenue	4,520	3,594	3,929	3,015	2,875
Core EBIT	1,006	383	791	17	560
Core PBT	1,149	555	561	190	331
Net Income	933	671	344	129	225
Core Net Income	810	243	307	129	225
EPS (sen)	27.27	17.4	9	3.31	5.77
Core EPS (sen)	23.69	6.3	7.7	3.31	5.77
Net DPS (sen)	15.50	8.6	1.0	0.50	1.00
Net Dvd Yield	21.7%	12.0%	1.4%	0.7%	1.4%
Core PER	3.0	11.3	9.3	21.6	12.4
NTA/share (RM)	3.49	3.59	3.55	3.56	3.58
P/NTA	0.21	0.20	0.20	0.20	0.20
Core ROE	6.8%	1.7%	2.1%	0.9%	1.6%
Core ROA	2.9%	0.8%	1.0%	0.4%	0.7%

Source: MIDF Research

SPSETIA: 3QFY20 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	3QFY20	%YoY	%QoQ	FY20	%YoY
Revenue	1080.5	15.9%	226.1%	2114.5	-32.5%
Core EBIT	517.0	159.6%	1380.3%	720.5	18.4%
Core PBT	117.8	- NA	NA	198.6	-53.5%
Net Income	-263.4	NA	NA	-376.5	NA
Core Net Income	73.4	11.1%	NA	99.5	-54.5%
EPS (sen)	-6.50	NA	NA	-10.0	NA
Core EPS (sen)	1.81	9.8%	NA	1.8	-67.7%
Net DPS (sen)	0.00	NA	NA	0.0	NA
NTA/share (RM)	3.412	NA	NA	3.4	NA
Net Gearing (x)	0.65	NA	NA	0.7	NA
Core EBIT Margin	47.9%	NA	NA	34.1%	NA
Core PBT Margin	10.9%	NA	NA	9.4%	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					81%
FD RNAV per share after RCPS-I and Rights Issue (RM)					**0.84**

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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.