17 April 2017 | Corporate Update

SP Setia Berhad

Acquiring I&P Group and Bangi Land

***Upgrade to* BUY**

***Adjusted* Target Price (TP): RM4.00**
(Previously RM3.40)

INVESTMENT HIGHLIGHTS

- **Acquiring I&P Group**
- **Landbanking in Bangi as well**
- **Positive on both of the news – landbank to surge by 88%.**
- **Earnings estimate unchanged**
- **Upgrade to BUY with TP of RM4.00**

Acquiring I&P Group. SP Setia Berhad (SPSETIA) had entered into a non-binding Memorandum Of Intent (MOI) to commence negotiations on the proposed acquisition of the entire equity interest of I&P Group Sdn Berhad (I&P). We gather that the purchase price for I&P is estimated to be within the range of RM3.50b to RM3.75b. The final price will be determined after due diligence and valuation exercise. Fundings can be from combination of equity, internally generated funds and borrowings. Note that I&P has a sizeable remaining landbanks of 4,263 acres located in Klang Valley and Johor Bahru.

Landbanking in Bangi as well. Separately, SPSETIA has announced that it is acquiring a 342.5 acres of land in Bangi, Selangor from Seriemas Development Sdn Bhd (SDSB). SDSB is a subsidiary of PNB Development Sdn Bhd which in turn is a 100% owned subsidiary of PNB. The purchase amount is RM447.58m (RM30 per sqft) plus a 20% share of profit from the future development (up to a maximum RM3 per sqft). We gather that the Bangi Land is earmarked for mixed development (commercial + residential) with GDV of RM2.74b.

Positive on both of the news – landbank to surge by 88%. We believe that the re-rating catalyst for SPSETIA has just emerged as the Company is poised to join the FBMKLCI in three years time, based on our estimate. Combined with current landbank of 5218 acres, SPSETIA total landbank will eventually increase by 88% to 9824 acres. We are confident that the increased acreage should eventually lead to higher earnings (and hence market cap). The acquisition of I&P is also synergistic as its landbank are located in the growth area of the Klang Valley and Johor Bahru. As for the Bangi Land, synergy can be realized as it is located within the 5-km radius from Setia Ecohill and Setia Ecohill 2 at Semenyih.

Earnings estimate unchanged. Pending more details on I&P earnings and the final acquisition price, we maintain our FY17 and FY18 earnings estimate at RM724m and RM751m respectively.

RETURN STATS	
Price (14 Apr 2017)	RM3.55
Target Price	RM4.00
Expected Share Price Return	+12.8%
Expected Dividend Yield	+5.2%
Expected Total Return	**+17.0%**

STOCK INFO	
KLCI	1735.15
Bursa / Bloomberg	8664 / SPSB MK
Board / Sector	Main / Properties
Syariah Compliant	Yes
Issued shares (mil)	2,853.76
Par Value (RM)	0.75
Market cap. (RM'm)	10,130.85
Price over NA	1.25
52-wk price Range	RM2.8-RM3.63
Beta (against KLCI)	0.67
3-mth Avg Daily Vol	3.18m
3-mth Avg Daily Value	RM10.9m
Major Shareholders (%)	
PNB	22.11
KWAP	10.36
EPF	6.19

INVESTMENT STATISTICS

FYE Dec	FY14A*	FY15A**	FY16A	FY17F	FY18F
Revenue	3,810	6,746	4,957	6,096	6,327
Core EBIT	830	1,643	1,187	1,158	1,200
Core PBT	769	1,428	1,141	1,097	1,139
Net Income	406	918	808	724	751
Core Net Income	453	920	764	724	751
EPS (sen)	16.30	35.66	29.82	27.55	28.59
Core EPS (sen)	18.19	35.72	28.19	27.55	28.59
Net DPS (sen)	9.70	23.00	20.00	18.59	19.30
Net Dvd Yield	2.9%	6.8%	5.9%	5.5%	5.7%
Core PER	18.6	9.5	12.0	12.3	11.9
NTA/share (RM)	2.31	2.81	2.83	2.93	3.03
P/NTA	1.47	1.21	1.20	1.16	1.12
Core ROE	7.7%	12.4%	8.3%	7.7%	7.7%
Core ROA	3.5%	5.6%	4.1%	3.8%	3.9%

Source: Company, MIDF Research
**Financial Year End October*
***FY15 reflects 14 months period (Nov-2014 to Dec-2015)*

Upgrade to BUY with TP of RM4.00. Our Target Price has been increased to RM4.00 (from RM3.40) as we have added in the Bangi Land into our RNAV and reduced the discount to RNAV to 10% (from 15%). The lower discount is applied to reflect our optimism of the great synergy to be realized from the I&P deal and Bangi land. Overall, we like SPSETIA due to: i) our belief that it will gain FBMKLCI status in 3 years time, ii) positive newsflow surrounding the I&P deal and iii) good dividend yield of 5.2%.

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%	185.4
Setia EcoHill	Semenyih, Selangor	599	DCF @ WACC 9%	100%	100.0
Setia Walk	Puchong, Selangor	20	DCF @ WACC 9%	100%	3.4
Setia Sky Residences	Kuala Lumpur	235	DCF @ WACC 9%	100%	39.3
Putrajaya	Putrajaya	110	DCF @ WACC 9%	60%	11.0
Setia Eco Park	Shah Alam, Selangor	115	DCF @ WACC 9%	50%	9.6
Setia Eco Glades	Cyberjaya, Selangor	276	DCF @ WACC 9%	70%	32.3
KL Eco City	Kuala Lumpur	1356	DCF @ WACC 9%	100%	226.5
Bangi	Selangor	2740	DCF @ WACC 9%	100%	301.9
Ongoing Projects - Malaysia (Johor)					
Bukit Indah	Johor	236	DCF @ WACC 9%	100%	39.4
Setia Tropika	Johor	89	DCF @ WACC 9%	100%	14.9
Setia Indah	Johor	39	DCF @ WACC 9%	100%	6.5
Setia Eco Gardens	Johor	90	DCF @ WACC 9%	70%	10.5
Setia Eco Cascadia	Johor	126	DCF @ WACC 9%	100%	21.0
Setia Sky 88	Johor	248	DCF @ WACC 9%	100%	41.4
Ongoing Projects - Malaysia (Others)					
Setia Pearl Island	Bayan Lepas, Penang	138	DCF @ WACC 9%	100%	23.0
Setia Greens	Bayan Lepas, Penang	179	DCF @ WACC 9%	100%	29.9
11 Brook Residences	Georgetown, Penang	48	DCF @ WACC 9%	70%	5.6
Setia V Residences	Penang	210	DCF @ WACC 9%	100%	35.1
Aeropod	Kota Kinabalu, Sabah	171	DCF @ WACC 9%	100%	28.6
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
18 Woodsville	Singapore	104	DCF @ WACC 9%	100%	19.2
Eco Sanctuary	Singapore	659	DCF @ WACC 9%	100%	121.7
Eco Lakes	Vietnam	18	DCF @ WACC 9%	100%	3.5
Eco Xuan	Vietnam	14	DCF @ WACC 9%	100%	2.7

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	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			100%	191.7

			479,160	400		
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	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

Total Landbank Value	**13028.7**
Investment Properties	1016.0
Fixed Assets	271.5
Cash	4170.1
Other Assets	1925.3

Total Liabilities (excl. deferred tax liabilities & construction related payables)	-8433.7
RNAV before RCPS-I (RM m)	**11977.9**
No of shares (m)	2628.4
RNAV per share before RCPS-I (RM)	**4.56**
Discount	10%
FD RNAV per share before RCPS-I(RM)	**4.10**
Cash to be raised (RCPS-i)	1069.69
RNAV after RCPS-I (RM m)	**13047.6**
RCPS-i @ RM1 each (maximum scenario)	305.62
Fully Diluted No Of Shares	2934.00
RNAV per share after RCPS-I (RM)	**4.45**
Discount	10%
FD RNAV per share after RCPS-I(RM)	**4.00**

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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	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.