12 March 2015 | 1QFY15 Results Review

SP Setia Berhad

***Maintain* NEUTRAL**

Expect lower new sales in FY15

***Adjusted* Target Price: RM3.33**
(*previously* RM3.11)

INVESTMENT HIGHLIGHTS

- **1QFY15 Core Net Income (CNI) of RM124m met ours and consensus estimates.**
- **1QFY15 new sales declined -37%yoy.**
- **As expected, no dividend was declared in 1QFY15 but we expect a net dividend of 13.5 sen for the full year of FY15 representing a decent yield of 4.0%.**
- **RM11.1b unbilled sales (with 51% from overseas projects) to provide support to its earnings for FY15 & FY16.**
- **Maintain NEUTRAL with an adjusted TP of RM3.33 (previously RM3.11).**

RETURN STATS	
Price (11 Mar 2015)	RM3.37
Target Price	RM3.33
Expected Share Price Return	-1.2%
Expected Dividend Yield	+4.0%
Expected Total Return	**+2.8%**

STOCK INFO	
KLCI	1,778.16
Bursa / Bloomberg	8664 / SPSB MK
Board / Sector	Main / Properties
Syariah Compliant	Yes
Issued shares (mil)	2,541.69
Par Value (RM)	0.75
Market cap. (RM'm)	8,565.51
Price over NA	1.47
52-wk price Range	RM2.88 - RM3.65
Beta (against KLCI)	0.55
3-mth Avg Daily Vol	1.09m
3-mth Avg Daily Value	RM3.79m
Major Shareholders	
PNB	51.1%
SKIM ASB	15.0%
KWAP	9.4%

Results within expectation: SP Setia Berhad (SPSETIA)'s 1QFY15 Core Net Income (CNI) of RM124m was within our expectation as it makes up 22% of our estimate (RM569m). It also met consensus expectation by achieving 21% of FY15 full year estimate of RM588m. We expect earnings to pick up from 2QFY15 onwards as its Australian project Fulton Lane's unbilled sales of RM1.42b is expected to be fully realized in 2QFY15. Revenue recognition for the Australian project is based on the completion method instead of progressive billing, hence this will cause a lumpy contribution to the Group's earnings.

1QFY15 new sales declined 37%yoy: The Company secured new sales of RM1.20b in 1QFY15 and this was 37% lower than 1QFY14's RM1.63b. The figure was in line with our expectation as it makes up 25% of our estimate of RM4.16b. However, it was behind management's target of RM4.6b accounting for only 22% thus far. For FY15, we have already assumed a decline of -10%yoy in new sales in our forecast. This is due to challenging outlook surrounding the local property market. The biggest contributor for FY15 news sales will be from Battersea Phase 3a ("BP3A") with an estimated GDV of RM1.5b. While we are positive on BP3A due to its previous success in Battersea Phase 1 (99% take up) and Battersea Phase 2 (85%), we believe that the slowdown in local property market will cause the Group's overall new sales to decline by -10%yoy in FY15.

As expected, no dividend was declared in 1QFY15 but we expect decent yield of 4.0% for full year FY15. The Company usually declares its dividend in the second quarter and the fourth quarter hence no dividend was expected in the first quarter. For the full year FY15, we expect its total dividends to be 13.5 sen representing decent 4.0% yield. This will be higher than the average dividend yield of 3.3% for property players under our coverage.

RM11.1b unbilled sales (with 51% from overseas project) to provide earnings support. SPSETIA has unbilled sales of RM11.1b as of end-FY14 and this will provide earnings visibility for 2 years. Out of the RM11.1b, 51% or RM5.67b was from overseas projects in UK (Battersea), Australia (Fulton Lane and Parque) and Singapore (Eco Sanctuary and 18 Woodsville). We view SPSETIA's exposure to overseas market as positive as this will provide diversification and help to mitigate the slowdown in local property market, hence providing support to its earnings for both FY15 and FY16.

Maintain NEUTRAL with adjusted Target Price (TP) of RM3.33. SPSETIA is expected to have good earnings growth in FY15 and FY16 resulting from its unbilled sales of RM11.1b. We also expect its FY15 dividend yield of 4.0% to be higher than peers average level of 3.3%. Although we expect its new sales to decline -10%yoy in FY15, its decent dividend yield should keep its share price supported. Its FY17 earnings will depend on new sales in FY15. This is due to the 2-year lagging effect of earnings in view of progressive billing nature of property development business. Overall, we maintain our NEUTRAL recommendation. Our TP is adjusted to RM3.33 based on 10% discount to RNAV (previously PER valuation method).

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

INVESTMENT STATISTICS

FYE Oct (RM'm, unless otherwise stated)	FY12	FY13	FY14	FY15F	FY16F
Revenue	2,527	3,261	3,810	5,419	6,353
Core EBIT	583	746	830	984	1,143
Core PBT	568	658	769	923	1,082
Net Income	394	418	406	569	682
Core Net Income	394	418	453	569	682
EPS (sen)	20.51	17.95	16.30	22.48	26.96
Core EPS (sen)	20.51	17.95	18.19	22.48	26.96
Net DPS (sen)	10.50	10.60	9.70	13.49	16.18
Net Dvd Yield	3.1%	3.1%	2.9%	4.0%	4.8%
Core PER	16.4	18.8	18.5	15.0	12.5
NTA/share (RM)	2.11	2.35	2.31	2.40	2.51
P/NTA	1.60	1.43	1.46	1.40	1.34
Core ROE	9.7%	7.6%	7.7%	9.3%	10.7%
Core ROA	4.2%	3.5%	3.5%	4.3%	5.0%

Source: Company, MIDF Research Forecast

SPSETIA 1QFY15 Results Summary

FYE Oct (RM'm, unless otherwise stated)	Quarterly Results			Comments
	1QFY15	%YoY	%QoQ	
Revenue	926.0	*28%*	*-25%*	*1QFY15 revenue grew 28%yoy due to higher revenue recognition as a result of increase in the progress of development works.*
Core EBIT	227.8	*34%*	*-20%*	*Core figure exclude GST impact of RM22.7m in 1QFY15.*
Core PBT	176.8	*20%*	*-23%*	
Net Income	101.3	*5%*	*-23%*	
Core Net Income	124.0	*28%*	*-10%*	*In line with expectation at 22% of our full year forecast (21% of consensus).*
EPS (sen)	3.99	*1%*	*-23%*	
Core EPS (sen)	4.89	*24%*	*-10%*	
Net DPS (sen)	0.00	*NA*	*NA*	
NTA/share (RM)	2.37	*3%*	*2%*	
Net Gearing (x)	0.38	*NA*	*NA*	
Core EBIT Margin	24.6%	*NA*	*NA*	
Core PBT Margin	19.1%	*NA*	*NA*	

Source: Company, MIDF Research Forecast

SPSETIA RNAV

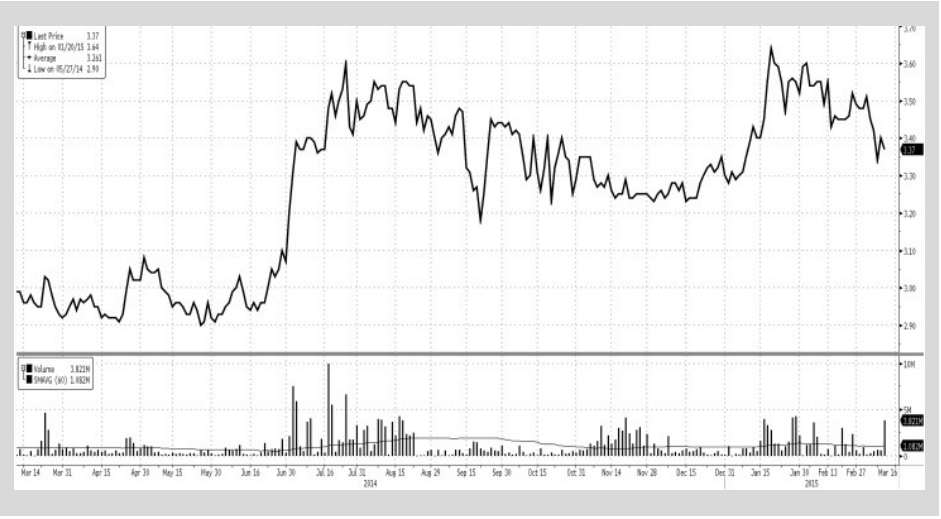
Landbank/Buildings	Location	Remaining GDV (RM m)	Methodology	Stake	Value (RM m)
Ongoing Projects - Malaysia (Central)					
Setia Alam	Shah Alam, Selangor	1110	DCF @ WACC 9%	100%	204.8
Setia EcoHill	Semenyih, Selangor	599	DCF @ WACC 9%	100%	110.5
Setia Walk	Puchong, Selangor	20	DCF @ WACC 9%	100%	3.8
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	2548	DCF @ WACC 9%	40%	177.8
Fulton Lane	Melbourne, Australia	1417	DCF @ WACC 9%	100%	271.4
Parque	Melbourne, Australia	684	DCF @ WACC 9%	100%	110.5
18 Woodsville	Singapore	187	DCF @ WACC 9%	100%	34.5
Eco Sanctuary	Singapore	810	DCF @ WACC 9%	100%	149.5
Eco Lakes	Vietnam	18	DCF @ WACC 9%	100%	3.4
Eco Xuan	Vietnam	9	DCF @ WACC 9%	100%	1.7

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	53	100%	1674.0
Setia City	Shah Alam, Selangor	91	3,963,960	53	100%	208.1
Setia Eco Park	Shah Alam, Selangor	305	13,294,512	53	50%	349.0
Setia Eco Glades	Cyberjaya, Selangor	145	6,307,488	61	70%	268.2
Setia EcoHill 1 and 2	Semenyih, Selangor	1435	62,508,600	23	100%	1406.4
Setia Eco Templer	Petaling Jaya, Selangor	195	8,494,200	235	100%	1995.3
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	1,236	40%	624.7
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	**11630.0**
Investment Properties	700.2
Fixed Assets	135.1
Cash	2412.0
Other Assets	634.4
Total Liabilities (excl. deferred tax liabilities)	-6305.2
Total RNAV (RM m)	**9206.6**
No of shares (m)	2489.0
RNAV per share (RM)	**3.70**
RNAV (RM)	**3.70**
Discount	10%
TP (RM)	**3.33**

Source: MIDF Research Forecast

DAILY PRICE CHART



Kelvin Ong, CFA
Alan Lim, CFA
alan.lim@midf.com.my
03-2173 8464

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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.