12 June 2014 | 1HFY14 Results

SP Setia Berhad

***Maintain* NEUTRAL**

Treading murky water with strong unbilled sales

***Revised* Target Price (TP): RM3.11**
(previously RM3.23)

INVESTMENT HIGHLIGHTS

- **Good topline number but earnings failed to meet expectation.**
- **Strong unbilled sales of RM11.2b.**
- **Maintain NEUTRAL with a lower target price of RM3.11.**

Results below expectation: SP Setia Berhad (SP Setia or the Group) delivered earnings of RM171m in 1HFY14, which came in below our expectation, accounting for 35% of our full year forecast.

Property development: Revenue and profit before tax (PBT) from property development activities increased by 12%YoY and 8%YoY respectively. These were attributable to higher overall sales achieved since FY12, alongside higher profit contribution from completed parcels and lower selling and marketing expenses incurred. The higher percentage increase in revenue compared to that of PBT was mainly due to the combination of the Goods and Services Tax (GST) financial impact and Long Term Incentive Plan (LTIP) expense, which was granted starting May 2013. On-going projects which contributed to its sales include Setia Alam, Setia Eco-Park, Setia Ecohill, and Setia Eco Glades.

Outlook: Going forward, expect sales performance to be more subdued. Host of anti-speculative measures introduced by the authorities will likely to continue to be a damper on demand for higher-end properties in FY14. We trimmed our sales forecasts in anticipation of a more challenging market condition. Accordingly, we revised downward our earnings forecasts for FY14 and FY15 by -18% and -4% respectively. The company is nonetheless remain healthy as it is supported by strong unbilled sales of RM11.2b. In addition, the broader property sector id supported by positive economic condition given the better than expected first quarter Gross Domestic Product (GDP) number of 6.2%.

Valuation: We are maintaining our NEUTRAL recommendation on SP Setia as we believe the market sentiment towards property stocks to remain cautious from the impact of anti-speculative measures on the sector. We are rolling forward our valuation base year to FY15 with a revised target price of RM3.11 per share. Our target price is based on EPS15 of 24.9sen and PER of 12.5x. The target PER is derived from a 1-standard deviation discount to its rolling four-quater 5-year average PER of 15x.

RETURN STATS	
Price (11 Jun 14)	3.03
Target Price	3.11
Expected Share Price Return	+3.0%
Expected Dividend Yield	+5.6%
Expected Total Return	**+8.6%**

STOCK INFO	
KLCI	1,878.4
Bursa / Bloomberg	8664 / SPSB MK
Board / Sector	Main / Property
Syariah Compliant	Yes
Issued shares (mil)	2,517.4
Par Value (RM)	0.75
Market cap. (RM'm)	7,627.8
Price over NA	1.3x
52-wk price Range	RM2.7 - RM3.5
Beta (against KLCI)	0.8
3-mth Avg Daily Vol	0.7m
3-mth Avg Daily Value	RM1.98m
Major Shareholders (%)	
Yayasan Pelaburan Bumiputera	51.9
ASB	15.1
KWAP	6.9
EPF	6.4

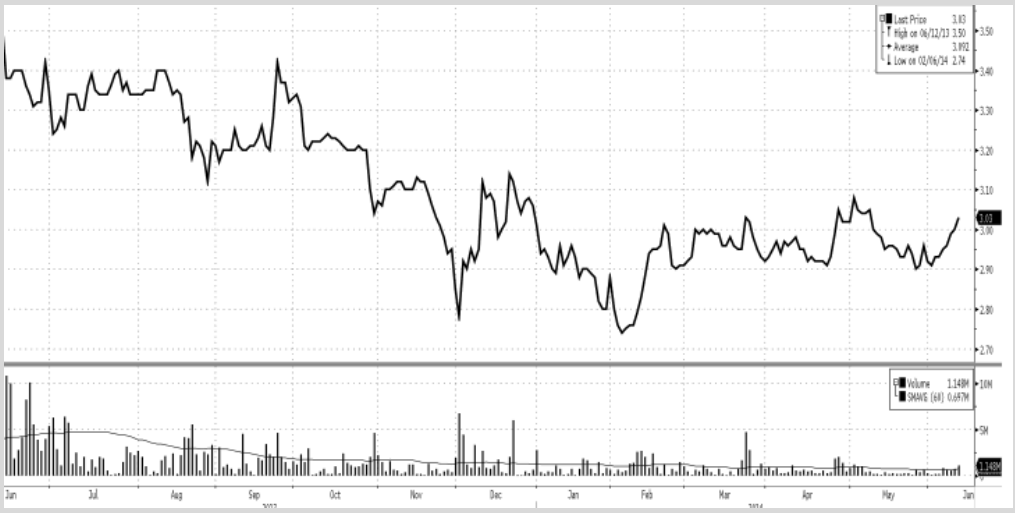
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INVESTMENT STATISTICS

FYE Oct (RM'm, unless otherwise stated)	FY12	FY13	FY14F	FY15F
Revenue	2,526.6	3,060.5	3,724.0	5,015.9
EBIT	582.5	575.8	612.7	844.2
Pretax Profit	567.5	533.8	547.7	779.2
Net Profit	393.8	394.8	405.3	578.9
EPS (sen)	20.5	17.3	17.4	24.9
EPS growth (%)	13.5	-15.6	0.6	42.8
PER (x)	14.8	17.5	17.4	12.2
DPS (sen)	14.0	11.8	11.9	17.0
Dividend Yield (%)	4.6	3.9	3.9	5.6

Source: Company, Forecasts by MIDF Research

DAILY PRICE CHART



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SP SETIA BERHAD: 2QFY14 Results Summary

FYE Oct (RM'm, unless otherwise stated)	Quarterly Results			Cumulative		Comments
	2Q14	YoY (%)	QoQ (%)	1HFY14	YoY (%)	
Revenue	952.4	*33.9*	*32.0*	1,673.9	*19.7*	
Gross profit	271.4	*25.1*	*32.3*	476.4	*15.4*	
Gross margin	28.5	*(6.6)*	*0.3*	28.5	*(3.6)*	
Operating profit	196.7	*37.1*	*15.8*	366.5	*34.7*	
Operating margin	20.7	*2.4*	*(12.2)*	21.9	*12.6*	
Pre-tax profit	165.4	*27.1*	*12.4*	312.5	*26.9*	
Tax	(47.0)	*31.9*	*55.7*	(77.1)	*31.7*	Effective tax rate 28.4% vs 27.4% in FY13
Net Profit	118.4	*23.6*	*1.2*	235.4	*25.4*	
EPS (sen)	3.0	*(24.9)*	*32.0*	7.0	*(18.9)*	
Segmental Breakdown						
Revenue						
Property	891.2	*35.4*	*32.9*	1,561.9	*21.2*	
Construction	38.8	*70.1*	*51.6*	64.4	*24.6*	Revenue and PBT remain a small percentage of overall Group operations. Revenue and PBT increased due to the construction of a concession asset in Penang and the Jabatan Keretapi Negeri Sabah building in Sabah.
Others	22.3	*(26.7)*	*(11.9)*	47.7	*(18.3)*	
Total	952.4	*33.9*	*32.0*	1,673.9	*19.7*	
PBT						
Property	156.4	*28.2*	*14.5*	293.1	*25.1*	
Construction	(1.6)	*(284.8)*	*150.1*	(2.3)	*(259)*	
Others	10.5	*45.6*	*(5.8)*	21.7	*103.1*	
Total	165.4	*27.1*	*12.4*	312.5	*26.9*	

Source: Group, MIDF Research

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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.