24 August 2016 | 2QFY16 Result Review

SP Setia Berhad

Sales target reduced to RM3.5b

Downgrade to NEUTRAL

***Adjusted* Target Price: RM3.38**
(*Previously* RM3.65)

INVESTMENT HIGHLIGHTS

- **6MFY16 earnings below expectations**
- **Revenue was supported by ongoing projects**
- **Management reduced sales target to RM3.5b**
- **Earnings estimate for FY16 trimmed by 8%**
- **Downgrade to NEUTRAL (from BUY) with TP of RM3.38**

6MFY16 earnings below expectations. SP Setia Berhad (SPSETIA)'s 6MFY16 Core Net Income (CNI) of RM202m was below expectation as it accounted for only 28% of ours and 30% of consensus' full year estimate. The negative deviation is caused by lower than expected margin. We expect 2HFY16 to register a higher revenue due to lumpy recognition from Parque Melbourne and Battersea Phase One (starts in Dec-2016) but there is still some risk that the recognition may be delayed into FY17. An interim dividend of 4.0 sen was declared.

Revenue was supported by ongoing projects in Malaysia and overseas. Major projects in Malaysia include KL Eco City at Jalan Bangsar, Setia Alam in Shah Alam and Setia Sky Residences at Jalan Tun Razak. Overseas project are Eco Sanctuary and 18 Woodsville in Singapore. Unbilled sales of RM8.2b provide earnings visibility for 1.2 years.

Management reduced sales target to RM3.5b (from RM4.0b): For the first seven months (7MFY16), SPSETIA achieved sales of only RM1.35b. Accordingly, it has lowered its sales target to RM3.5b (from RM4.0b) due to global uncertainty (especially post-Brexit) and the continued weak sentiment in the Malaysian property market. We have likewise lowered our sales estimate to RM3.3b as we expect slow recovery in the 2HFY16.

Earnings estimate for FY16 trimmed by 8% to RM658m. While for FY17, earnings estimate is reduced by 10% to RM712m. We have factored in lower margin and lower sales estimate.

Downgrade to NEUTRAL with TP of RM3.38: Our Target Price has been reduced to RM3.38 as we have increased the discount to RNAV to 15% (from 10%) to reflect the soft demand for SPSETIA property products so far. Despite the downgrade, the downside is limited due to its high dividend yield of 5.2% and strong balance sheet with net gearing of 0.37x.

RETURN STATS	
Price (23rd Aug 2016)	RM3.25
Target Price	RM3.38
Expected Share Price Return	+4.0%
Expected Dividend Yield	+5.2%
Expected Total Return	**+9.2%**

STOCK INFO	
KLCI	1683.07
Bursa / Bloomberg	8664 / SPSB MK
Board / Sector	Main / Properties
Syariah Compliant	Yes
Issued shares (mil)	2817.60
Par Value (RM)	0.75
Market cap. (RM'm)	9,157.21
Price over NA	1.16
52-wk price Range	RM2.8 - RM3.4
Beta (against KLCI)	0.57
3-mth Avg Daily Vol	1.30m
3-mth Avg Daily Value	RM4.02m
Major Shareholders	
PNB	51.05%
SKIM ASB	15.01%
KWAP	9.43%
EPF	6.04%

KINDLY REFER TO THE LAST PAGE OF THIS PUBLICATION FOR IMPORTANT DISCLOSURES

INVESTMENT STATISTICS

FYE Dec (RM'm, unless otherwise stated)	FY13*	FY14*	FY15**	FY16F	FY17F
Revenue	3,261	3,810	6,746	5,774	6,121
Core EBIT	746	830	1,643	1,098	1,163
Core PBT	658	769	1,428	1,039	1,102
Net Income	418	406	918	658	727
Core Net Income	418	453	920	658	727
EPS (sen)	17.95	16.30	35.66	25.02	27.66
Core EPS (sen)	17.95	18.19	35.72	25.02	27.66
Net DPS (sen)	10.60	9.70	23.00	16.89	18.67
Net Dvd Yield	3.3%	3.0%	7.1%	5.2%	5.7%
Core PER	18.1	17.9	9.1	13.0	11.8
NTA/share (RM)	2.35	2.31	3.00	3.09	3.19
P/NTA	1.38	1.41	1.08	1.05	1.02
Core ROE	7.6%	7.7%	12.4%	8.6%	9.2%
Core ROA	3.5%	3.5%	5.6%	3.9%	4.3%

Source: Company, MIDF Research Forecast
**Financial Year End October*
***FY15 reflects 14 months period (Nov-2014 to Dec-2015)*

DAILY PRICE CHART



Source: MIDFR, Company

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SPSETIA: 2QFY16 RESULTS SUMMARY

FYE Oct (RM'm, unless otherwise stated)	Quarterly Results			Cumulative		Comments
	2QFY16	*%YoY*	*%QoQ*	6MFY16	*%YoY*	
Revenue	1013.3	*NA*	*NA*	1921.8	*NA*	*Supported by ongoing projects in Malaysia and overseas. Major projects in Malaysia include KL Eco City at Jalan Bangsar, Setia Alam in Shah Alam and Setia Sky Residences at Jalan Tun Razak. Overseas project are Eco Sanctuary and 18 Woodsville in Singapore.*
Core EBIT	233.9	*NA*	*NA*	448.2	*NA*	*6MFY16 core figure exclude forex gain of RM46.9m*
Core PBT	180.9	*NA*	*NA*	350.1	*NA*	
Net Income	125.8	*NA*	*NA*	249.2	*NA*	
Core Net Income	104.0	*NA*	*NA*	202.3	*NA*	*Below expectation as 6MFY16 core figure came in at 28% of ours and 30% of consensus forecast. Second half should be stronger due to high revenue recognition expected from Parque Melbourne and Battersea Phase One in Dec-2016*
EPS (sen)	4.79	*NA*	*NA*	9.48	*NA*	
Core EPS (sen)	3.96	*NA*	*NA*	7.70	*NA*	
Net DPS (sen)	4.00	*NA*	*NA*	4.00	*NA*	
NTA/share (RM)	2.82	*NA*	*NA*	2.82	*NA*	
Net Gearing (x)	0.37	*NA*	*NA*	0.37	*NA*	
Core EBIT Margin	23.1%	*NA*	*NA*	23.3%	*NA*	
Core PBT Margin	17.9%	*NA*	*NA*	18.2%	*NA*	

**Comparison is not available as the Company has recently changed its Financial Year End*
Source: Company, MIDF Research Forecast

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%	180.5
Setia EcoHill	Semenyih, Selangor	599	DCF @ WACC 9%	100%	97.4
Setia Walk	Puchong, Selangor	20	DCF @ WACC 9%	100%	3.3
Setia Sky Residences	Kuala Lumpur	235	DCF @ WACC 9%	100%	38.2
Putrajaya	Putrajaya	110	DCF @ WACC 9%	60%	10.7
Setia Eco Park	Shah Alam, Selangor	115	DCF @ WACC 9%	50%	9.4
Setia Eco Glades	Cyberjaya, Selangor	276	DCF @ WACC 9%	70%	31.4
KL Eco City	Kuala Lumpur	1356	DCF @ WACC 9%	100%	220.5
Ongoing Projects - Malaysia (Johor)					
Bukit Indah	Johor	236	DCF @ WACC 9%	100%	38.4
Setia Tropika	Johor	89	DCF @ WACC 9%	100%	14.5
Setia Indah	Johor	39	DCF @ WACC 9%	100%	6.3
Setia Eco Gardens	Johor	90	DCF @ WACC 9%	70%	10.2
Setia Eco Cascadia	Johor	126	DCF @ WACC 9%	100%	20.5
Setia Sky 88	Johor	248	DCF @ WACC 9%	100%	40.3
Ongoing Projects - Malaysia (Others)					
Setia Pearl Island	Bayan Lepas, Penang	138	DCF @ WACC 9%	100%	22.4
Setia Greens	Bayan Lepas, Penang	179	DCF @ WACC 9%	100%	29.1
11 Brook Residences	Georgetown, Penang	48	DCF @ WACC 9%	70%	5.5
Setia V Residences	Penang	210	DCF @ WACC 9%	100%	34.2
Aeropod	Kota Kinabalu, Sabah	171	DCF @ WACC 9%	100%	27.8
Ongoing Projects - International					
Battersea	London, UK	3405	DCF @ WACC 9%	40%	236.9
Fulton Lane	Melbourne, Australia	382	DCF @ WACC 9%	100%	115.2
Parque	Melbourne, Australia	695	DCF @ WACC 9%	100%	175.2
18 Woodsville	Singapore	104	DCF @ WACC 9%	100%	19.2
Eco Sanctuary	Singapore	659	DCF @ WACC 9%	100%	121.7
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	1,163	40%	587.9
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	**12007.9**
Investment Properties	726.4
Fixed Assets	260.1
Cash	3752.1
Other Assets	1220.5
Total Liabilities (excl. deferred tax liabilities & construction related payables)	-7365.6
RNAV before RCPS-I (RM m)	**10601.3**
No of shares (m)	2628.4
RNAV per share before RCPS-I (RM)	**4.03**
Discount	15%
FD RNAV per share before RCPS-I(RM)	**3.43**
Cash to be raised (RCPS-i)	1069.69
RNAV after RCPS-I (RM m)	**11671.0**
RCPS-i @ RM1 each (maximum scenario)	305.62
Fully Diluted No Of Shares	2934.00
RNAV per share after RCPS-I (RM)	**3.98**
Discount	15%
FD RNAV per share after RCPS-I(RM)	**3.38**

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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 *rise* 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	*Negative* total return is expected to be -15% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* 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.