23 July 2015 | Corporate Update

SP Setia Berhad

Beneficiary of Strong Pound Sterling

Upgrade to BUY

***Increased* Target Price: RM3.60**
(from RM3.35)

INVESTMENT HIGHLIGHTS

- **Beneficiary of strong GBP, which has increased 9%ytd vs MYR.**
- **Expect good 3QFY15 due to recognition from Fulton Lane.**
- **FY15 sales target of RM4.0b likely to be achieved .**
- **Upgrade to BUY with higher TP of RM3.60.**

Beneficiary of higher GBPMYR which has increased 9% YTD: SP Setia (SPSETIA) is poised to benefit from the increase in the GBPMYR rate. This is due to its high exposure to London property market via Battersea Power Station (Battersea) project. Note that new sales from Battersea project in 7MFY15 are RM845m or 43% of the Group's total new sales of RM1.97b. Unbilled sales from Battersea project stood at RM3.62b or 33% of the Group's total unbilled sales of RM10.99b. As it is, GBPMYR rate has increased by 9% YTD to ~5.92 as of 22-July-2015.

Expect good 3QFY15 due to recognition from Fulton Lane: Recall that SPSETIA has started to recognize revenue of RM370m from Fulton Lane, Melbourne Australia (Tower 1) in 2QFY15. From our recent meeting with the Company, we gather that the handover of Fulton Lane Tower 2 is almost completed and hence we expect the remaining RM1.06b revenue to be recognised completely in 3QFY15. All in, we expect 9MFY15 core net profit to exceed RM500m which is 83% of consensus forecast of RM600m. The Company is expected to announce its result in Sep-2015.

FY15 sales target of RM4.0b likely to be achieved: We gather that the Company is maintaining its sales target of RM4.0b for FY15 on the back of RM5.0b launches. In our view, the Company is likely to achieve the target due to its focus to launch mid-range products (priced at RM0.5m to RM1.0m) and landed properties. Note that SPSETIA FY15 numbers will be for 14 months (from Nov-2014 to Dec-2015) as the Company recently changed its Financial Year End to December.

Upgrade to BUY with higher TP of RM3.60. Our Target Price has been increased to RM3.60 (from RM3.35) after imputing new GBPMYR rate of 1GBP/RM5.80 (from RM5.30). This has resulted in higher value for Battersea projects and landbank in our RNAV. Our methodology is unchanged which is based on 10% discount to RNAV. We like SPSETIA as: i) it is expected to benefit from higher GBPMYR rate, ii) the upcoming 3QFY15 result is likely to be good, iii) its unbilled sales visibility of ~3 years is the longest among peers and iv) its net dividend yield of 4.5% is higher than peers average of 3.5%.

RETURN STATS	
Price (22 July 2015)	RM3.19
Target Price	RM3.60
Expected Share Price Return	+13.0%
Expected Dividend Yield	+4.5%
Expected Total Return	**+17.5%**

STOCK INFO	
KLCI	1,729.53
Bursa / Bloomberg	8664 / SPSB MK
Board / Sector	Main / Properties
Syariah Compliant	Yes
Issued shares (mil)	2,595.13
Par Value (RM)	0.75
Market cap. (RM'm)	8,278.47
Price over NA	1.29
52-wk price Range	RM3.00 - RM3.65
Beta (against KLCI)	0.54
3-mth Avg Daily Vol	0.77m
3-mth Avg Daily Value	RM2.57m
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	581	723
Core Net Income	394	418	453	602	723
EPS (sen)	20.51	17.95	16.30	22.88	28.45
Core EPS (sen)	20.51	17.95	18.19	23.71	28.45
Net DPS (sen)	10.50	10.60	9.70	14.28	17.13
Net Dvd Yield	3.3%	3.3%	3.0%	4.5%	5.4%
Core PER	15.6	17.8	17.5	13.5	11.2
NTA/share (RM)	2.11	2.35	2.31	2.41	2.52
P/NTA	1.51	1.36	1.38	1.33	1.27
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
**SPSETIA has changed its Financial Year to Dec but we maintain it as Oct at this juncture for comparison purpose.*

SPSETIA PLANNED LAUNCHES FOR FY2015

Region	Planned Launch GDV (RM m)	Planned Launch Units
Central Malaysia	1600	3858
South Malaysia	469	1112
North Malaysia	816	976
Eastern Malaysia	37	85
International	2100	819
Total	**5022**	**6850**

Source: Company

GBPMYR rate has increased significantly



Source: Bloomberg

SPSETIA RNAV

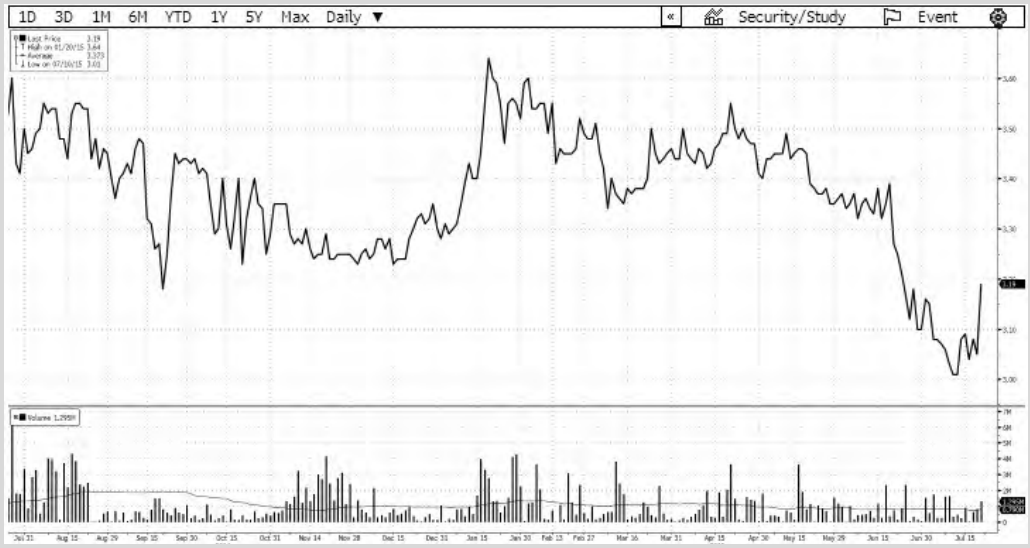
Landbank/Buildings	Location	Remaining GDV (RM m)	Methodology	Stake	Value (RM m)
Ongoing Projects - Malaysia (Central)					
Setia Alam	Shah Alam, Selangor	1110	DCF @ WACC 9%	100%	204.8
Setia EcoHill	Semenyih, Selangor	599	DCF @ WACC 9%	100%	110.5
Setia Walk	Puchong, Selangor	20	DCF @ WACC 9%	100%	3.8
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	1060	DCF @ WACC 9%	100%	301.7
Parque	Melbourne, Australia	695	DCF @ WACC 9%	100%	166.8
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						**12572.1**
Investment Properties						743.7
Fixed Assets						132.3
Cash						3376.2
Other Assets						1100.7
Total Liabilities (excl. deferred tax liabilities)						-7754.8
Total RNAV (RM m)						**10170.2**
No of shares (m)						2540.1
RNAV per share (RM)						**4.00**
FD RNAV (RM)						**4.00**
Discount						10%
FD RNAV (RM)						**3.60**

Source: Company, MIDF Research Forecast

DAILY PRICE CHART



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Source: Bloomberg

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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.