**16 June 2015 | 2QFY15 Result Review**

# SP Setia Berhad

***Better than expected margin from Fulton Lane project***

***Maintain* NEUTRAL**

***Adjusted* Target Price: RM3.35**
**(*Previously* RM3.33)**

## INVESTMENT HIGHLIGHTS

- **1HFY15 earnings above expectation.**
- **1HFY15 Core Net Income grew +104%yoy to RM350m.**
- **But management reduced its sales target to RM4.0b (from RM4.6b) due to slower momentum in new sales.**
- **Maintain NEUTRAL with higher Target Price of RM3.35 (from RM3.33).**

**1HFY15 earnings above expectation:** SP Setia Berhad (SPSETIA) 1HFY15's Core Net Income (CNI) of RM350m was above expectation as it accounted for 59% of consensus full year estimate of RM592m and 61% of our previous estimate of RM569m. Margin for Fulton Lane project in Australia was stronger than expected. Single tier dividend of 4.0 sen has been announced.

**1HFY15 Core Net Income grew +104%yoy to RM350m:** The increase in earnings was in line with higher revenue (+53%yoy to RM2.56b). Note that the increase in revenue was due to lumpy sales recognition of its Fulton Lane project in Melbourne, Australia. Revenue for the project is recognised using completion method instead of progressive billing. RM370m or 23% of the Group's revenue in 2QFY15 was contributed by Fulton Lane project. There remains a balance of RM1.06b unbilled sales from this project which has been fully completed to be recognised in 2HFY15.

**Momentum in new sales has turned slower with management reducing its target to RM4.0b from RM4.6b:** 7MFY15 new sales came in at RM2.0b making up 48% of our estimate of RM4.16b for the full year. Against last year 7MFY14's RM3.2b, it has declined by -38%yoy. We gather that United Kingdom housing market has been affected by uncertainties ahead of its general election. Locally, tighter lending from banks and weaker buyer sentiment have also contributed to the lower sales year-on-year. As a result, management has trimmed FY15 new sales target to RM4.0b.

**RM11.0b in total of unbilled sales (with 56% from overseas project) to provide earnings support.** SPSETIA has unbilled sales of RM11.0b as of end-April 2015 and this will provide earnings visibility for around 3 years. Out of the RM11.0b, 56% or RM6.17b is from overseas projects in UK (Battersea), Australia (Fulton Lane and Parque) and Singapore (Eco Sanctuary and 18 Woodsville). This should provide some cushion to the slowdown in local property market as well as provide earnings support for both FY15 and FY16.

| RETURN STATS | |
|---|---|
| Price (15 Jun 2015) | RM3.38 |
| Target Price | RM3.35 |
| Expected Share Price Return | -0.9% |
| Expected Dividend Yield | +4.2% |
| **Expected Total Return** | **+3.3%** |

| STOCK INFO | |
|---|---|
| KLCI | 1,722.16 |
| Bursa / Bloomberg | 8664 / SPSB MK |
| Board / Sector | Main / Properties |
| Syariah Compliant | Yes |
| Issued shares (mil) | 2,588.30 |
| Par Value (RM) | 0.75 |
| Market cap. (RM'm) | 8,748.46 |
| Price over NA | 1.42 |
| 52-wk price Range | RM2.93 - RM3.65 |
| Beta (against KLCI) | 0.54 |
| 3-mth Avg Daily Vol | 0.81m |
| 3-mth Avg Daily Value | RM2.81m |
| **Major Shareholders** | |
| PNB | 51.1% |
| SKIM ASB | 15.0% |
| KWAP | 9.4% |

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

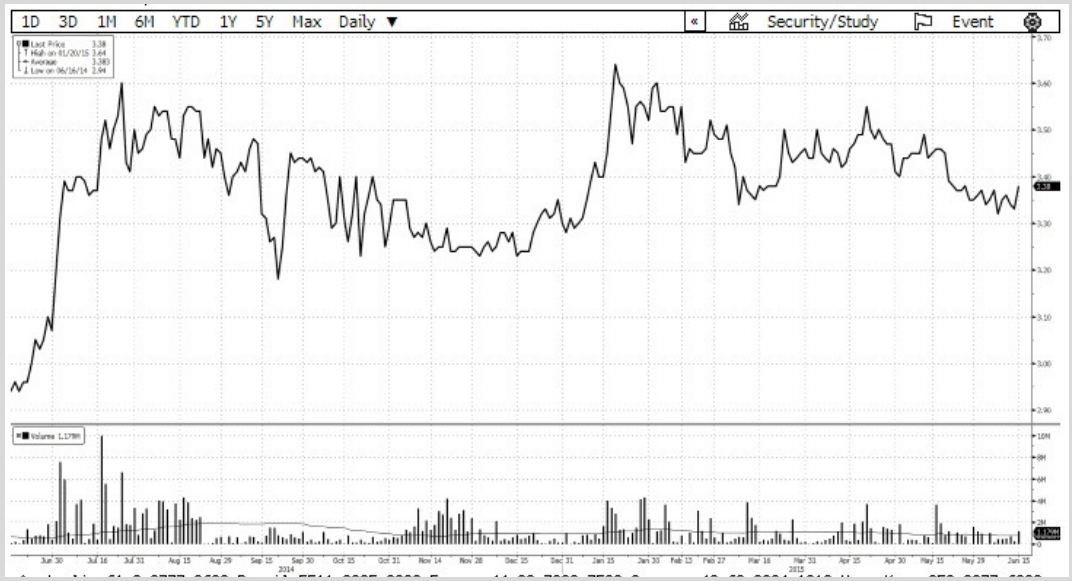
## INVESTMENT STATISTICS

| 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 | 1,036 | 1,204 |
| Core PBT | 568 | 658 | 769 | 975 | 1,143 |
| Net Income | 394 | 418 | 406 | 602 | 723 |
| Core Net Income | 394 | 418 | 453 | 602 | 723 |
| EPS (sen) | 20.51 | 17.95 | 16.30 | 23.80 | 28.55 |
| Core EPS (sen) | 20.51 | 17.95 | 18.19 | 23.80 | 28.55 |
| Net DPS (sen) | 10.50 | 10.60 | 9.70 | 14.28 | 17.13 |
| Net Dvd Yield | 3.1% | 3.1% | 2.9% | 4.2% | 5.1% |
| Core PER | 16.5 | 18.8 | 18.6 | 14.2 | 11.8 |
| NTA/share (RM) | 2.11 | 2.35 | 2.31 | 2.41 | 2.52 |
| P/NTA | 1.60 | 1.44 | 1.46 | 1.40 | 1.34 |
| Core ROE | 9.7% | 7.6% | 7.7% | 9.9% | 11.3% |
| Core ROA | 4.2% | 3.5% | 3.5% | 4.5% | 5.3% |

*Source: Company, MIDF Research Forecast*
*SP Setia has changed its Financial Year to Dec-2015 but we maintain it as Oct-2015 for comparison purpose.*

**Maintain NEUTRAL with higher TP of RM3.35 (from RM3.33).** Both estimated CNIs for FY15 and FY16 have increased by 6% each to RM602m and RM723m respectively after assuming higher margin for Australia projects (Fulton Lane and Parque). Our Target Price is raised slightly to RM3.35 due to the same reason (higher margin for Australia projects). The valuation methodology is unchanged which is based on 10% discount to RNAV. Although the better than expected earnings is a good news in the short term, the lower new sales target guided by management is expected to result in lower CNI growth ahead. We expect this to limit the upside potential of its share price. Hence, we maintain our NEUTRAL recommendation.

## DAILY PRICE CHART




*Source: MIDFR, Company*

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

**SPSETIA: 1HFY15 RESULTS SUMMARY**

| FYE Oct (RM'm, unless otherwise stated) | Quarterly Results | | | Cumulative | | Comments |
|---|---|---|---|---|---|---|
| | 2QFY15 | *%YoY* | *%QoQ* | 1HFY15 | *%YoY* | |
| Revenue | 1630.3 | *71%* | *76%* | 2556.3 | *53%* | *Strong growth in revenue was due to lumpy recognition of Fulton Lane project in Melbourne, Australia. Note that this project has been accounted for based on completion method (instead of progressive billing).* |
| Core EBIT | 383.2 | *95%* | *69%* | 609.8 | *66%* | *1HFY15 core figure exclude GST impact of RM22.7m.* |
| Core PBT | 344.5 | *108%* | *96%* | 520.0 | *66%* | |
| Net Income | 227.2 | *206%* | *124%* | 328.5 | *92%* | |
| Core Net Income | 226.9 | *206%* | *85%* | 349.7 | *104%* | *Above expectation as 1H15 core figure came in at 61% of our full year forecast and 59% of consensus. Margin for Australia project came in better than expected.* |
| EPS (sen) | 8.94 | *196%* | *124%* | 12.92 | *86%* | |
| Core EPS (sen) | 8.93 | *196%* | *85%* | 13.76 | *98%* | |
| Net DPS (sen) | 4.00 | *NA* | *NA* | 4.00 | *NA* | |
| NTA/share (RM) | 2.47 | *6%* | *4%* | 2.47 | *6%* | |
| Net Gearing (x) | 0.35 | *NA* | *NA* | 0.35 | *NA* | |
| Core EBIT Margin | 23.5% | *NA* | *NA* | 23.5% | *NA* | |
| Core PBT Margin | 21.1% | *NA* | *NA* | 21.1% | *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% | 179.0 |
| Fulton Lane | Melbourne, Australia | 1417 | DCF @ WACC 9% | 100% | 286.3 |
| Parque | Melbourne, Australia | 684 | DCF @ WACC 9% | 100% | 116.5 |
| 18 Woodsville | Singapore | 187 | DCF @ WACC 9% | 100% | 34.7 |
| Eco Sanctuary | Singapore | 810 | DCF @ WACC 9% | 100% | 150.5 |
| Eco Lakes | Vietnam | 18 | DCF @ WACC 9% | 100% | 3.5 |
| 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% | 1443.9 |
| 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** | **11691.0** |
| 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)** | **9267.6** |
| No of shares (m) | 2489.0 |
| **RNAV per share (RM)** | **3.72** |
| **FD RNAV (RM)** | **3.72** |
| Discount | 10% |
| **FD RNAV After Discount (RM)** | **3.35** |

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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. |