

SP Setia (SPSB MK)

On track

Profit and sales in line; HOLD

SPSB's 4Q21 core net profit of MYR125m (+71% YoY, >+100% QoQ) was in line with our expectation but above consensus. Sales wise, SPSB's 2021 actual sales of MYR4.26b (+11% YoY) were above its FY21 sales goal by 12% but in line with our expectation. Management has set a lower sales target of MYR4b for 2022 (-6% YoY). We adjust our FY22/23 earnings forecasts by -25%/-6%. Our TP is largely intact at MYR1.42 (-1sen; on an unchanged 0.4x FY22 PBV). HOLD.

Pick up in 4Q21 earnings post-lock down

Excluding MYR1.7m forex loss, SPSB reported 4Q21 core net profit of MYR125m (+71% YoY; from MYR10m net loss in 3Q21), bringing 2021 core net profit to MYR296m (+1x YoY; including land sales worth MYR200m) or equal to 103%/124% of our/consensus estimates. SPSB has declared a NDPS of 0.65sen; above expectation. Elsewhere, 4Q21 net gearing inched up to 0.61x, from 0.6x in end-3Q21.

Sets lower sales target for 2022

SPSB has managed to lock in property sales of MY4.26b in 2021 (65% Klang Valley; 62% of local sales were derived from Home Ownership Campaign 2021), or 12% above its FY21 sales target of MYR3.8b but in line with our sales assumption of MYR4.4b. It has set a lower sales goal of MYR4b (-6% YoY; 90% local sales) for 2022 driven by MYR4.3b worth of new launches (61% in Klang Valley; 58% priced below MYR1m/unit). As at Dec 2021, it has MYR555m worth of bookings. Unbilled sales stood at MYR10.2b (2.2x of our FY22F revenue) as at Dec 2021.

Earnings adjustments

We adjust our FY22/23 earnings forecasts by -24.9%/-6.4% to factor in 2022 sales assumption of MYR4b (-11%), actual 2021 results and the change in progress billing assumptions for its Melbourne projects. Earnings contribution from its Melbourne and London projects will be recognised between FY22-23. SPSB now trades at 0.3x/0.4x PRNAV/PBV.

| FYE Dec (MYR m) | FY20A | FY21A | FY22E | FY23E | FY24E |
|------------------------------|--------|-------|-------|-------|-------|
| Revenue | 3,228 | 3,763 | 5,100 | 5,617 | 5,919 |
| EBITDA | 440 | 734 | 700 | 842 | 866 |
| Core net profit | 147 | 296 | 440 | 474 | 490 |
| Core FDEPS (sen) | 3.6 | 7.3 | 10.8 | 11.6 | 12.0 |
| Core FDEPS growth(%) | (58.7) | 101.2 | 48.6 | 7.9 | 3.3 |
| Net DPS (sen) | 0.0 | 0.7 | 2.1 | 2.6 | 2.8 |
| Core FD P/E (x) | 27.4 | 17.8 | 11.9 | 11.0 | 10.6 |
| P/BV (x) | 0.3 | 0.4 | 0.4 | 0.4 | 0.3 |
| Net dividend yield (%) | 0.0 | 0.5 | 1.7 | 2.0 | 2.2 |
| ROAE (%) | (2.7) | 2.4 | 3.6 | 3.8 | 3.8 |
| ROAA (%) | 0.5 | 1.0 | 1.4 | 1.5 | 1.5 |
| EV/EBITDA (x) | 34.5 | 23.0 | 22.4 | 18.4 | 18.0 |
| Net gearing (%) (incl perps) | 58.6 | 60.7 | 52.6 | 50.3 | 49.5 |
| Consensus net profit | - | - | 362 | 353 | na |
| MKE vs. Consensus (%) | - | - | 21.6 | 34.3 | na |

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HOLD

| | |
|-----------------------|-----------------|
| Share Price | MYR 1.28 |
| 12m Price Target | MYR 1.42 (+11%) |
| Previous Price Target | MYR 1.43 |

Company Description

S P Setia Bhd is involved in the real estate businesses. Its reputable projects including Setia Alam and Setia Eco Park.

Statistics

| | |
|------------------------|-----------|
| 52w high/low (MYR) | 1.56/0.90 |
| 3m avg turnover (USDm) | 0.9 |
| Free float (%) | 68.9 |
| Issued shares (m) | 4,068 |
| Market capitalisation | MYR5.2B |
| | USD1.2B |

Major shareholders:

| | |
|---------------------------------|-------|
| Permodalan Nasional Bhd. | 24.9% |
| Bumiputra Investment Foundation | 24.8% |
| Kumpulan Wang Persaraan | 9.9% |

Price Performance



| | -1M | -3M | -12M |
|-----------------------|-----|-----|------|
| Absolute (%) | 4 | 0 | 40 |
| Relative to index (%) | (1) | (5) | 39 |

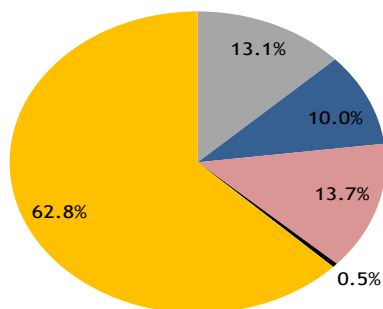
Source: FactSet

Value Proposition

- A versatile property developer with mid- to high-end projects, which include the reputable *Setia Alam*, *Setia Eco Park* and *Battersea Power Station*.
- Overseas earnings (Melbourne) will boost SPSB's 2022-2023 earnings.
- 63% of its total GDV is derived from Klang Valley followed by international (13%; UK, Vietnam, Japan), Iskandar Malaysia (10%), Penang (14%) and others.

GDV breakdown by location in 2021

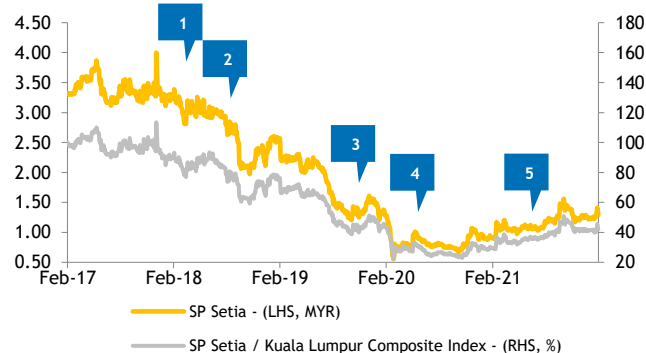
■ International ■ Johor ■ Penang ■ Sabah ■ Klang Valley



Source: Company

Price Drivers

Historical share price trend



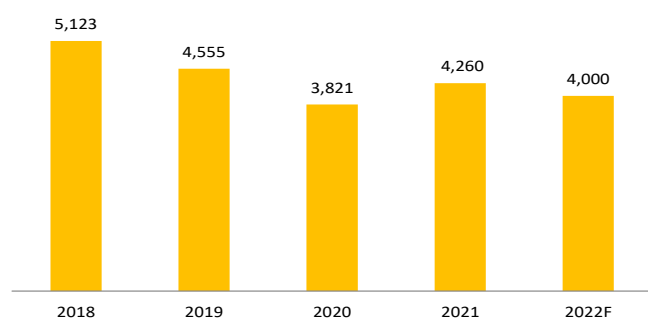
Source: Company, Maybank IBG Research

1. 2017: Talks of potential M&A involving unlisted property company, I&P Group resurfaced.
2. 2018: Merger with I&P Group funded by rights issue and private placement of new shares. Share price was, however, affected by the slower property demand in Malaysia.
3. 2019: Management cut 2019 sales target by 20%.
4. 2020: Management cut 2020 sales target by 17% due to MCO. SBSP reported sizeable impairment losses in FY20.
5. 2021: Strong sales recorded (MYR4.26b; +11.5% YoY) in 2021 despite the imposition of MCO2.0 and MCO3.0.

Financial Metrics

- SPSB has set a sales target of MYR4.0b for FY22 (-6% YoY).
- Unbilled sales stood at MYR10.2b at end-Dec 2021 (2.2x of our FY22E revenue forecast).

Sales trend since 2018 (MYRm)



Source: Company

Swing Factors

Upside

- Potential RNAV-accretive land acquisitions.
- Stronger-than-expected take-up for its on-going and new projects.

Downside

- A prolonged slowdown in the property sector.
- Weaker-than-expected operating margins on higher marketing expenses.
- Currency and country risks.

Table 1: Quarterly summary - SP Setia

| FY Dec (MYR m) | Quarterly | | | | | Cumulative | | |
|--------------------------|----------------|----------------|-----------------|--------------|-----------------|----------------|----------------|-----------------|
| | 4Q21 | 4Q20 | % YoY | 3Q21 | % QoQ | 2021 | 2020 | %YoY |
| Revenue | 1,032.6 | 1,113.7 | -7.3 | 594.6 | 73.7 | 3,762.7 | 3,228.1 | 16.6 |
| EBIT | 205.6 | 179.7 | 14.4 | 100.9 | 103.8 | 733.7 | 439.8 | 66.8 |
| Finance costs | -42.9 | -21.8 | -96.6 | -53.5 | 19.9 | -194.1 | -211.7 | 8.3 |
| Associate | 27.8 | -18.2 | >+100 | -16.1 | ->+100 | 14.5 | -371.5 | >+100 |
| Forex | -1.7 | -16.6 | 89.9 | 21.0 | >-100 | -11.6 | -13.1 | 11.7 |
| Profit before tax | 188.8 | 123.1 | 53.3 | 52.3 | >+100 | 542.5 | -156.5 | >+100 |
| Taxation | -62.1 | -39.4 | -57.6 | -30.0 | >-100 | -195.1 | -88.0 | >-100 |
| Minority interest | -3.3 | -27.2 | 87.8 | -11.3 | 70.5 | -63.0 | -76.2 | -7.4 |
| Net profit | 123.3 | 56.5 | >+100 | 11.0 | >+100 | 284.4 | -320.7 | >+100 |
| Core net profit | 125.0 | 73.1 | 71.1 | -10.0 | >+100 | 296.0 | 146.9 | >+100 |
| NDPS (sen) | 0.7 | 0.0 | n.m | 0.0 | n.m | 0.7 | 0.0 | n.m |
| | | | +/- ppt | | +/- ppt | | | +/- ppt |
| <i>EBIT margin (%)</i> | <i>19.9</i> | <i>16.1</i> | <i>3.8</i> | <i>17.0</i> | <i>2.9</i> | <i>19.5</i> | <i>13.6</i> | <i>5.9</i> |
| <i>Tax rate (%)</i> | <i>32.9</i> | <i>32.0</i> | <i>0.9</i> | <i>57.4</i> | <i>-24.5</i> | <i>36.0</i> | <i>-56.2</i> | <i>92.2</i> |

Source: Company

SPSB: RNAV estimate

| | | Remaining landbank | MV | BV | Surplus |
|---------------------------------------------|-------|-----------------------|----------------|----------------|---------------|
| | Stake | Acres | (MYRm) | (MYRm) | (MYRm) |
| Landbank | | | | | |
| Malaysia | | | | | |
| <u>Southern region</u> | | | | | |
| Bukit Indah | 100% | 43.0 | 28.1 | 10.3 | 17.8 |
| Setia Indah | 100% | 16.3 | 10.6 | 2.0 | 8.6 |
| Setia Cascadia | 100% | 116.2 | 75.9 | 75.9 | 0.0 |
| Setia Tropika | 100% | 185.8 | 121.4 | 57.1 | 64.4 |
| Setia Eco Gardens | 70% | 228.4 | 149.2 | 54.7 | 66.1 |
| Setia Business Park II | 100% | 43.4 | 28.4 | 20.8 | 7.6 |
| <u>Central region</u> | | | | | |
| Setia Eco Glades @ Cyberjaya | 70% | 59.0 | 97.7 | 92.5 | 3.6 |
| Setia Eco Hills | 100% | 212.4 | 138.8 | 120.3 | 18.5 |
| Semenyih land | 100% | 870.8 | 569.0 | 341.4 | 227.6 |
| Setia Alam | 100% | 306.7 | 400.7 | 46.6 | 354.1 |
| Setia Eco Park | 50% | 130.5 | 170.6 | 45.5 | 62.5 |
| <u>Northern region</u> | | | | | |
| Setia Pearl | 100% | 16.1 | 21.0 | 20.0 | 1.0 |
| Setia Greens | 100% | 12.3 | 29.0 | 29.0 | 0.0 |
| Seberang Perai | 100% | 1,264.0 | 673.9 | 561.6 | 112.3 |
| Sub-total: | | | 2,514.4 | 1,477.8 | 944.2 |
| DCF (discount factor: 18-25%) | | | | | NPV |
| Malaysia | | | | | (MYRm) |
| Setia City, Klang Valley | 100% | | | | 246.7 |
| KL Eco City, Klang Valley | 100% | | | | 110.0 |
| Setia Federal Hill at Bangsar, Klang Valley | 100% | | | | 307.5 |
| Seputeh Land, Klang Valley | 100% | | | | 21.5 |
| Setia V Residences, Penang | 100% | | | | 1.8 |
| Setia Raintrees Residences | 100% | | | | 0.0 |
| Aeropod - Tg Aru, Sabah | 70% | | | | 9.0 |
| Setia Sky 88, Johor Bahru | 100% | | | | 6.4 |
| Templer Park | 100% | | | | 42.4 |
| New land in Bangi | 100% | | | | 78.3 |
| <u>I&P Group</u> | | | | | |
| Bandar Kinrara | 51% | | | | 63.8 |
| Bayuemas | 52% | | | | 76.4 |
| Alam Damai | 70% | | | | 64.0 |
| Alam Sutera | 70% | | | | 0.8 |
| Alam Impian | 100% | | | | 287.4 |
| Alam Sari | 100% | | | | 110.1 |
| Temasya Putra | 100% | | | | 156.9 |
| Salak Tinggi | 100% | | | | 47.9 |
| Bandar Baru Seri Petaling | 100% | | | | 30.0 |
| Semenyih land | 100% | | | | 234.6 |
| Temasya Glenmarie | 66% | | | | 117.5 |
| Brogaville | 100% | | | | 36.7 |
| Taman Perling | 100% | | | | 12.8 |
| Taman Pelangi | 100% | | | | 82.3 |
| Taman Rinting | 89% | | | | 49.0 |
| Taman Pelangi Indah I | 100% | | | | 111.6 |
| Taman Industri Jaya | 100% | | | | 10.3 |
| Sg Sedu | 70% | | | | 15.7 |
| Kota Sri Langat | 66% | | | | 18.7 |
| Pulau Gadong Road | 100% | | | | 0.0 |
| Kota Bayuemas | 100% | | | | 12.3 |
| Taman Pelangi indah | 100% | | | | 265.6 |
| Mukim Tanjung Kupang | 100% | | | | 84.1 |
| Mukim Serkat | 100% | | | | 11.0 |

SPSB: RNAV estimate (continued)

| | | |
|-----------------------------------------|------|-----------------|
| Singapore | | |
| Daintree | 100% | 50.0 |
| Australia ^ | | |
| Prahran, Melbourne | 100% | 2.5 |
| UNO Melbourne | 100% | 93.7 |
| 308 Exhibition, Melbourne | 100% | 164.0 |
| United Kingdom* | | |
| Battersea Power Station | 40% | 176.7 |
| Sub-total: | | 3,210.2 |
| | | |
| Grand total | | 4,154.4 |
| Shareholders fund - 2021 | | 14,175.5 |
| RNAV | | 18,329.9 |
| | | |
| RCPS-i A | | 305.6 |
| RCPS-iB | | 322.8 |
| Existing share capital (m shares) | | 3,959.0 |
| Enlarge share capital (m shares) | | 4,587.4 |
| | | |
| FD RNAV (MYR/share) | | 4.00 |

Sources: Company, Maybank IBG Research

| FYE 31 Dec | FY20A | FY21A | FY22E | FY23E | FY24E |
|------------------------|-------|-------|-------|-------|-------|
| Key Metrics | | | | | |
| P/E (reported) (x) | nm | 16.1 | 11.8 | 11.0 | 10.6 |
| Core P/E (x) | 27.3 | 17.7 | 11.8 | 11.0 | 10.6 |
| Core FD P/E (x) | 27.4 | 17.8 | 11.9 | 11.0 | 10.6 |
| P/BV (x) | 0.3 | 0.4 | 0.4 | 0.4 | 0.3 |
| P/NTA (x) | 0.3 | 0.4 | 0.4 | 0.4 | 0.3 |
| Net dividend yield (%) | 0.0 | 0.5 | 1.7 | 2.0 | 2.2 |
| FCF yield (%) | nm | 13.2 | 24.7 | 7.7 | 3.7 |
| EV/EBITDA (x) | 34.5 | 23.0 | 22.4 | 18.4 | 18.0 |
| EV/EBIT (x) | 34.5 | 23.0 | 22.4 | 18.4 | 18.0 |

INCOME STATEMENT (MYR m)

| | | | | | |
|-----------------------------|---------|---------|---------|---------|---------|
| Revenue | 3,228.1 | 3,762.7 | 5,100.1 | 5,617.2 | 5,919.2 |
| EBITDA | 439.8 | 733.7 | 700.4 | 842.2 | 865.6 |
| Depreciation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Amortisation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT | 439.8 | 733.7 | 700.4 | 842.2 | 865.6 |
| Net interest income / (exp) | (211.7) | (194.1) | (230.1) | (229.2) | (229.5) |
| Associates & JV | (371.5) | 14.5 | 44.6 | 6.0 | 0.0 |
| Exceptionals | (13.1) | (11.6) | 0.0 | 0.0 | 0.0 |
| Other pretax income | 0.0 | 0.0 | 129.9 | 77.7 | 77.7 |
| Pretax profit | (156.5) | 542.5 | 644.8 | 696.7 | 713.8 |
| Income tax | (88.0) | (195.1) | (136.4) | (148.2) | (151.8) |
| Minorities | (76.2) | (63.0) | (68.7) | (74.0) | (71.7) |
| Discontinued operations | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reported net profit | (320.7) | 284.4 | 439.7 | 474.5 | 490.3 |
| Core net profit | 146.9 | 296.0 | 439.7 | 474.5 | 490.3 |

BALANCE SHEET (MYR m)

| | | | | | |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Cash & Short Term Investments | 2,919.2 | 3,071.2 | 4,197.3 | 4,376.5 | 4,332.6 |
| Accounts receivable | 1,088.5 | 972.3 | 1,719.7 | 1,894.0 | 1,995.9 |
| Inventory | 1,096.5 | 1,049.6 | 1,732.4 | 1,908.1 | 2,010.7 |
| Reinsurance assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Property, Plant & Equip (net) | 706.2 | 727.8 | 727.8 | 727.8 | 727.8 |
| Intangible assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Investment in Associates & JVs | 3,346.8 | 4,103.9 | 4,103.9 | 4,103.9 | 4,103.9 |
| Other assets | 21,193.6 | 21,259.5 | 19,128.8 | 19,000.7 | 19,325.7 |
| Total assets | 30,350.8 | 31,184.4 | 31,610.0 | 32,011.0 | 32,496.6 |
| ST interest bearing debt | 2,583.3 | 3,247.2 | 3,247.2 | 3,247.2 | 3,247.2 |
| Accounts payable | 2,255.3 | 2,299.1 | 2,480.8 | 2,512.2 | 2,620.3 |
| Insurance contract liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| LT interest bearing debt | 9,357.9 | 9,308.6 | 9,308.6 | 9,308.6 | 9,308.6 |
| Other liabilities | 755.0 | 698.0 | 697.0 | 697.0 | 697.0 |
| Total Liabilities | 14,951.2 | 15,552.6 | 15,733.2 | 15,764.7 | 15,872.8 |
| Shareholders Equity | 13,981.2 | 14,175.5 | 14,420.6 | 14,790.1 | 15,167.6 |
| Minority Interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total shareholder equity | 13,981.2 | 14,175.5 | 14,420.6 | 14,790.1 | 15,167.6 |
| Perpetual securities | 1,418.4 | 1,456.2 | 1,456.2 | 1,456.2 | 1,456.2 |
| Total liabilities and equity | 30,350.8 | 31,184.4 | 31,610.0 | 32,011.0 | 32,496.6 |

CASH FLOW (MYR m)

| | | | | | |
|-----------------------------------|---------------|--------------|----------------|--------------|---------------|
| Pretax profit | (156.5) | 542.5 | 644.8 | 696.7 | 713.8 |
| Depreciation & amortisation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Adj net interest (income)/exp | 21.4 | 21.1 | (230.1) | (229.2) | (229.5) |
| Change in working capital | 55.7 | 572.5 | 1,248.5 | 318.5 | 96.4 |
| Cash taxes paid | (164.0) | (162.8) | (136.4) | (148.2) | (151.8) |
| Other operating cash flow | 678.0 | 144.9 | 144.9 | 144.9 | 144.9 |
| Cash flow from operations | 434.6 | 1,118.1 | 1,712.1 | 826.4 | 620.7 |
| Capex | (641.6) | (427.3) | (427.3) | (427.3) | (427.3) |
| Free cash flow | (207.0) | 690.7 | 1,284.8 | 399.1 | 193.3 |
| Dividends paid | (40.4) | 0.0 | (26.4) | (87.5) | (104.9) |
| Equity raised / (purchased) | 0.0 | 0.3 | 0.0 | 0.0 | 0.0 |
| Change in Debt | 772.0 | 614.7 | 0.0 | 0.0 | 0.0 |
| Perpetual securities distribution | (132.0) | (132.0) | (132.3) | (132.3) | (132.3) |
| Other invest/financing cash flow | (490.8) | (1,024.2) | 0.0 | 0.0 | 0.0 |
| Effect of exch rate changes | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net cash flow | (98.2) | 149.5 | 1,126.1 | 179.2 | (43.9) |

| FYE 31 Dec | FY20A | FY21A | FY22E | FY23E | FY24E |
|----------------------------------------|---------|---------|---------|---------|---------|
| Key Ratios | | | | | |
| Growth ratios (%) | | | | | |
| Revenue growth | (17.8) | 16.6 | 35.5 | 10.1 | 5.4 |
| EBITDA growth | (47.5) | 66.8 | (4.5) | 20.2 | 2.8 |
| EBIT growth | (47.5) | 66.8 | (4.5) | 20.2 | 2.8 |
| Pretax growth | nm | nm | 18.9 | 8.1 | 2.5 |
| Reported net profit growth | nm | nm | 54.6 | 7.9 | 3.3 |
| Core net profit growth | (58.4) | 101.5 | 48.6 | 7.9 | 3.3 |
| Profitability ratios (%) | | | | | |
| EBITDA margin | 13.6 | 19.5 | 13.7 | 15.0 | 14.6 |
| EBIT margin | 13.6 | 19.5 | 13.7 | 15.0 | 14.6 |
| Pretax profit margin | nm | 14.4 | 12.6 | 12.4 | 12.1 |
| Payout ratio | 0.0 | 9.3 | 19.8 | 22.0 | 22.9 |
| DuPont analysis | | | | | |
| Net profit margin (%) | nm | 7.6 | 8.6 | 8.4 | 8.3 |
| Revenue/Assets (x) | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 |
| Assets/Equity (x) | 2.2 | 2.2 | 2.2 | 2.2 | 2.1 |
| ROAE (%) | (2.7) | 2.4 | 3.6 | 3.8 | 3.8 |
| ROAA (%) | 0.5 | 1.0 | 1.4 | 1.5 | 1.5 |
| Leverage & Expense Analysis | | | | | |
| Asset/Liability (x) | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Net gearing (%) (incl perps) | 58.6 | 60.7 | 52.6 | 50.3 | 49.5 |
| Net gearing (%) (excl. perps) | 64.5 | 66.9 | 58.0 | 55.3 | 54.2 |
| Net interest cover (x) | 2.1 | 3.8 | 3.0 | 3.7 | 3.8 |
| Debt/EBITDA (x) | nm | 17.1 | 17.9 | 14.9 | 14.5 |
| Capex/revenue (%) | 19.9 | 11.4 | 8.4 | 7.6 | 7.2 |
| Net debt/ (net cash) | 9,022.0 | 9,484.7 | 8,358.6 | 8,179.4 | 8,223.3 |

Source: Company; Maybank

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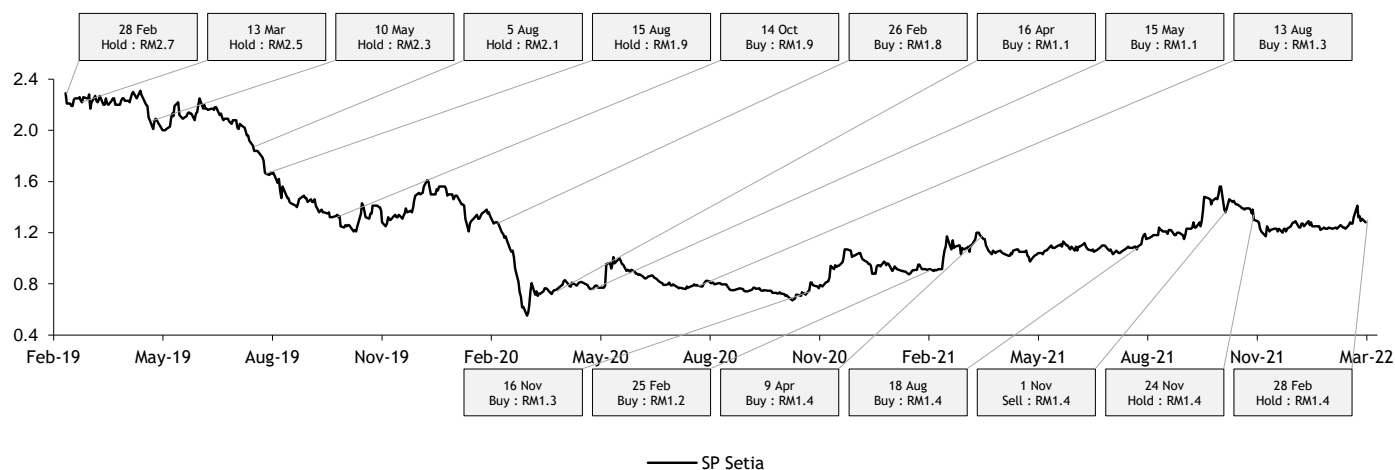
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