

SP Setia (SPSB MK)

Strengthen the foundation

BUY

[Prior:HOLD]

Share Price MYR 1.25
 12m Price Target MYR 1.42 (+14%)
 Previous Price Target MYR 1.42

Enhancing business sustainability; U/G to BUY

While SPSB strives to achieve its MYR4b sales goal (-6% YoY) for FY22, it is also aiming to strengthen its financials by paring down its net gearing (0.6x as at Dec 2021) via non-core land sales, reducing inventories, optimizing land use by bringing in strategic partners and improving/increasing digitalization. No change to our earnings forecasts and MYR1.42 TP (0.4x FY22 PBV). We upgrade SPSB to BUY in view of a total return of >15%.

Striving to lower its debt level

To lower its debt level, SPSB is looking at several measures including monetizing non-core landbank (about 1,000 acres) and bringing in strategic JV partners for some of its projects such as Setia Federal Hill (52 acres; MYR20b in GDV) in order to lower the upfront costs. Apart from that, SPSB will continue to focus on clearing its completed inventories while being careful in launching new projects. To recap, SPSB's net gearing was 0.6x as at end-Dec 2021 (industry average: 0.33x).

Cost saving measures to protect profit margins

Margin outlook may be unexciting due to higher raw material prices and SPSB's short-term focus on clearing its completed inventories (by offering attractive discounts/rebates). Depending on the projects' popularity and saleability, SPSB may have no choice but to absorb some of the additional operating costs. To cushion the impact from higher raw material costs, SPSB has adopted various cost-cutting measures including enhancing its digitalization (marketing) initiatives, which have saved almost 50% of its marketing costs as compared to traditional marketing methods.

Positive surprises from Battersea Power Station?

Potential surprises could come from the Battersea Power Station (BPS) commercial asset in 2027. The commercial asset, which was sold to a 65:35 PNB:EPF JV company for GBP1.58b in 2018, is under a price adjustment mechanism. The mechanism enables SPSB to enjoy the upside in the development if the actual rental income performs better than the agreed 5% yield on the GBP1.58b base price. As at Feb 2022, 84% of the commercial spaces have been successfully leased out to quality tenants including APPLE Inc. The retail spaces are slated to be opened in Sep 22.

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) 1.56/0.98
 3m avg turnover (USDm) 1.0
 Free float (%) 69.0
 Issued shares (m) 4,068
 Market capitalisation MYR5.1B
 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 (%)	(5)	(2)	9
Relative to index (%)	(4)	(5)	8

Source: FactSet

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	11.6	10.7	10.4
P/BV (x)	0.3	0.4	0.4	0.3	0.3
Net dividend yield (%)	0.0	0.5	1.7	2.1	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	22.2	18.3	17.8
Net gearing (%) (incl perps)	58.6	60.7	52.6	50.3	49.5
Consensus net profit	-	-	397	337	325
MKE vs. Consensus (%)	-	-	10.7	40.8	51.0

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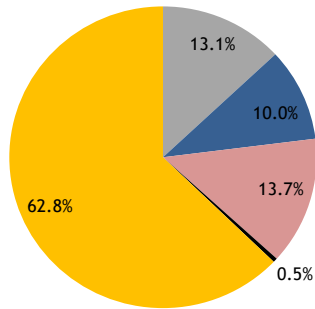
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 Tear Sheet Insert

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



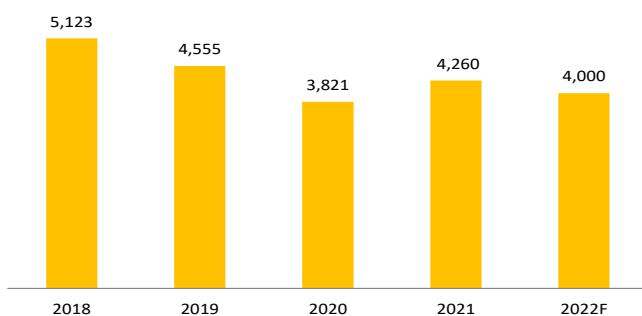
Source: Company, Maybank IBG Research

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.

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Risk Rating & Score ¹	17.4 (Low)
Score Momentum ²	-2.0
Last Updated	03 Dec 2021
Controversy Score ³ (Updated: 02 Dec 2021)	0- No incidents

Business Model & Industry Issues

- SPSB is one of the leading property developers in Malaysia. At end-Dec 2021, it has remaining landbank of 7,237 acres worth MYR122b in GDV, spread over Malaysia, London, Singapore, Vietnam and Australia. So many development projects could expose SPSB to certain ESG risks (including bribery and corruption).
- SPSB has established several policies i.e. the Code of Conduct and Business Ethics as well as Whistleblowing Policy to ensure the group's business conduct is consistently carried out ethically and with integrity.
- SPSB has established Organisation Anti-Corruption Plan (OACP) from year 2021 to 2023 in support of the National Anti-Corruption Plan agenda in 2019. The OACP is to inculcate a culture of high integrity by providing directions through a structured framework on corruption prevention in its effort to combat corrupt practices.

Material E issues

- SPSB was the first property developer in Malaysia to obtain the Chain of Custody (COC) certification issued by the Malaysian Timber Certification Scheme since 2017. The certification demonstrates SPSB's support for sustainable forest management.
- Pioneer property developer who completed four solar hybrid commercial hubs and convention centres. SPSB has completed the installation of 156 units solar PV rooftop at Setia EcoHill Walk which is known as first solar panel hybrid commercial hub in Semenyih.
- A total of 13 EV charger stations have been installed at Setia Eco Templer Clubhouse, Setia Alam Welcome Centre, Setia Eco Glades sales gallery, Lifestyle Hub @ Setia Eco Park, TrioWalk @ Setia Trio, convention centres and SPSB headquarter building.
- SPSB spent MYR740m for the development of affordable housing projects with 5,943 units of completed affordable houses in 2021.

Material S issues

- Female representation is 44% in workforce in 2021. Women of Inspiration @Setia, which was launched in Mar 2017, focuses on empowering women in SPSB by ensuring development of a good talent pipeline for female talents.
- SPSB was awarded Gold Winner for Excellence in Women Empowerment Strategy at Human Resources Excellence Award 2021 for the promotion of women in key management position.
- SPSB spent MYR257,196 for flood assistance to communities and employees.
- SPSB has spent MYR2.7m on COVID initiatives including COVID test kits, employees health and hygiene supplies, food supply aid, vaccination centres and workplace hygiene. It has also spent MYR1.05m under Setia Caring School Programme to help disadvantaged pupils in M'sia.

Key G metrics and issues

- There are 10 members on SPSB's board comprising of 1 President and Chief Executive Officer, 3 Non-Independent Non-Executive Director (NINED; including Chairman) and 6 Independent Non-Executive Director (INED).
 - In terms of board gender and diversity, 3 of the 10 board members are female and 2 are non-bumiputera.
 - SPSB has been audited by Messrs Ernst & Young PLT since 2015.
 - The cumulative remuneration of the board members represented 2% of SPSB's net profit in FY21.
 - Audit committee is made up of 3 INEDs. Its risk management committee comprised of 2 INEDs and 1 NINED while its nomination and remuneration committees comprise of 3 INEDs and 2 NINED.
 - SPSB has impaired both the local and overseas completed inventories in 2020 based on the existing market conditions. Management does not expect further impairments in the coming quarters.
 - SPSB had acquired I&P Group S/B for MYR3.65b from its major shareholder, PNB in 2017. The acquisition price, which was 40% discount to the adjusted unaudited NAV of I&P's properties of MYR6b seemed fair to us. The acquisition was funded via debts, rights issues and private placement. In 2018-2019, I&P contributed c.19-20% of SPSB's total sales.
- Inland Revenue Board of Malaysia (IRB) had demanded MYR75.4m from SPSB's wholly owned subsidiary Bandar Setia Alam S/B in additional taxes relating to five years of assessments and penalties in 2017. SPSB had reached a settlement with IRB to pay MYR2.6m in additional taxes, instead of MYR75.4m, in 2018

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

SPSB: RNAV estimate

	Stake	Remaining landbank Acres	MV (MYRm)	BV (MYRm)	Surplus (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	Stake				(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
I&P Group					
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	11.5	10.7	10.4
Core P/E (x)	27.3	17.7	11.5	10.7	10.4
Core FD P/E (x)	27.4	17.8	11.6	10.7	10.4
P/BV (x)	0.3	0.4	0.4	0.3	0.3
P/NTA (x)	0.3	0.4	0.4	0.3	0.3
Net dividend yield (%)	0.0	0.5	1.7	2.1	2.2
FCF yield (%)	nm	13.2	25.3	7.9	3.8
EV/EBITDA (x)	34.5	23.0	22.2	18.3	17.8
EV/EBIT (x)	34.5	23.0	22.2	18.3	17.8
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 IBG Research

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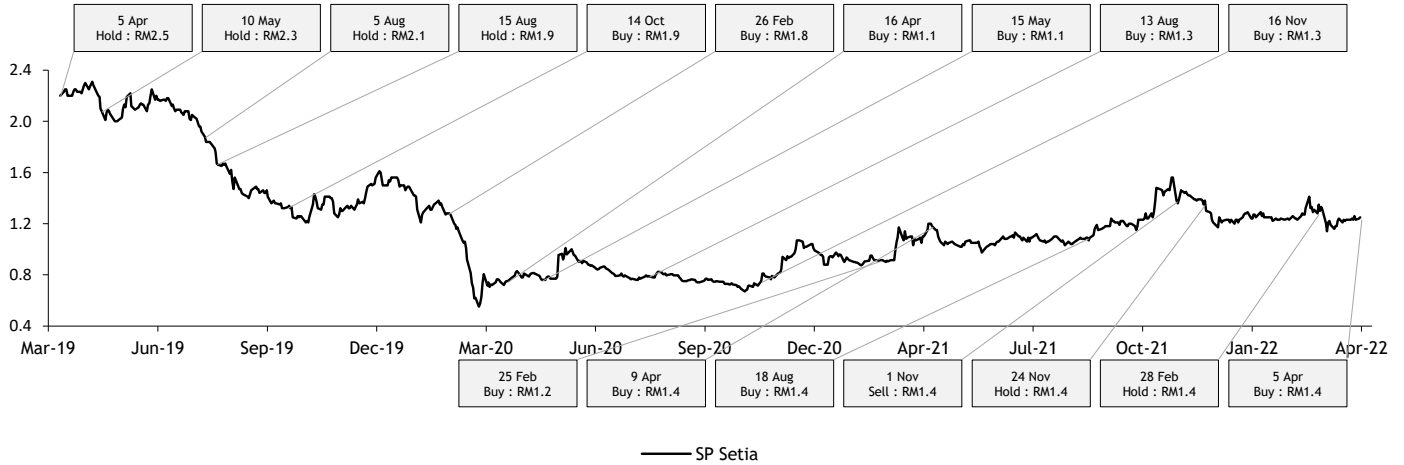
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