24 November 2023

Property | Real Estate

SP Setia (SPSB MK)

Neutral (from Buy)

Hit By Higher Tax Expense; D/G To NEUTRAL

Target Price (Return):	MYR0.93 (+10%)
Price (Market Cap):	MYR0.85 (USD750m)
ESG score:	3.0 (out of 4)
Avg Daily Turnover (MYR/USD)	13.8m/2.95m

- **Downgrade to NEUTRAL from Buy with an unchanged MYR0.93 TP, 10% upside.** SP Setia's 3Q23 results disappointed again. While revenue improved from stronger property sales, earnings were hit by higher-than-expected effective tax rate. Meanwhile, 9M23 sales target hit MYR3.9bn, tracking management's MYR4.2bn target. We downgrade our call and lower our earnings forecasts after adjusting our cost assumptions.
- **3Q23 results.** The stronger QoQ and YoY revenue growth was mainly due to the handover of UNO Melbourne (Stage 2) which offset lower progress billings from Malaysia and Singapore. Net interest expense only increased marginally QoQ from the group's disciplined debt reduction, which also resulted in an improved net gearing of 0.53x (Jun 2023: 0.55x, Dec 2022: 0.57x). However, core earnings were mostly hit a higher effective tax rate of 53.7% in the quarter (3Q22: 34.6%), mainly due to the higher corporate tax rate in Australia following the greater contribution of sales from the country. Note, unsold inventory rose to MYR1.7bn from MYR1.09bn in 2Q23, mainly from an office property in KL Ecocity.
- **Property sales partly driven by land disposal.** 3Q23 property sales reached MYR1.4bn, bringing the 9M23 total to MYR3.9bn. Of that figure, MYR1.1bn came from land disposal, including a MYR548m disposal of land in Tebrau, Johor in 3Q23. Projects in the central region made up 47% of the total sales (MYR1.8bn), followed by the southern region (35%, MYR1.3bn) and international (13%, MYR523m). Completed inventory sales contributed MYR804m in 9M23, and bookings in the pipeline are worth MYR450m. Despite the strong sales momentum, management is maintaining its earlier MYR4.2bn target by year end.
- **Another land disposal.** The group announced that it is disposing another non-core land of approximately 17.99 acres in Setia City for MYR228.8m, with an estimated gain on disposal (PAT) of MYR140.6m. Management expects its net gearing to further reduce to 0.48x next year after the Setia City and Semenyih land disposals are completed. While the group's de-gearing efforts are underway, it also made its maiden foray into Sydney, Australia, with an acquisition of a prime suburb land for a consideration of AUD73.3m (MYR220m). The proposed development has an estimated GDV of AUD236m (MYR708m) and will commence in 3Q24.
- **Forecasts.** We lower our FY23F-25F earnings by 11-13% in view of the higher-than-expected effective tax rate in 3Q23. The two major land disposals announced this year are expected to only be recognised in 2024, pending the Government's Economic Planning Unit approval. Unbilled sales fell to MYR6.76bn vs MYR6.82bn as at 2Q23.
- **Maintain TP.** Our TP is based on an unchanged 70% discount to RNAV, with 0% discount/premium for ESG given our ESG score of 3.0.
- **Key risks.** Upside risks: Lower-than-expected interest expense and higher property sales. Downside risk: Weaker-than-expected market conditions.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	3,763	4,454	4,074	4,110	4,209
Recurring net profit (MYRm)	284	271	238	251	263
Recurring net profit growth (%)	-	(4.8)	(12.1)	5.5	5.0
Recurring EPS (MYR)	0.07	0.07	0.06	0.06	0.06
DPS (MYR)	0.01	0.02	0.02	0.02	0.02
Recurring P/E (x)	12.05	12.70	14.54	13.91	13.39
P/B (x)	0.24	0.24	0.24	0.24	0.24
Dividend Yield (%)	0.8	2.0	1.8	1.9	2.0
Return on average equity (%)	2.0	2.2	1.7	1.7	1.8
Net debt to equity (%)	60.7	57.0	54.5	53.0	51.8

Source: Company data, RHB

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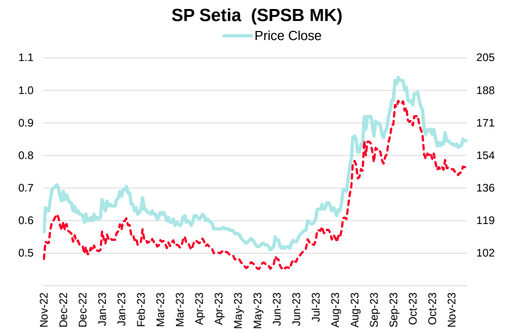
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	40.8	(3.4)	4.3	56.5	49.6
Relative	43.6	(4.5)	3.4	53.5	48.9
52-wk Price low/high (MYR)					0.51 – 1.04



Source: Bloomberg

Overall ESG Score: 3.0 (out of 4)

E: GOOD
SP Setia is among the early adopters of ESG, from building design to masterplan. The company signed MOU with TNB in April 2022 for installation of solar panel system and EV charging facilities in SP Setia's upcoming developments.

S: EXCELLENT
Setia Foundation was established since 2000 to help underprivileged Malaysians.

G: GOOD
60% of SP Setia's board members are independent. The company has an in-house investor relations team and holds investor meetings regularly, embodying good transparency and disclosure practices.

Financial Exhibits

Asia
Malaysia
Property
SP Setia
SPSB MK
Neutral

Valuation basis

70% discount to RNAV

Key drivers

New property sales, successful de-gearing initiatives

Key risks

Upside risks include lower-than-expected interest expense and higher property sales.
Downside risks include weaker-than-expected market conditions.

Company Profile

SP Setia has been the property sector bellwether over the years. The company has a large presence in many key areas in Malaysia. It also has development projects in the UK, Singapore and Australia.

Financial summary (MYR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Recurring EPS	0.07	0.07	0.06	0.06	0.06
EPS	0.07	0.08	0.06	0.06	0.06
DPS	0.01	0.02	0.02	0.02	0.02
BVPS	3.49	3.46	3.47	3.48	3.49
Return on average equity (%)	2.0	2.2	1.7	1.7	1.8
Return on average assets (%)	0.9	1.0	0.8	0.9	0.9

Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Recurring P/E (x)	12.05	12.70	14.54	13.91	13.39
P/B (x)	0.2	0.2	0.2	0.2	0.2
Dividend Yield (%)	0.8	2.0	1.8	1.9	2.0
EV/EBITDA (x)	13.53	11.66	13.80	13.65	13.62

Income statement (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover	3,763	4,454	4,074	4,110	4,209
Gross profit	1,007	1,065	959	947	988
EBITDA	764	850	701	699	701
Depreciation and amortisation	(30)	(35)	(40)	(40)	(40)
Operating profit	734	815	661	659	660
Net interest	(194)	(260)	(259)	(258)	(240)
Pre-tax profit	542	564	402	401	420
Taxation	(195)	(201)	(125)	(110)	(116)
Reported net profit	284	308	238	251	263
Recurring net profit	284	271	238	251	263

Cash flow (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Change in working capital	(50)	615	43	77	(95)
Cash flow from operations	906	1,586	943	991	835
Capex	0	(111)	0	(100)	(100)
Cash flow from investing activities	(683)	353	0	(200)	(100)
Dividends paid	0	(26)	(68)	(62)	(66)
Cash flow from financing activities	431	(1,756)	(281)	(279)	(287)
Cash at beginning of period	2,919	3,071	2,633	2,705	1,967
Net change in cash	653	183	662	513	448
Ending balance cash	3,573	3,254	3,295	3,217	2,415

Balance sheet (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total cash and equivalents	3,071	2,633	2,705	1,967	1,388
Tangible fixed assets	15,355	15,432	15,392	15,452	15,511
Intangible assets	13	13	13	13	13
Total investments	4,021	3,530	3,530	3,630	3,630
Total other assets	530	582	608	636	644
Total assets	31,184	29,819	29,750	29,145	28,785
Short-term debt	3,247	4,420	4,320	3,970	3,620
Total long-term debt	9,309	6,959	6,859	6,359	6,059
Total liabilities	15,553	14,473	14,188	13,359	12,766
Shareholders' equity	14,176	14,083	14,259	14,443	14,635
Minority interests	1,456	1,264	1,303	1,343	1,384
Total equity	15,632	15,346	15,562	15,786	16,020
Total liabilities & equity	31,184	29,819	29,750	29,145	28,785

Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Revenue growth (%)	16.6	18.4	(8.6)	0.9	2.4
Recurring net profit growth (%)	0.0	(4.8)	(12.1)	5.5	5.0
Recurrent EPS growth (%)	0.0	(5.1)	(12.6)	4.5	3.9
Gross margin (%)	26.8	23.9	23.5	23.0	23.5
Recurring net profit margin (%)	7.6	6.1	5.8	6.1	6.3
Dividend payout ratio (%)	9.3	22.1	25.9	26.5	27.1

Source: Company data, RHB

Results At a Glance

Figure 1: Results review

FYE Dec (MYRm)	3Q22	2Q23	3Q23	QoQ (%)	YoY (%)	9M22	9M23	YoY (%)	Comments
Turnover	**860.9**	**942.7**	**1,079.4**	**15%**	**25%**	**2,746.5**	**2,989.8**	**9%**	Revenue in 3Q23 was mainly driven by the handover of UNO Melbourne, offsetting the YoY lower progress billings from Malaysia and Singapore
EBIT	**192.0**	**251.1**	**237.7**	**-5%**	**24%**	**552.1**	**695.9**	**26%**	
EBIT margin (%)	*22.3*	*26.6*	*22.0*			*20.1*	*23.3*		
Net int inc/(exp)	(68.1)	(94.1)	(95.3)	1%	40%	(178.0)	(265.8)	49%	Net interest expense only increased by 1% QoQ as net gearing reduced to 0.53x
Associate	(13.9)	(19.8)	(14.8)	-25%	6%	(31.6)	(54.2)	71%	
Pre-tax profit	**116.6**	**120.1**	**135.7**	13%	16%	**370.0**	**371.8**	0%	2Q23 PBT was slightly higher QoQ mainly due to some cost savings realised from certain completed projects.
PBT margin (%)	*13.5*	*12.7*	*12.6*			*13.5*	*12.4*		
Taxation	(40.3)	(62.0)	(72.8)	18%	81%	(109.4)	(187.8)	72%	The higher effective tax rate was due to the higher contribution of sales from Australia which has a higher corporate tax rate
Effective tax rate (%)	*34.6*	*51.6*	*53.7*			*29.6*	*50.5*		
Net profit	**70.2**	**43.1**	**51.8**	**20%**	**-26%**	**217.8**	**150.3**	**-31%**	
Core net profit	**46.8**	**60.2**	**43.7**	**-27%**	**-7%**	**173.4**	**154.5**	**-11%**	Below expectations
Core net margin (%)	*5.4*	*6.4*	*4.1*			*6.3*	*5.2*		
EPS (sen)	0.1	1.1	(0.2)	-	-	2.1	1.2	19.4	
NTA / shr (RM)	2.9	3.0	3.0	-	-	2.9	3.0	1.9	
DPS (sen)	0.0	0.0	0.0	-	-	0.0	0.0	14.0	

Source: Company data, RHB

Figure 2: SP Setia's RNAV

Projects	Remaining landbank (acres)	Remaining GDV (MYR m)	Stake	NPV (@ 10%)
Central Region				
Setia Alam	282	887	100%	62.0
Setia City	71	7,740	100%	121.5
Setia Alaman	399	4,178	100%	140.7
Setia Ecohill	204	1,814	100%	79.8
Setia EcoHill 2	844	4,148	100%	149.4
Glengowrie	805	4,600	100%	40.0
Setia Mayuri	131	586	100%	37.6
Setia Eco Park	87	2,088	50%	64.2
Precinct Arundina @ Setia Eco Park	36	376	100%	23.4
Setia Eco Glades	33	1,073	70%	23.1
Setia Safiro	20	402	70%	15.7
Setia Eco Templer	90	1,047	100%	58.7
Setia Warisan Tropika	66	610	100%	33.9
Setia Eco City	4	2,253	100%	84.5
Setia Federal Hill	52	20,190	100%	136.1
Setia Alamsari North	224	1,147	100%	48.4
Setia Alamsari South	342	3,194	100%	114.9
Putrajaya	94	362	60%	11.4
Setia Trio	1	46	70%	1.0
Mixed development at QSPH	39	16,298	50%	17.2
Bandar Kinrara	42	2,962	51%	101.1
Setia Bayuemas (I&P)	104	2,280	52%	54.3
Setia Bayuemas (PG)	51	373	100%	18.7
Alam Damai	15	644	70%	22.6
Alam Impian	293	8,404	100%	270.1
Temasya Glenmarie	44	3,026	66%	107.2
Northern Region				
Setia Fontaines	1,205	12,589	100%	280.9
Setia Eco Forest @ Tj Bungah	35	960	100%	36.2
Setia Pearl Island	21	635	100%	20.3
Bukit Dumbar	6	539	100%	13.0
Setia Sky Vista	14	450	100%	15.0
SPICE Hotel	3	350	100%	9.2
Setia Sky Hill	4	341	100%	7.5
Seri Bayu	13	240	100%	7.6
Setia Raintree Residence	21	200	100%	5.5
Setia Greens	11	200	100%	5.5
Setia Sky Ville	3	153	100%	4.2
Setia Sky Cubes	3	80	100%	2.3
Pangsapuri Rimbun, Balik Pulau	3	19	100%	0.3
Southern Region				
Setia Indah Johor	11	229	100%	14.6
Setia Tropika	177	1,257	100%	70.2
Setia Eco Cascadia	116	1,645	100%	77.1
Setia Business Park II	43	293	100%	10.0
Bukit Indah Johor	42	576	100%	26.9
Setia Eco Gardens	160	1,295	70%	48.7
Setia Business Park I	38	249	70%	6.2
Taman Perling	16	270	100%	10.5
Taman Pelangi	17	1,921	100%	60.5
Taman Rinting	83	796	89%	26.4
Taman Pelangi Indah I	169	2,297	100%	69.5
Taman Pelangi Indah II	960	547	100%	330.2
Taman Industri Jaya	21	177	100%	5.6
Mukim Tanjung Kupang	321	1,800	100%	17.1
Mukim Serkat, Pontian	55	311	100%	2.0
Eastern Region				
Aeropod @ Tg Aru	44	1,728	100%	5.3
Lintas Land	9	1,560	100%	3.2
Overseas				
Shangri-la Melbourne Hotel	-	1,961	100%	-
Battersea Power Station, UK	6	22,233	40%	66.5
EcoLakes, My Phuoc	278	1,606	57%	13.5
EcoXuan, Lai Thieu	10	553	95%	20.0
Setia Izumisano City Centre	5	2,488	100%	7.5
Sydney	0	708	100%	27.8
Unbilled sales				284.0
Total				3,448.5
Shareholders' funds (incl. RCPS-is)				14,072.9
Total RNAV				17,521.4
Enlarged share cap (incl. RCPS-I A&C)				5,631.7
RNAV/share				3.11
Discount				70%
Intrinsic value				0.93
ESG premium				0%
Target price				0.93

Source: RHB

Emissions And ESG

Trend analysis
SP Setia has yet to disclose GHG emissions as of FY22

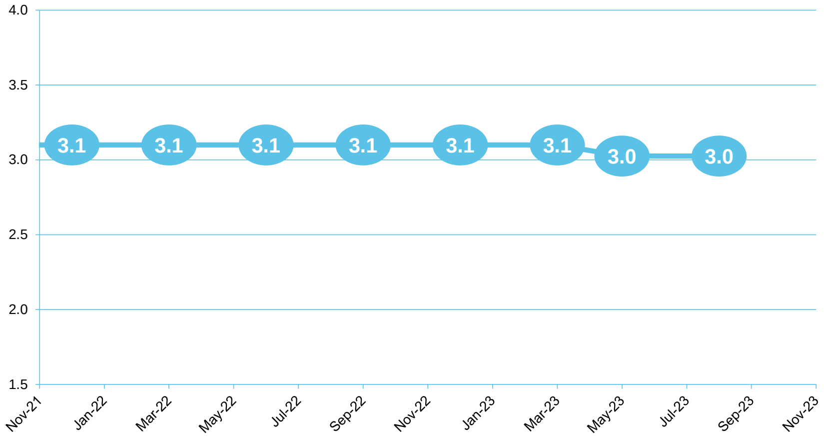
Emissions (tCO2e)	Dec-20	Dec-21	Dec-22
Scope 1	-	-	-
Scope 2	-	-	-
Scope 3	-	-	-
Total emissions	na	na	na

Source: Company data, RHB

Latest ESG-Related Developments

- SP Setia aims to become carbon neutral by 2030 and reach net zero carbon emission by 2050

ESG Rating History



Source: RHB

Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-08-17	Buy	0.93	0.86
2023-07-05	Buy	0.75	0.57
2023-05-17	Neutral	0.60	0.53
2023-04-25	Neutral	0.64	0.58
2022-04-20	Buy	1.48	1.22
2022-02-28	Neutral	1.28	1.28
2022-01-11	Neutral	1.28	1.29
2020-04-08	Neutral	0.86	0.77
2020-02-26	Neutral	1.41	1.28
2019-11-14	Buy	1.68	1.41
2019-08-15	Neutral	1.96	1.67
2019-05-10	Neutral	2.28	2.08
2019-02-28	Neutral	2.56	2.29
2018-12-18	Neutral	2.54	2.34
2018-11-15	Neutral	2.26	1.97

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

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Not Rated:	Stock is not within regular research coverage

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