S P Setia Berhad

(8664 | SPSB MK) Main | Property

Maintain BUY

Earnings Dragged by Higher Tax Rate

Revised Target Price: RM0.71

Previously RM0.84

KEY INVESTMENT HIGHLIGHTS

- **1QFY23 earnings slightly below expectations**
- **Earnings dragged by higher tax rate**
- **1QFY23 new sales within target**
- **Earnings forecast revised downwards**
- **Maintain BUY with a revised TP of RM0.71**

1QFY23 earnings slightly below expectations. S P Setia Berhad 1QFY23 core net income of RM50.5m came in slightly below expectations, making up 17% of our and consensus full year estimates. The negative deviation could be mainly attributed to the higher than expected tax rate in 1QFY23.

Earnings normalised in 1QFY23. Sequentially, 1QFY23 core net income eased to RM50.5m (-49%qoq) as earnings normalised from high base in the previous quarter. Recall that earnings in 4QFY22 were boosted by contribution from overseas projects as S P Setia handed over Sapphire by The Gardens and phase one of UNO Melbourne in 4QFY22. On yearly basis, 1QFY23 core net income was lower at RM50.5m (-7.7%yoy) despite higher topline (+11.6%yoy). The higher topline was mainly due to higher progress billing from ongoing projects. Nevertheless, earnings were dragged by higher tax rate of 46% in 1QFY23 against tax rate of 33% in 1QFY22. Note that tax rate was higher in 1QFY23 due to certain non-tax-deductible expenses and non-recognition of deferred tax assets. Besides, the lower earnings in 1QFY23 were also owing to higher borrowing cost (+53%yoy) due to higher interest rate.

1QFY23 new sales within target. S P Setia recorded new property sales of RM1.03b in 1QFY23, lower than new sales of RM1.41b in 4QFY22. New property sales in 1QFY23 were mainly contributed by local projects at 87% while the remaining 13% was contributed by overseas projects. Meanwhile, new sales in 1QFY23 were within management expectations of achieving new sales of RM4.2b for FY23. Looking ahead, S P Setia plans to launch RM4.89b worth of local properties in FY23 mainly new projects from S P Setia's established townships which should underpin sales momentum going forward. Meanwhile, unbilled sales declined marginally to RM7.2b in 1QFY23 from RM7.3b in 4QFY22, providing less than 2 years earnings visibility.

Maintain BUY with a revised TP of RM0.71. We revise FY23F/24F/25F earnings forecast by -9.7%/-2.8%/-1.4% as we factor in higher tax rate. We revise our **TP** for S P Setia to **RM0.71** from RM0.84 as we widen RNAV discount to 83% from 80% due to slightly weaker earnings visibility in the near-term. We maintain our **BUY** call on S P Setia as we see new sales prospect for S P Setia remains stable due to launches of projects at its established township. Besides, valuation of S P Setia is undemanding, trading at steep 85% discount to NTA per share.

RETURN STATISTICS	
Price @ 17th May 2023 (RM)	0.53
Expected share price return (%)	+33.9
Expected dividend yield (%)	3.0
Expected total return (%)	**+36.9**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	21.1	17.7
3 months	11.3	26.6
12 months	78.7	70.1

INVESTMENT STATISTICS

FYE Dec	2023E	2024F	2025F
Revenue	4,206	4,150	4,155
Operating Profit	598	734	697
Profit Before Tax	419	452	519
Core PATAMI	273	316	367
Core EPS	6.99	8.10	9.40
DPS	1.60	1.65	1.80
Dividend Yield	3.0%	3.1%	3.4%

KEY STATISTICS	
FBM KLCI	1,424.34
Issue shares (m)	4,067.98
Estimated free float (%)	23.30
Market Capitalisation (RM'm)	2,162.54
52-wk price range	RM0.41-RM1.04
3-mth average daily volume (m)	2.38
3-mth average daily value (RM'm)	1.42
Top Shareholders (%)	
Amanah Saham Nasional Bhd	34.83
Yayasan Pelaburan Bumiputra	25.98
KWAP	8.74
EPF	5.77

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SPSETIA: 4QFY22 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	1QFY23	%YoY	%QoQ	FY23	%YoY
Revenue	967.7	11.6%	-43.3%	967.7	11.6%
Core EBIT	207.1	30.1%	-24.6%	207.1	30.1%
Core PBT	111.0	5.3%	-45.3%	111.0	5.3%
Net Income	55.4	-17.8%	-38.6%	55.4	-17.8%
Core Net Income	50.5	-7.7%	-49.0%	50.5	-7.7%
EPS (sen)	1.36	-18.0%	-38.7%	1.4	-18.0%
Core EPS (sen)	1.24	-7.8%	-49.1%	1.2	-7.8%
Net DPS (sen)	0.00	-100.0%	NA	0.0	-100.0%
NTA/share (RM)	3.450	NA	NA	3.4	NA
Net Gearing (x)	0.61	NA	NA	0.6	NA
Core EBIT Margin	21.4%	NA	NA	21.4%	NA
Core PBT Margin	11.5%	NA	NA	11.5%	NA

S P SETIA RNAV

Projects	Stake	Est remaining GDV (RM m)	WACC (%)	Value (RM m)
Setia Alam	100%	758.11	10%	47.09
Setia City	100%	7740.01	10%	288.43
Setia Alaman	100%	4177.98	10%	198.16
Setia Ecohill	100%	1739.88	10%	98.46
Setia Ecohill 2	100%	1739.88	10%	202.40
Glengowrie	100%	4600	10%	171.42
Setia Mayuri	100%	655.38	10%	38.84
Setia Eco Park	50%	1963.79	10%	42.84
Precinct Arundina @ Setia Eco Park	100%	375.57	10%	22.26
Setia Eco Glades	70%	901.91	10%	32.66
Setia Safiro	70%	356.73	10%	11.78
Setia Eco Templer	100%	943.64	10%	51.03
Setia Warisan Tropika	100%	620.49	10%	32.09
KL Eco City	100%	2203.62	10%	113.98
Setia Federal Hill	100%	20190	10%	517.41
Setia Alamsari North	100%	964.08	10%	52.14
Setia Alamsari South	100%	3194.22	10%	165.22
Putrajaya	60%	361.88	10%	12.87

Projects	Stake	Est remaining GDV (RM m)	WACC (%)	Value (RM m)
Setia Trio	70%	46.3	10%	2.11
QSPH	50%	16298	10%	281.92
Bandar Kinrara	51%	2923.46	10%	77.12
Setia Bayuemas (I&P)	52%	2520.84	10%	57.08
Setia Bayuemas (PG)	100%	372.9	10%	18.46
Alam Damai	70%	643.87	10%	20.49
Setia AlamImpian	99.9%	8404.29	10%	366.31
Temasya Glenmarie	66%	3026.27	10%	77.45
Setia Fontaines	100%	12041.24	10%	308.58
Setia Eco Forest @ Tanjung Bungah	100%	960	10%	56.90
Setia Pearl Island	100%	635	10%	35.94
Bukit Dumbar	100%	539	10%	35.12
Setia Sky Vista	100%	450	10%	27.95
Setia Sky Hill	100%	341	10%	22.22
Setia Indah Johor	100%	229.36	10%	14.25
Setia Tropika	100%	1200.42	10%	59.43
Setia Eco Cascadia	100%	1645.63	10%	81.48
Setia Business Park II	100%	293.67	10%	19.14
Bukit Indah Johor	100%	528.45	10%	28.58
Setia Eco Gardens	70%	1383	10%	52.36
Setia Business Park I	70%	185.06	10%	8.44
Taman Perling	100%	269.98	10%	16.77
Taman Pelangi	100%	1902.4	10%	94.19
Taman Rinting	89%	776.26	10%	34.24
Taman Pelangi Indah I	100%	1902.4	10%	76.59
Taman Industri Jaya	100%	134	10%	10.59
Mukim Tanjung Kupang	100%	1800	10%	75.41
Mukim Serkat, Pontian	100%	311	10%	14.75
Aeropod @ Tanjung Aru	100%	314	10%	18.61
Lintas Land	100%	240	10%	15.64

Projects	Stake	Est remaining GDV (RM m)	WACC (%)	Value (RM m)
Shangri-La Melbourne Hotel	100%	1973.47	10%	128.60
Battersea Power Station	40%	24071	10%	437.82
EcoLakes, My Phuoc	57%	1473.19	10%	38.35
EcoXuan, Lai Thieu	95%	552.98	10%	32.72
Setia Izumisano City Centre	100%	2488.49	10%	118.03
Unbilled sales		8710		512.63
Total				5,375.4
Shareholder Funds				14,139.0
Total RNAV				**19,514.37**
Fully Diluted Number of shares				4670
RNAV per share				4.18
Discount				83%
Target Price (RM)				**0.71**

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	3,763	4,454	4,206	4,150	4,155
Core EBIT	735	828	598	734	697
Core PBT	557	547	419	452	519
Net Income	284	308	273	316	367
Core Net Income	299	290	273	316	367
Core EPS (sen)	7.3	6.6	7.0	8.1	9.4
Core PER (x)	7.2	3.5	7.6	6.5	5.6
NTA/share	3.47	3.50	3.53	3.55	3.59
P/NTA	0.15	0.15	0.15	0.15	0.15

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Investment properties	2,046	2,058	2,088	2,109	2,130
Inventories	12,534	12,523	11,020	9,477	9,648
Total non-current assets	19,920	19,556	20,201	20,989	21,451
Inventories - Property dev cost	2,895	2,677	2,623	2,571	2,596
Short term deposits	206	774	1,508	1,929	2,412
Cash and bank balances	1,463	1,859	1,516	1,613	1,662
Other assets	6,700	4,954	4,971	5,680	6,504
Total Assets	31,184	29,819	30,819	32,781	34,625
LT Borrowings	9,309	6,959	7,586	7,965	8,522
ST Borrowings	3,247	4,420	5,304	6,525	8,025
Other Liabilities	2,997	3,093	2,432	2,571	2,147
Total Liability	15,553	14,473	15,322	17,060	18,695
Share capital	8,490	8,500	8,500	8,500	8,500
Other Equity	7,142	6,847	6,997	7,221	7,431
Total Equity	15,632	15,346	15,497	15,721	15,930
Equity + Liability	31,184	29,819	30,819	32,781	34,625

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
Cash flows from operating activities					
Net income before taxation	542	564	419	452	519
Net cash from operating activities	1118	1692	1675	1696	1662
Cash flows from investing activities					
Addition to inventories	-345	-306	-309	-235	-202
Net cash used in investing activities	-1010	-122	-125	-111	-84
Cash flows from financing activities					
Drawndown of bank borrowings	1428	1951	1658	1128	1015
Net cash from/(used in) financing activities	7	-2052	-1023	-1066	-1044
Net increase/(decrease) in cash and cash equivalents	115	-482	528	518	533
Cash and cash equivalent at 1 January	2821	2942	2495	3024	3542
Cash and cash equivalent at 1 December	2942	2495	3024	3542	4074

Profitability Margins	2021A	2022A	2023E	2024F	2025F
Core EBIT margin	19.5%	18.6%	14.2%	17.7%	16.8%
Core PBT margin	14.8%	12.3%	10.0%	10.9%	12.5%
PAT margin	7.6%	6.9%	6.5%	7.6%	8.8%
Core PATAMI margin	7.9%	6.5%	6.5%	7.6%	8.8%
ROE	2.1%	2.1%	1.8%	2.0%	2.3%
ROA	1.0%	1.0%	0.9%	1.0%	1.1%

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Source: Bloomberg, MIDFR

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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology