03 May 2016 | Corporate Update

SP Setia Berhad

Land acquisition in Melbourne CBD

***Maintain* BUY**

***Unchanged* Target Price: RM3.70**

INVESTMENT HIGHLIGHTS

- **Acquiring land in Melbourne CBD for AUD101m.**
- **Fifth piece of land in Melbourne**
- **We think the valuation is fair**
- **Final dividend of 19.0 sen likely to be approved in the AGM**
- **Maintain BUY with Target Price of RM3.70**

Acquiring land in Melbourne CBD for AUD101m. S P Setia (SPSETIA) has acquired a piece of 4,140 sq m (44,563 sq ft) land in Melbourne Central Business District (CBD) for AUD101m (~RM301m). The Company intends to transform the land into a mixed development consisting multi-level retail, prime A-grade office space and luxurious apartment towers. GDV of the project is estimated at AUD640m with expected launch date in 2H2017.

Fifth piece of land in Melbourne. Previously, SPSETIA has acquired four pieces of land in Melbourne. In 2009, SPETIA purchased a 0.2ha Fulton Lane site for AUD30m and developed it into luxury apartments with a GDV of A$470m. This is followed by acquisition of 0.9ha land at Parque (under construction with a GDV of A$247m). The third land bought is the 0.51 acre Carnegie land with a price of AUD6.68m transacted in Nov-2015. Lastly, the fourth piece of land is acquired only two weeks ago (850 sq m land in Prahran for AUD10m).

We think the valuation is fair. Valuation works out to be AUD2,266 per sq ft which we think is fair. Although the valuation is higher than SPSETIA recent purchase of Prahran land transacted at AUD1,093 per sq ft, we believe that the premium is justified as this land is located inside Melbourne CBD while Prahran is 4.5km away. The Land is only a 5-minute walking distance away from Bourke Street (Melbourne's renowned shopping and entertainment street), Melbourne Central (public transport hub) and the Royal Melbourne Institute of Technology University (RMIT). Land cost-to-GDV ratio at 15.8% is within the range of 10%-26% of recent transactions by SPSETIA in Melbourne.

Final dividend of 19.0 sen likely to be approved in the AGM. Separately, we estimate that the shareholders are likely to approve the final dividend of 19.0 sen in the upcoming AGM on 18 May 2016.

RETURN STATS	
Price (29 Apr 2016)	RM3.22
Target Price	RM3.70
Expected Share Price Return	+14.9%
Expected Dividend Yield	+5.7%
Expected Total Return	**+20.6%**

STOCK INFO	
KLCI	1672.72
Bursa / Bloomberg	8664 / SPSB MK
Board / Sector	Main / Properties
Syariah Compliant	Yes
Issued shares (mil)	2628.48
Par Value (RM)	0.75
Market cap. (RM'm)	8,463.69
Price over NA	1.21
52-wk price Range	RM2.8 - RM3.5
Beta (against KLCI)	0.53
3-mth Avg Daily Vol	0.44m
3-mth Avg Daily Value	RM1.38m
Major Shareholders	
PNB	51.04%
SKIM ASB	15.04%
KWAP	9.43%
EPF	5.90%

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

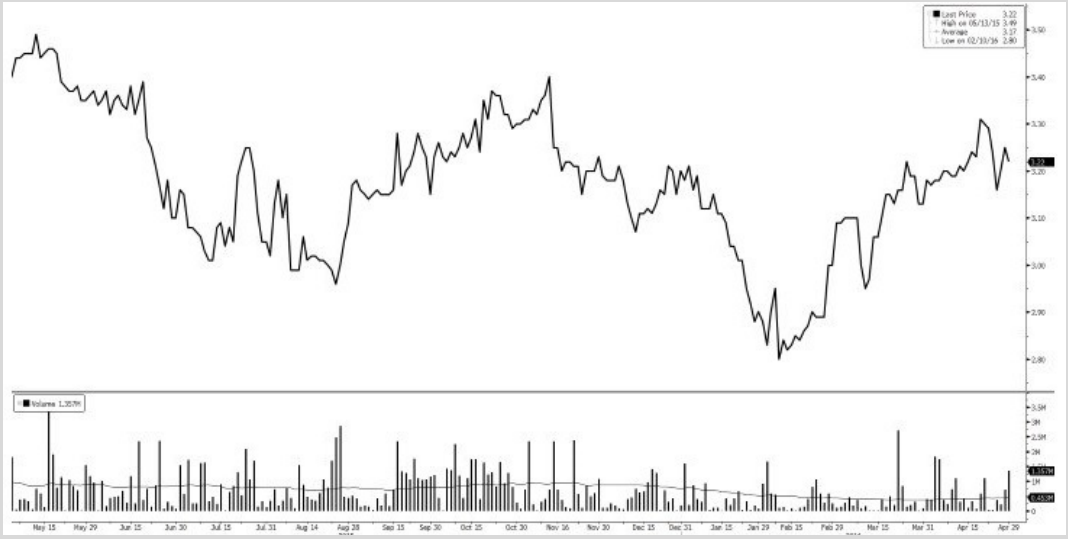
INVESTMENT STATISTICS

FYE Dec (RM'm, unless otherwise stated)	FY13*	FY14*	FY15**	FY16F	FY16F
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	28.12	31.01
Core EPS (sen)	17.95	18.19	35.72	28.12	31.01
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	11.2	10.2
NTA/share (RM)	2.35	2.31	3.00	3.10	3.21
P/NTA	1.34	1.37	1.05	1.02	0.98
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 October*
***FY15 reflects 14 months from Nov-2014 to Dec-2015*

Maintain BUY with TP of RM3.70. Earnings estimates for FY16 and FY17 are unchanged as SPSETIA fundamental is intact. Our Target Price of RM3.70 is based on 10% discount to RNAV. We like SPSETIA due to: i) the recent confirmation of Dato' Khor Chap Jen as the CEO has removed the Company's leadership uncertainty, and ii) its high dividend yield of 5.7% and strong balance sheet with net gearing at only 0.18x.

DAILY PRICE CHART



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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)	Location	Size (ac)	Size (Sq ft)	Price (RM/sqft)	Stake	Value (RM m)
Setia Alam	Shah Alam, Selangor	732	31,885,920	64	100%	2032.7
Setia City	Shah Alam, Selangor	91	3,963,960	64	100%	252.7
Setia Eco Park	Shah Alam, Selangor	305	13,294,512	64	50%	423.8
Setia Eco Glades	Cyberjaya, Selangor	145	6,307,488	61	70%	268.2
Setia EcoHill 1 and 2	Semenyih, Selangor	1435	62,508,600	26	100%	1594.0
Setia Eco Templer	Petaling Jaya, Selangor	195	8,494,200	248	100%	2106.1
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	**12396.9**
Investment Properties	748.9
Fixed Assets	132.9
Cash	3548.7
Other Assets	1028.4
Total Liabilities (excl. deferred tax liabilities)	-7423.3
Total RNAV (RM m)	**10432.4**
No of shares (m)	2540.1
RNAV per share (RM)	**4.11**
FD RNAV (RM)	**4.11**
Discount	10%
FD RNAV (RM)	**3.70**

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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.