

S P Setia Berhad

1H19 Below Expectations

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1H19 CNP of RM125.3m is below our (37%) and consensus (35%) expectations on weaker-than-expected PBT margins, while 1H19 sales of RM1.98b also came below our estimate (at 37%) given the challenging property market outlook. We lower our sales target to RM4.55b (from RM5.40b) in line with management's new target (prev. RM5.65b). Furthermore, lowered FY19-20E CNP by 22-18% to RM265-387m on lower sales and margins. Downgrade to MP (from OP) on a lower TP of RM1.85 (from RM2.45).

1H19 CNP* of RM125.3m came in below our and consensus expectations at 37% and 35%, respectively. Top-line came in slightly above (at 57%) on the sale of British Embassy land making this quarter's top-line lumpy (note that land sales are part of our CNP assumptions). However, bottom-line was dragged down by lower-than-expected PBT margins of 15% (vs. our expectation of 20%) due to a weaker product margin mix as a result of the challenging property market conditions. Additionally, 1H19 sales of RM1.98b was also below management's target at 35% (RM5.65b) and our expectations at 37% (RM5.40b) underpinned by weak property market conditions as investors adopted a wait-and-see approach on fears of a sluggish market outlook. 1H19 sales were driven by local sales from the central (60%) and southern (20%) regions. No dividends for now.

Results' highlights. YoY-Ytd, top-line was up 39% on increased recognitions from existing developments as well as the sale of British Embassy land. PBT margin was down to 15% (vs. 40%) on the back of higher operating cost and a weaker product mix in 1H19. Note that the weaker PBT margin is also on the back of a high base in 1H18 due to a RM343m fair value gain from Setia Federal Hill Sdn Bhd. This coupled with higher effective tax rates of 30.9% (vs. 9.2%) caused CNP to increase by only 3%. QoQ, top-line was up by 54% due to similar reasons mentioned above, driving 2Q19 CNP up by 37% albeit higher cost of sales (+55%) and higher interest expense (+9%), and offset by lower effective tax rates of 26% (vs. 38%). Positively, inventories eased slightly YoY to RM1.4b (from RM1.5b).

Outlook. Management is lowering its FY19 sales target to RM4.55b (from RM5.65b), which includes land sales, backed by lower targeted launches of RM4.88b (vs. RM6.8b). Upcoming launches will be focused on landed residentials, located in; (i) Klang Valley on projects such as Setia Alam, Setia Eco Park, Setia Safiro, Setia Alamsari, Setia Ecohill 1 & 2, Setia Warisan Tropika and Bandar Kinrara, (ii) Johor projects, namely Setia Tropika, Setia Eco Gardens, Bukit Indah Johor and Taman Industri Jaya, (iii) Penang, Setia Fontaines, comprising mostly landed properties. Apart from inventory clearing efforts, the group has earmarked RM1.2b worth of non-core assets for disposal over FY19-20.

Lowered FY19-20E CNP by 22-18% to RM265-387m. This is on lower sales of RM4.55-4.67b in FY19-20 (from RM5.40-5.41b) on the back of lower PBT margins of 17% each (from 20-18%), closer to recent quarters. Unbilled sales of RM10.67b provide c.3 years earnings visibility. At current levels, FY19-20E dividend yields are decent at 4.0-5.7%.

Downgrade to MARKET PERFORM (from OP) on a lower Target Price of RM1.85 (from RM2.45) based on a wider SoP discount of 76% (from 68%) to FD SoP of RM7.75 as we priced in more downside risk to earnings and valuations. Our applied discount is pegged closer to the -2.0SD levels (from between -1.5 to -2.0SD) which is also in line with our universe of -1SD to -2SD (trough valuations) given disappointments seen over FY18. We also remain bearish on the sector for now given the lackluster demand, in line with the slower market outlook, while its relatively high net gearing with low FY19-20E ROE of 1.9%-2.7%, implies that earnings have to play catch-up to normalize (to low teens).

MARKET PERFORM ↓

Price : RM1.76
Target Price : RM1.85 ↓

Share Price Performance



KLCI 1,600.31
YTD KLCI chg -5.3%
YTD stock price chg -24.5%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker SPSB MK EQUITY
Market Cap (RM m) 7,114.8
Shares Outstanding 4,042.5
52-week range (H) 3.00
52-week range (L) 1.76
3-mth avg daily vol: 1,520,092
Free Float 39%
Beta 1.3

Major Shareholders

Yayasan Pelaburan Bumiputra 25.2%
Skim Amanah Saham Bumiputera 24.2%
Employees Provident Fund Board 11.6%

Summary Earnings Table

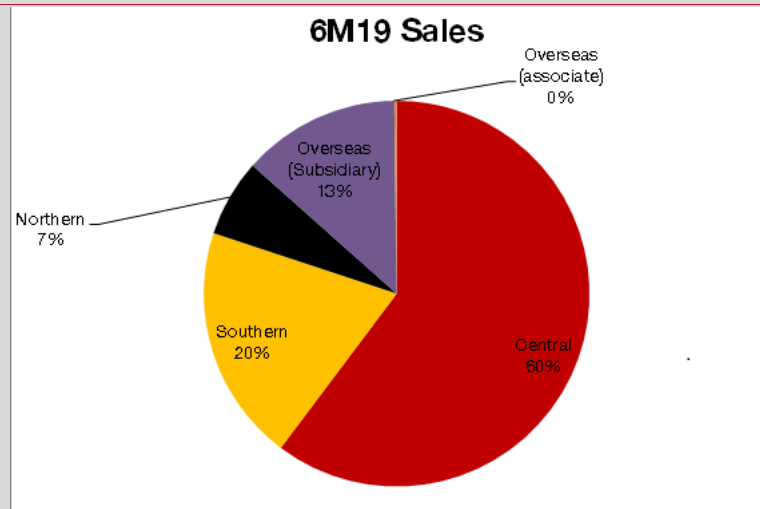
FYE Dec (RM m)	2018A	2019E	2020E
Turnover	3,594	3,790	4,710
EBIT	902	882	1,024
PBT	991	644	783
Net Profit (NP)	567	265	387
Core NP	208	265	387
Consensus (CNP)	N.A.	358	447
Earnings Revision	N.A.	-22%	-18%
Core EPS (sen)	5.4	6.9	10.1
Core EPS growth (%)	-76%	27%	46%
NDPS (sen)	8.6	7.0	10.0
NTA/Share (RM)	3.69	3.71	3.72
Core PER (x)	32.3	25.5	17.4
Price/NTA (x)	0.5	0.5	0.5
Net Gearing (x)	0.5	0.5	0.6
Dividend Yield (%)	4.9%	4.0%	5.7%

* Note our CNP is based on **profit attributable to ordinary shareholders** i.e. have deducted Perpetual Bonds and iRCPS (A & B) interest costs. Note that consensus' estimates have defined their CNP as before iRCPS interest costs, resulting in higher estimates.

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OTHER POINTS

Risks include: (i) weaker or stronger than expected property sales, (ii) margin fluctuations, (iii) changes in real estate policies and lending environment, (iv) cash-calls, and (v) timing of overseas/local billings.

1H19 Sales Composition

Source: Company, Kenanga Research

Results Highlight

FYE: 31st Dec (RMm)	2Q19	1Q19	QoQ%	2Q18	YoY%	1H19	1H18	Ytd-YoY
Revenue	1335.7	864.9	54%	926.0	44%	2200.6	1581.5	39%
Op costs w/o depn/amort	-1115.4	-721.8	55%	-744.2	50%	-1837.2	-1304.6	41%
Other Op Income	51.3	47.4	8%	434.6	-88%	98.7	501.3	-80%
EBITDA	271.6	190.5	43%	616.3	-56%	462.2	778.2	-41%
EBIT	264.3	183.9	44%	610.5	-57%	448.2	766.9	-42%
Interest Expense	-61.2	-56.3	9%	-80.1	-24%	-117.4	-133.1	-12%
Associate/JCE	0.5	-1.5	-136%	4.6	-88%	-1.0	-4.3	77%
Pretax profit	203.7	126.1	62%	535.0	-62%	329.7	629.4	-48%
Taxation	-53.6	-48.4	11%	-43.8	22%	-102.0	-57.7	77%
MI/P.Bond/iRCPS/Disc'td Ops	-77.7	-24.9	212%	-84.7	-8%	-102.5	-103.7	-1%
Net profit	72.4	52.8	37%	406.5	-82%	125.3	468.0	-73%
Core Net Profit	72.4	52.8	37%	64.6	12%	125.3	121.2	3%
EPS (sen)	1.81	1.3	36%	11.5	-84%	3.1	12.5	-75%
Diluted EPS (sen)	1.56	1.2	36%	9.8	-84%	2.7	10.7	-75%
DPS (sen)	0.0	0.0	>100%	4.0	-100%	0.0	4.0	-100%
NTA/share (RM)	3.56	3.60		3.65		3.56	3.65	
Net gearing (x)	0.57	0.59		0.44		0.57	0.44	
Pretax margin	15.2%	14.6%		57.8%		15.0%	39.8%	
Effective tax rate	26.3%	38.4%		8.2%		30.9%	9.2%	

Source: Company, Kenanga Research

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Segmental Breakdown								
RM'm								
Revenue	2Q19	1Q19	QoQ	2Q18	YoY	1H19	1H18	YoY-Ytd
Property Revenue	1,273.2	797.6	60%	869.3	46%	2,070.8	1,463.8	41%
Construction Revenue	15.7	23.6	-33%	14.8	6%	39.4	39.4	0%
Others Revenue	46.8	43.7	7%	41.8	12%	90.5	78.3	16%
	1,335.7	864.9	54%	926.0	44%	2,200.6	1,581.5	39%
EBIT								
Property	268.9	175.1	54%	617.8	-56%	444.0	765.4	-42%
Construction	(4.2)	(0.9)	369%	(6.1)	-31%	(5.1)	(6.3)	-19%
Others	(0.4)	9.7	-104%	(1.2)	-65%	9.3	7.8	19%
	264.3	183.9	44%	610.5	-57%	448.2	766.9	-42%
PBT								
Property	215.0	123.4	74%	544.5	-61%	338.4	629.6	-46%
Construction	(4.4)	(1.0)	353%	(6.1)	-28%	(5.4)	(6.4)	-16%
Others	(6.9)	3.6	-292%	(3.3)	110%	(3.3)	6.2	-154%
	203.7	126.1	62%	535.0	-62%	329.7	629.4	-48%
EBIT Margins								
Property	21.1%	22.0%		71.1%		21.4%	52.3%	
Construction	-26.9%	-3.8%		-41.3%		-13.1%	-16.1%	
Others	-0.9%	22.2%		-2.8%		10.3%	9.9%	
	19.8%	21.3%		65.9%		20.4%	48.5%	
PBT margins								
Property	16.9%	15.5%		62.6%		16.3%	43.0%	
Construction	-27.9%	-4.1%		-41.4%		-13.6%	-16.1%	
Others	-14.8%	8.2%		-7.9%		-3.7%	7.9%	
	15.2%	14.6%		57.8%		15.0%	39.8%	

Source: Company, Kenanga Research

SPSETIA + I&P FD SOP						
RM'm	A SETIA*	B I&P **	C Rights Issue	D iRCPS-B issuance	E Placement	A+B+C+D+E = F SETIA-I&P post funding
Effective GDV (RM'b)	108,432	48,265				
DCF of Future Profits	11,521	5,206				16,727
Shholder Funds	9,201	3,230	1,013	1,016	1,200	15,659
No. Shs ('m)	2,854	0	357	254	355	3,819
Dilution Impact	265	0	0	60		325
FD SOP	20,986	8,436	1,013	1,076	1,200	32,711
FD No. Shs ('m)	3,256	0	357	254	355	4,221
FD SOP (RM)	6.45					7.75
Property RNAV discount						-77%
Implied SOP discount						-76%
TP (RM)						1.85

* For SETIA column, effective remaining GDV is based on 31/12/16 with addition to new projects acquired post 31/12/16. All other B/S items are based on 31/12/16. ** GDV/DCF future profits at respective company subsidiaries/associate effective levels

Source: Kenanga Research

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SPSETIA RNAV (excluding I&P projects)						
Projects	Stake	Assumed Duration (Yrs)	Remaining GDV (RM'm) *	Remaining Net Profit (RM'm) *	WACC (%)	DCF (RM m)*
Unbilled Sales	100%	4	8,250	1,542	10%	1,222
Setia City	100%	15	8,521	1,373	10%	696
Setia Alam	100%	5	3,926	1,012	10%	767
Setia Federal Hill	100%	20	20,190	4,555	10%	1,603
Setia Ecohill 2	100%	6	4,920	920	10%	668
KL Eco City	100%	6	3,354	432	10%	314
Setia Ecohill	100%	6	2,791	450	10%	326
Setia Eco Templer	100%	11	1,736	280	10%	165
Setia Eco Park	50%	6	1,299	243	10%	176
Setia Eco Glades, Cyberjaya	70%	5	1,199	224	10%	170
Setia Sky Seputeh	100%	3	451	73	10%	60
Setia Trio	70%	3	375	70	10%	58
Putrajaya	60%	3	385	40	10%	30
Kenny Hill Grande	100%	3	174	34	10%	25
British High Commissioner	100%	7	1,043	168	10%	97
Setia Pearl Island, Golf Land	100%	3	635	164	10%	123
Setia Sky Vista	100%	3	450	102	10%	77
Setia Raintree Residence	100%	3	200	45	10%	34
Seberang Perai Utara	100%	15	9,600	1,671	10%	700
Setia Eco Forest, Tanjung Bungah	100%	4	960	186	10%	134
Setia Sky Hill, Sungai Nibong	100%	3	341	66	10%	50
Seri Bayu, Bayan Lepas	100%	3	240	45	10%	34
Setia Greens - Phase 2	100%	3	200	49	10%	37
Setia Sky Ville	100%	3	153	29	10%	22
Setia Sky Cubes, Teluk Kumbar	100%	3	80	15	10%	12
Pangsapuri Rimbun, Balik Pulau	100%	3	38	7	10%	6
Bukit Dumbar	100%	3	539	87	10%	65
SPICE Hotel	100%	3	350	36	10%	27
Setia Eco Cascadia	100%	6	1,703	329	10%	217
Setia Tropika	100%	10	1,639	370	10%	227
Setia Business Park II	100%	3	372	60	10%	50
Setia Indah Johor	100%	3	92	21	10%	17
Bukit Indah Johor	100%	4	908	205	10%	162
Setia Eco Gardens	70%	6	1,058	205	10%	135
Setia Business Park I	70%	3	215	40	10%	30
Aeropod @ Tanjung Aru	100%	11	1,958	290	10%	171
Battersea Power Station	40%	10	13,477	2,172	10%	1,335
EcoLakes, My Phuoc	55%	3	1,268	188	10%	156
EcoXuan, Lai Thieu	95%	3	466	69	10%	57
Canegie - Prahran	100%	4	129	19	10%	13
Exhibition Street (Telstra Land)	100%	4	2,167	321	10%	199
Toh Tuck, Singapore	100%	5	1,460	188	10%	130
A'Beckett, Melbourne	100%	4	1,370	177	10%	122
ICC, Osaka	100%	5	1,880	303	10%	209
Jln Chan Sow Lin (Land exchange Dev)	50%	15	8,150	841	10%	265
DCF						11,521
Shareholder's Funds @ 4Q16						9200.6
RNAV						20,721
Dilution Impact						265
FD RNAV						20,986
* Effective						

Source: Kenanga Research

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Peer Comparison

Name	Last Price	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div.Yld. (%)	Target Price (RM)	Rating
	(RM)				1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
PROPERTY DEVELOPERS UNDER COVERAGE																		
AMVERTON BHD	1.09	397.9	Y	12/2019	-0.7%	3.4%	-58.8%	7.3%	16.6	40.4	37.6	0.6	0.5	1.4%	0.0%	1.00	UP	
ECO WORLD DEVELOPMENT GROUP	0.740	2,178.8	Y	10/2019	-4.4%	-18.3%	9.5%	18.8%	13.2	12.0	10.1	0.5	0.5	4.8%	1.2%	1.15	OP	
HUA YANG BHD	0.385	135.5	Y	03/2020	-11.0%	-1.2%	153.2%	-11.8%	N.A.	16.5	18.7	0.2	0.2	1.4%	0.0%	0.335	UP	
IOI PROPERTIES GROUP BHD	1.26	6,937.7	Y	06/2019	-15.0%	-6.0%	2.2%	-5.3%	10.5	10.3	10.8	0.4	0.4	3.6%	4.0%	1.65	OP	
LBS BINA GROUP BHD	0.530	826.9	Y	12/2019	31.3%	0.9%	7.9%	-7.2%	9.7	9.0	9.7	0.6	0.5	6.6%	3.3%	0.495	MP	
MAGNA PRIMA BHD	1.20	399.2	Y	12/2019	40.0%	11.1%	9637.5%	338.9%	N.A.	1,593.0	362.9	1.1	1.1	0.1%	0.0%	0.740	UP	
MAH SING GROUP BHD	0.895	2,172.8	Y	12/2019	4.5%	7.0%	-4.3%	-0.3%	13.2	13.8	13.9	0.6	0.6	5.2%	4.5%	1.05	OP	
MALAYSIAN RESOURCES CORP BHD	0.840	3,706.1	Y	12/2019	-37.3%	58.2%	0.6%	34.5%	48.9	48.6	36.1	0.8	0.8	1.6%	1.6%	0.750	UP	
SIME DARBY PROPERTY BHD	0.910	6,188.8	Y	12/2019	13.6%	12.5%	1.5%	9.7%	16.9	16.6	15.2	0.6	0.7	3.9%	2.4%	1.10	MP	
SP SETIA BHD	1.76	7,114.8	Y	12/2019	5.5%	24.3%	27.2%	46.0%	32.3	25.5	17.4	0.5	0.5	1.9%	4.0%	1.85	MP	
SUNSURIA BHD	0.720	645.1	Y	09/2019	-18.5%	7.4%	-19.3%	4.4%	4.8	6.0	5.7	0.7	0.7	12.2%	0.0%	0.760	OP	
SUNWAY BHD	1.59	7,749.5	Y	12/2019	-2.7%	12.5%	-8.5%	10.6%	13.3	14.5	13.1	0.9	0.9	6.3%	3.7%	1.60	MP	
UEM SUNRISE BHD	0.745	3,380.4	Y	12/2019	37.0%	-14.3%	5.9%	-18.1%	10.4	9.8	11.9	0.5	0.5	4.8%	1.3%	0.835	MP	
UOA DEVELOPMENT BHD	2.06	4,050.0	Y	12/2019	0.6%	-0.4%	4.4%	0.8%	11.4	10.9	10.8	0.8	0.8	7.4%	6.8%	2.15	MP	
Simple Average					3.1%	6.9%	697.1%	30.6%	16.8	130.5	41.0	0.6	0.6	4.4%	2.3%			
<i>*SIMEPROP change of FY-end from 30-Jun to 31-Dec. Out historical numbers are based on FY18A while 1-Yr and 2-Yr Fwd are based on FY19E and FY20E figures</i>																		
CONSENSUS NUMBERS																		
GLOMAC BHD	0.380	295.9	Y	04/2020	12.9%	38.7%	25.7%	90.1%	21.8	17.3	9.1	0.3	N.A.	1.6%	2.4%	0.405	N.A	
MATRIX CONCEPTS HOLDINGS BHD	1.91	1,502.8	Y	03/2020	3.0%	9.6%	3.8%	9.3%	6.9	6.6	6.1	1.1	1.1	16.3%	6.8%	2.36	BUY	
PARAMOUNT CORP BHD	1.37	831.2	Y	12/2019	-1.4%	8.4%	2.4%	5.3%	9.1	8.8	8.4	0.8	N.A.	7.2%	4.7%	1.83	BUY	
TAMBUN INDAH LAND BHD	0.785	340.3	Y	12/2019	-14.3%	10.6%	-22.4%	10.1%	6.1	7.9	7.2	0.6	N.A.	7.1%	5.5%	0.897	BUY	
TITIJAYA LAND BHD	0.295	374.0	Y	06/2019	-14.3%	13.9%	-36.3%	19.5%	5.2	8.1	6.8	0.3	0.3	3.5%	43.4%	0.310	BUY	
YONG TAI BHD	0.245	130.9	Y	06/2019	28.1%	108.6%	-238.6%	281.2%	8.4	N.A.	17.1	0.3	0.3	-4.5%	0.0%	0.343	N.A	

Source: Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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