28 February 2019 | 4QFY18 Results Review

S P Setia Berhad

Lower earnings on high base effect

***Downgrade to* NEUTRAL**
(*Previously* BUY)
***Unchanged* Target Price: RM2.53**

INVESTMENT HIGHLIGHTS

- **FY18 earnings below expectations**
- **Lower full year earnings due to high base effect**
- **New sales of RM5.1b in FY18**
- **New sales target of RM5.65b for FY19**
- **Downgrade to Neutral with an unchanged TP of RM2.53**

FY18 earnings below expectations. S P Setia FY18 core net income of RM242.5m came in below expectations, meeting only 80% and 56% of our and consensus full year estimates. The negative deviation could be attributed to the slower than expected progress billing in 4QFY18. Dividend of 4.55sen per share was announced, bringing total dividend to 8.55sen per share in FY18 which is in line with our expectation.

Lower full year earnings due to high base effect. 4QFY18 core net income came in lower at RM58m (-79.8%yoy) as last year's earnings were boosted by significant profit contribution from the completion of Phase 1 of the Battersea Power Station. Cumulatively, FY18 core net income came in lower at RM242.5m (-76.4%yoy). The lower earnings in FY18 were due to lower progress billing of local projects and high base effect in FY17. Note that we have excluded a RM311m one-off provisional fair value gain arising from the re-measurement of equity stake in Setia Federal Hill Sdn Bhd in our core net income calculations. Meanwhile, unbilled sales increased to RM12.3b in 4QFY18 from RM7.92b in 3QFY18.

New sales of RM5.1b in FY18. S P Setia registered new property sales of RM1.9b in 4QFY18, higher than new sales of RM1.1b in 3QFY18. That brought total new sales to RM5.1b in FY18, slightly ahead of management new sales target of RM5b for FY18. Local projects contributed 80% of total new sales in FY18 while the remaining 20% new sales were from international projects. Looking ahead, S P Setia targets to launch projects with total GDV of RM6.8b in FY19, comprising RM6.66b from local projects while international launches comprised of new phases in Eco Lakes and Eco Xuan in Vietnam. Looking ahead, management sets new sales target of RM5.65b for FY19 and expects 89% of new sales to come from local projects.

RETURN STATS	
Price (27 Feb 2019)	RM2.48
Target Price	RM2.53
Expected Share Price Return	2.0%
Expected Dividend Yield	3.6%
Expected Total Return	**5.6%**

STOCK INFO	
KLCI	1,713.45
Bursa / Bloomberg	8664 / SPSB MK
Board / Sector	Main / Properties
Syariah Compliant	Yes
Issued shares (mil)	3,958.56
Market cap. (RM'm)	9,817
Price over NA	0.82
52-wk price Range	RM1.93 – RM3.39
Beta (against KLCI)	1.13
3-mth Avg Daily Vol	2.01m
3-mth Avg Daily Value	RM4.80m
Major Shareholders (%)	
YAYASAN PELABURAN BUMIPUTERA	25.65%
SKIM ASB	24.15%
EPF	11.05%
KWAP	7.62%

Downgrade to Neutral with an unchanged TP of RM2.53. We revise downwards our FY19F earnings forecast by -33% to factor in the slower-than-expected progress billing of local projects. We also introduce our earnings forecast for FY20. Our TP is maintained at RM2.53, based on 43% discount to RNAV. Share price of S P Setia gained 25% since we upgraded S P Setia to BUY on 15th November 2018 as we see value emerged following the decline in share price. Hence, we are downgrading our call on S P Setia to Neutral from Buy given the limited share price upside and subdued earnings visibility.

INVESTMENT STATISTICS

FYE Oct	FY16A	FY17A	FY18F	FY19F	FY20F
Revenue	4,957	4,520	3,594	3,674	3,750
Core EBIT	1,187	1,006	383	243	251
Core PBT	1,141	1,149	555	386	424
Net Income	808	933	671	262	288
Core Net Income	764	810	243	262	288
EPS (sen)	29.82	27.27	17.4	6.72	7.39
Core EPS (sen)	28.19	23.69	6.3	6.72	7.39
Net DPS (sen)	20.00	15.50	8.6	9.00	9.50
Net Dvd Yield	8.1%	6.3%	3.4%	3.6%	3.8%
Core PER	8.8	10.5	39.3	36.9	33.6
NTA/share (RM)	2.83	3.49	3.59	3.61	3.64
P/NTA	0.88	0.71	0.69	0.69	0.68
Core ROE	8.3%	6.8%	1.7%	1.8%	2.0%
Core ROA	4.1%	2.9%	0.8%	0.9%	1.0%

Source: Company, MIDF Research
**Financial Year End October*

4QFY18 Results Summary

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	4QFY18	*%YoY*	*%QoQ*	FY18	*%YoY*
Revenue	1019.1	*-23.4%*	*2.6%*	3593.6	*-16.2%*
Core EBIT	171.3	*-45.8%*	*-29.6%*	382.7	*-64.5%*
Core PBT	160.5	*-64.1%*	*-4.4%*	555.3	*-58.9%*
Net Income	101.5	*-63.2%*	*55.8%*	671.0	*-32.5%*
Core Net Income	58.0	*-79.8%*	*-23.9%*	242.5	*-76.4%*
EPS (sen)	2.58	*-68.0%*	*54.4%*	17.4	*-38.3%*
Core EPS (sen)	1.47	*-82.4%*	*-24.6%*	6.3	*-78.4%*
Net DPS (sen)	4.55	*-60.4%*	*NA*	8.6	*-44.8%*
NTA/share (RM)	3.59	*NA*	*NA*	3.6	*NA*
Net Gearing (x)	0.61	*NA*	*NA*	0.6	*NA*
Core EBIT Margin	16.8%	*NA*	*NA*	10.6%	*NA*
Core PBT Margin	15.8%	*NA*	*NA*	15.5%	*NA*

DAILY PRICE CHART



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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%	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 9%		100%	27.1
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	43%
FD RNAV per share after RCPS-I and Rights Issue (RM)	**2.53**

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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.