

# SP Setia (SPSB MK)

# BUY

Share Price	MYR 1.22
12m Price Target	MYR 1.42 (+16%)
Previous Price Target	MYR 1.42

## Issuing new RCPS-i

### Raises fund to redeem existing RCPS-i B

We are mildly positive on the proposed RCPS-i C, which rides on the current low interest rate environment and provides a cheaper funding cost of 5.43% dividend rate as compared to the existing RCPS-i B's 5.93%. We maintain our earnings forecasts pending further information on RCPS-i C. Reiterate BUY on SPSB with an unchanged MYR1.42 TP (0.4x FY22 PBV).

### Proposed new RCPS-i C

SPSB has proposed to undertake a renounceable rights issue of new class C Islamic redeemable convertible preference shares (RCPS-i C) to raise between MYR850m to MYR1.18b in gross proceeds. The proceeds will be mainly used to redeem all RCPS-i B (at 5.93% dividend rate; with +1% p.a. step-up features from the 6<sup>th</sup> year; conversion price: MYR3.70; issued in Dec 2017) amounting to MYR1.04b. The issue price, conversion ratio and entitlement basis have not been fixed at this juncture but the new RCPS will carry a preferential dividend rate of 5.43% p.a.

### More details on the RCPS-i C

1) An additional step-up preferential dividend rate of 1% p.a. above the preferential dividend rate (5.43%) shall be payable on RCPS-i C on an annual basis after the 5<sup>th</sup> anniversary of the issue date; 2) SPSB can redeem the outstanding RCPS-i C on or after the 5<sup>th</sup> anniversary of the issue date; and 3) If the gross proceeds to be raised are insufficient to fully redeem the outstanding RCPS-i B, SPSB will cover the remaining balance required to fully redeem the RCPS-i B with its internal funds.

### Maintain earnings forecasts

We are mildly positive on the proposed RCPS-i C given its lower dividend rate vs. RCPS-i B. We maintain our earnings forecasts for now pending further information on the proposed RCPS-i C (i.e. number of RCPS, issue price). The proposals are slated to be completed by 4Q22. As at end-Dec 2021, SPSB's net gearing was 0.6x (industry average: 0.33x).

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	11.3	10.5	10.1
P/BV (x)	0.3	0.4	0.3	0.3	0.3
Net dividend yield (%)	0.0	0.5	1.8	2.1	2.3
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	22.0	18.1	17.7
Net gearing (%) (incl perps)	58.6	60.7	52.6	50.3	49.5
Consensus net profit	-	-	397	337	335
MKE vs. Consensus (%)	-	-	10.7	40.8	46.2

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### Company Description

SP 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)	0.8
Free float (%)	69.0
Issued shares (m)	4,068
Market capitalisation	MYR5.0B USD1.1B

### Major shareholders:

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

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	(1)	16
Relative to index (%)	(0)	(6)	17

Source: FactSet

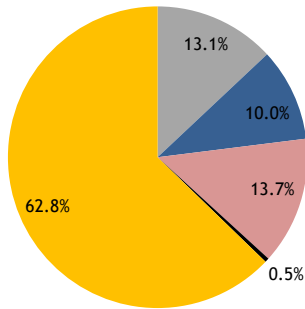
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 Tear Sheet Insert

## 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

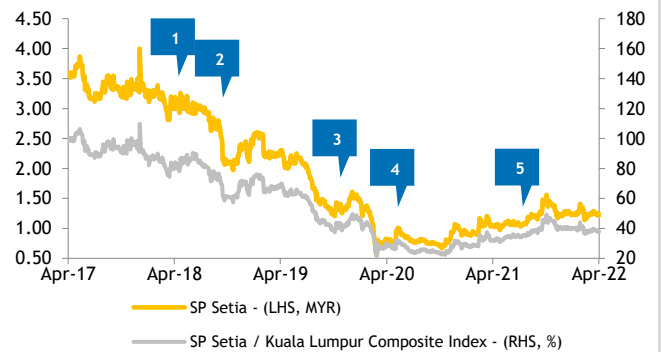
■ International ■ Johor ■ Penang ■ Sabah ■ Klang Valley



Source: Company

## Price Drivers

### Historical share price trend



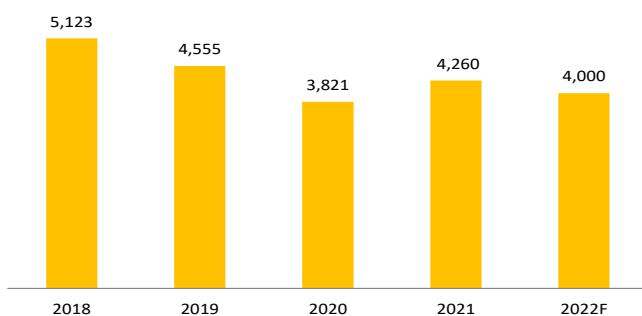
Source: Company, Maybank IBG Research

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 <sup>1</sup>	17.4 (Low)
Score Momentum <sup>2</sup>	-2.0
Last Updated	03 Dec 2021
Controversy Score <sup>3</sup>	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.

<sup>1</sup>**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. <sup>2</sup>**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. <sup>3</sup>**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

		Remaining landbank	MV	BV	Surplus
	Stake	Acres	(MYRm)	(MYRm)	(MYRm)
<b>Landbank</b>					
<b>Malaysia</b>					
<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
<b>Sub-total:</b>			<b>2,514.4</b>	<b>1,477.8</b>	<b>944.2</b>
<b>DCF (discount factor: 18-25%)</b>					<b>NPV</b>
<b>Malaysia</b>					<b>(MYRm)</b>
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&amp;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)

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

Sources: Company, Maybank IBG Research

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
P/E (reported) (x)	nm	16.1	11.3	10.4	10.1
Core P/E (x)	27.3	17.7	11.3	10.4	10.1
Core FD P/E (x)	27.4	17.8	11.3	10.5	10.1
P/BV (x)	0.3	0.4	0.3	0.3	0.3
P/NTA (x)	0.3	0.4	0.3	0.3	0.3
Net dividend yield (%)	0.0	0.5	1.8	2.1	2.3
FCF yield (%)	nm	13.2	25.9	8.1	3.9
EV/EBITDA (x)	34.5	23.0	22.0	18.1	17.7
EV/EBIT (x)	34.5	23.0	22.0	18.1	17.7

**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
<b>Total assets</b>	<b>30,350.8</b>	<b>31,184.4</b>	<b>31,610.0</b>	<b>32,011.0</b>	<b>32,496.6</b>
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
<b>Total Liabilities</b>	<b>14,951.2</b>	<b>15,552.6</b>	<b>15,733.2</b>	<b>15,764.7</b>	<b>15,872.8</b>
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
<b>Total shareholder equity</b>	<b>13,981.2</b>	<b>14,175.5</b>	<b>14,420.6</b>	<b>14,790.1</b>	<b>15,167.6</b>
Perpetual securities	1,418.4	1,456.2	1,456.2	1,456.2	1,456.2
<b>Total liabilities and equity</b>	<b>30,350.8</b>	<b>31,184.4</b>	<b>31,610.0</b>	<b>32,011.0</b>	<b>32,496.6</b>

**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
<b>Net cash flow</b>	<b>(98.2)</b>	<b>149.5</b>	<b>1,126.1</b>	<b>179.2</b>	<b>(43.9)</b>

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
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
<b>Profitability ratios (%)</b>					
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
<b>DuPont analysis</b>					
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
<b>Leverage &amp; Expense Analysis</b>					
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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