S P Setia Berhad

(8664 | SPSB MK) Property| Property

Maintain BUY

Attractive valuation

***Revised* Target Price: RM1.86**

(Previously RM2.53)

KEY INVESTMENT HIGHLIGHTS

- **9MFY19 earnings below expectations**
- **Higher earnings in 9MFY19 on strong sales of completed units and contribution from on-going projects**
- **9MFY19 new sales at RM3.07b**
- **Earnings estimates reduced**
- **Maintain BUY with a revised TP of RM1.86**

9MFY19 earnings below expectations. S P Setia 9MFY19 core net income of RM218.7m came in below expectations, meeting only 70% and 66% of our and consensus full year estimates respectively. The negative deviation could be attributed to the lower than expected progress billing. Note that we have excluded mainly land sales and forex gains in our core net income calculations.

Higher earnings in 9MFY19. 3QFY19 core net income was lower at RM66.1m (-13.2%yoy) as earnings in 3QFY18 were supported by profit recognition of Australian project which was on completion basis. That brought cumulative earnings in 9MFY19 to RM218.7m (+18.5%yoy). The higher earnings in 9MFY19 were mainly contributed by strong sales of completed units and earnings recognition of on-going projects. Nevertheless, 9MFY19 earnings were lower than expected which we think could be attributed to the lower than expected progress billing of on-going projects. Meanwhile, unbilled sales declined marginally to RM10.52b in 3QFY19 from RM10.67b in 2QFY19, providing 3 years earnings visibility.

9MFY19 new sales at RM3.07b. S P Setia achieved new sales of RM1.09b in 3QFY19, lower than new sales of RM1.26b in 2QFY19. That brought cumulative new sales to RM3.07b in 9MFY19 which makes up 67% of management new sales target of RM4.55b. Notably, 45% of new property sales form local projects were derived from the Home Ownership Campaign (HOC). Looking forward, S P Setia plans to launch project with GDV of RM2.17b for the remaining months of FY19, mainly landed properties in Klang Valley and Johor Bahru. As such, management is maintaining its new sales target of RM4.55b for FY19. New property sales outlook is tepid as new sales in FY19 is likely to be lower than new sales of RM5.1b achieved in FY18.

RETURN STATISTICS	
Price @ 13 November 2019 (RM)	1.35
Expected share price return (%)	37.8
Expected dividend yield (%)	6.7
Expected total return (%)	**44.5**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	0.8	-2.2
3 months	-2.2	-26.2
12 months	-33.5	-30.0

KEY STATISTICS	
FBM KLCI	1,597.22
Syariah compliant	Yes
Issue shares (m)	3958.56
Estimated free float (%)	19.58
Market Capitalisation (RM'm)	5,376.50
52-wk price range (RM)	RM1.18 - RM2.62
Beta vs FBM KLCI (x)	1.44
Monthly velocity (%)	11.02
Monthly volatility (%)	27.34
3-mth average daily volume (m)	4.76
3-mth average daily value (RM'm)	6.53
Top Shareholders (%)	
Yayasan Pelaburan Bumiputra	25.19
Skim Amanah Saham Bumiputera	24.19
Employees Provident Fund Board	12.02

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Maintain BUY with a revised TP of RM1.86. We cut our earnings forecasts for FY19/20F by 3.1%/2.8% to factor in the lower than expected progress billing. Correspondingly, our TP is revised to RM1.86 from RM2.53 as we widened our RNAV discount from 43% to 58% in view of the earnings miss and tepid new sales outlook. Nevertheless, we maintain our BUY call on S P Setia as valuation is attractive following steep decline of 42% in share price year-to-date. S P Setia is trading at 63% discount to its latest NTA of RM3.55 per share.

INVESTMENT STATISTICS

FYE Dec	FY16A	FY17A	FY18F	FY19F	FY20F
Revenue	4,957	4,520	3,594	4,239	4,150
Core EBIT	1,187	1,006	383	302	296
Core PBT	1,141	1,149	555	445	469
Net Income	808	933	671	303	319
Core Net Income	764	810	243	303	319
EPS (sen)	29.82	27.27	17.4	7.76	8.18
Core EPS (sen)	28.19	23.69	6.3	7.76	8.18
Net DPS (sen)	20.00	15.50	8.6	9.00	9.50
Net Dvd Yield	14.9%	11.6%	6.3%	6.7%	7.0%
Core PER	4.8	5.7	21.2	17.3	16.4
NTA/share (RM)	2.83	3.49	3.59	3.62	3.65
P/NTA	0.47	0.38	0.37	0.37	0.37
Core ROE	8.3%	6.8%	1.7%	2.1%	2.2%
Core ROA	4.1%	2.9%	0.8%	1.0%	1.1%

Source: MIDF Research

SPSETIA: 3QFY19 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	3QFY19	*%YoY*	*%QoQ*	FY19	*%YoY*
Revenue	932.1	*-6.1%*	*-30.2%*	3132.7	*21.7%*
Core EBIT	199.2	*-18.1%*	*3.1%*	608.4	*-0.9%*
Core PBT	136.3	*-18.9%*	*2.8%*	427.1	*6.4%*
Net Income	108.9	*67.1%*	*-21.5%*	300.5	*-47.2%*
Core Net Income	66.1	*-13.2%*	*-2.3%*	218.7	*18.5%*
EPS (sen)	2.72	*62.6%*	*-21.5%*	7.5	*-49.4%*
Core EPS (sen)	1.65	*-15.6%*	*-2.3%*	5.5	*13.3%*
Net DPS (sen)	0.00	*NA*	*NA*	0.0	*NA*
NTA/share (RM)	3.55	*NA*	*NA*	3.5	*NA*
Net Gearing (x)	0.69	*NA*	*NA*	0.7	*NA*
Core EBIT Margin	21.4%	*NA*	*NA*	19.4%	*NA*
Core PBT Margin	14.6%	*NA*	*NA*	13.6%	*NA*

Source: Company, MIDF Research

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%	175.6
Setia EcoHill	Semenyih, Selangor	599	DCF @ WACC 9%	100%	94.8
Setia Walk	Puchong, Selangor	20	DCF @ WACC 9%	100%	3.2
Setia Sky Residences	Kuala Lumpur	235	DCF @ WACC 9%	100%	37.2
Putrajaya	Putrajaya	110	DCF @ WACC 9%	60%	10.4
Setia Eco Park	Shah Alam, Selangor	115	DCF @ WACC 9%	50%	9.1
Setia Eco Glades	Cyberjaya, Selangor	276	DCF @ WACC 9%	70%	30.6
KL Eco City	Kuala Lumpur	1356	DCF @ WACC 9%	100%	214.6
Bangi	Selangor	2740	DCF @ WACC 9%	100%	286.0
Ongoing Projects - Malaysia (Johor)					
Bukit Indah	Johor	236	DCF @ WACC 9%	100%	37.3
Setia Tropika	Johor	89	DCF @ WACC 9%	100%	14.1
Setia Indah	Johor	39	DCF @ WACC 9%	100%	6.2
Setia Eco Gardens	Johor	90	DCF @ WACC 9%	70%	10.0
Setia Eco Cascadia	Johor	126	DCF @ WACC 9%	100%	19.9
Setia Sky 88	Johor	248	DCF @ WACC 9%	100%	39.2
Ongoing Projects - Malaysia (Others)					
Setia Pearl Island	Bayan Lepas, Penang	138	DCF @ WACC 9%	100%	21.8
Setia Greens	Bayan Lepas, Penang	179	DCF @ WACC 9%	100%	28.3
11 Brook Residences	Georgetown, Penang	48	DCF @ WACC 9%	70%	5.3
Setia V Residences	Penang	210	DCF @ WACC 9%	100%	33.2
Aeropod	Kota Kinabalu, Sabah	171	DCF @ WACC	100%	27.1

			9%			
Ongoing Projects - International						
Battersea	London, UK	3602	DCF @ WACC 9%		40%	250.6
Fulton Lane	Melbourne, Australia	382	DCF @ WACC 9%		100%	115.2
Parque	Melbourne, Australia	695	DCF @ WACC 9%		100%	175.2
A'Beckett	Melbourne, Australia	1370	DCF @ WACC 9%		100%	225.5
18 Woodsville	Singapore	104	DCF @ WACC 9%		100%	16.9
Eco Sanctuary	Singapore	659	DCF @ WACC 9%		100%	107.2
Toh Tuck Land	Singapore	1462	DCF @ WACC 9%		100%	103.7
Eco Lakes	Vietnam	18	DCF @ WACC 9%		100%	3.0
Eco Xuan	Vietnam	14	DCF @ WACC 9%		100%	2.4
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	65	100%	2080.6
Setia City	Shah Alam, Selangor	91	3,963,960	62	100%	243.8
Setia Eco Park	Shah Alam, Selangor	305	13,294,512	62	50%	408.8
Setia Eco Glades	Cyberjaya, Selangor	145	6,307,488	73	70%	321.8
Setia EcoHill 1 and 2	Semenyih, Selangor	1435	62,508,600	30	100%	1875.3
Setia Eco Templer	Petaling Jaya, Selangor	195	8,494,200	261	100%	2217.0
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	100%	1042.0
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	145	100%	221.6
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	1,231	40%	621.8
EcoXuan	Lai Thieu, Vietnam	11	479,160	43	95%	19.7
EcoLakes	My Phuoc, Vietnam	511	22,259,160	7	55%	87.3

Market Value of I&P Land	4276	186,262,560	33	100%	6146.7
Total Landbank Value					**19946.8**
Investment Properties					1016.0
Fixed Assets					271.5
Cash					3031.0
Other Assets					1925.3
Total Liabilities (excl. deferred tax liabilities & construction related payables)					-8433.7
Cash paid to acquire I&P					-3650.0
RNAV before RCPS-I (RM m)					**14106.8**
No of shares (m)					2853.6
RNAV per share before RCPS-I (RM)					**4.94**
Discount					10%
FD RNAV per share before RCPS-I(RM)					**4.45**
Cash to be raised (RCPS-i)					1069.69
RCPS-i @ RM1 each (maximum scenario)					305.62
Cash to be raised (RCPS-I B)					1199.57
RCPS-i B @ RM0.89 each (maximum scenario)					299.52
Cash to be raised (Rights Issue)					1196.21
No of shares from Rights Issue					421.20
Cash to be raised (Placement)					1199.90
No of shares from Placement					355.00
RNAV after RCPS-I, RCPS-IB, Rights Issue and Placement					**18772.1**
Fully Diluted No Of Shares					4234.94
RNAV per share after RCPS-I, RCPS-IB and Rights Issue (RM)					**4.43**
Discount					58%
FD RNAV per share after RCPS-I and Rights Issue (RM)					**1.86**

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% 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.