

1 March 2022

Property | Real Estate

## SP Setia (SPSB MK)

## Neutral (Maintained)

### MYR4bn Sales Target For FY22

Target Price (Return):	MYR1.28 (0%)
Price (Market Cap):	MYR1.28 (USD1,240m)
ESG score:	3.10 (out of 4)
Avg Daily Turnover (MYR/USD)	3.58m/0.85m

- **Maintain NEUTRAL and MYR1.28 TP, 0% downside.** 4Q21 results beat our estimates but were in line with consensus. SP Setia managed to rake in MYR4.26bn sales in FY21 (MYR3.82bn in FY20), exceeding its original MYR3.8bn target. Management has targeted to hit MYR4bn sales this year, which we think is reasonable. While management has plans to de-gear, the stubbornly high gearing would continue to pressure cash flow and earnings, while cost efficiency should be even more challenging, especially in the rising cost environment.
- **4Q21 results.** The sequential growth in revenue was largely driven by higher property sales as well as progress billings as construction works progressed post re-opening of the economy. Meanwhile, EBIT margin has narrowed to around 20% level compared to 23-24% during the pre-COVID-19 era. Net gearing crept up slightly to 0.67x from the previous quarter. Unsold completed inventory stood at MYR1.05bn vs MYR1.1bn in FY20. A 0.65 sen dividend was declared vs zero in FY20.
- **Encouraging sales in 4Q21.** New property sales achieved MYR876m compared with MYR671m in 3Q21. Full-year property sales hit MYR4.26bn (inclusive of MYR200m land sale), of which 18% were contributed from overseas projects. The central region in Malaysia remained the key sales contributor. Alam Impian, Setia Alam, EcoHill, Bandar Kinrara etc are the main townships that are well-received.
- **MYR4bn sales target for FY22.** MYR4.25bn worth of new launches are in the pipeline this year. About 65% of these are landed residential products. We understand that SP Setia also plans to penetrate into the industrial segment. Management is currently in talks with a potential party to either sell land or form a JV for industrial development.
- **De-gearing plan.** Apart from land disposal, the company is also exploring a strategic partnership with an interested party for the development of Setia Federal Hill. This is a 52-acre project in Bangsar, and given the scale, it would make sense for SP Setia to form a JV as it would alleviate the funding requirement for the development.
- **Forecasts.** We revise up our FY22F-23F earnings by 13-14% given management's higher sales target as well as better margin for UNO and Sapphire projects in Australia, which will be completed this year. Unbilled sales stood at MYR10.21bn (of which MYR6.23bn is from overseas) vs MYR9.84bn as at 3Q21.
- **Maintain TP.** Our TP is based on a 70% discount to RNAV and 2% ESG score given our in-house derived ESG score of 3.10 for SP Setia.

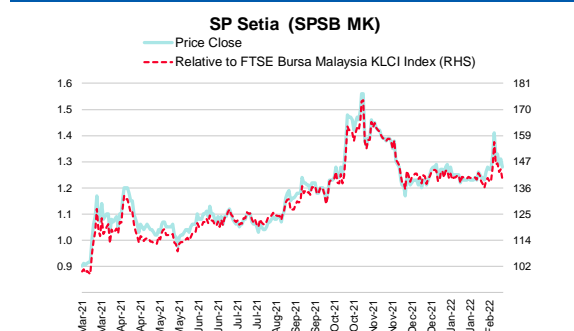
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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(0.8)	3.2	(1.5)	11.3	39.9
Relative	(3.4)	(2.6)	(7.9)	10.2	38.0
52-wk Price low/high (MYR)				0.90 – 1.56	



Source: Bloomberg

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	3,228	3,763	4,483	4,172	3,822
Recurring net profit (MYRm)	(321)	284	386	337	317
Recurring net profit growth (%)	(193.9)	-	35.6	(12.5)	(6.0)
Recurring EPS (MYR)	(0.08)	0.07	0.09	0.08	0.07
DPS (MYR)	-	0.01	0.01	0.01	0.01
Recurring P/E (x)	na	18.29	13.71	16.06	17.52
P/B (x)	0.37	0.37	0.37	0.37	0.37
Dividend Yield (%)	na	0.5	0.8	0.8	0.9
Return on average equity (%)	(2.3)	2.0	2.7	2.3	2.1
Net debt to equity (%)	58.8	60.7	59.6	55.0	52.4

Source: Company data, RHB

### Overall ESG Score: 3.10 (out of 4)

#### E: GOOD

The company launched the world's first solar-powered hybrid F&B hub, D'Network at Setia Eco Park in 2020. Green features and efficient use of energy and water are considered throughout the project lifecycle.

#### S: EXCELLENT

SP Setia Foundation contributed MYR2.45m to the community, and it also formed a COVID-19 Special Fund to provide medical equipment and supplies worth MYR630,000 to 26 hospitals.

#### 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

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
Malaysia	Recurring EPS	(0.08)	0.07	0.09	0.08	0.07
Property	EPS	(0.08)	0.07	0.09	0.08	0.07
<b>SP Setia</b>	DPS	-	0.01	0.01	0.01	0.01
SPSB MK	BVPS	3.44	3.48	3.47	3.46	3.43
Neutral	Return on average equity (%)	(2.3)	2.0	2.7	2.3	2.1
	Return on average assets (%)	(1.1)	0.9	1.2	1.1	1.0
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
70% discount to RNAV	Recurring P/E (x)	na	18.29	13.71	16.06	17.52
	P/B (x)	0.4	0.4	0.4	0.4	0.4
<b>Key drivers</b>	Dividend Yield (%)	-	0.5	0.8	0.8	0.9
i. New property sales;	EV/EBITDA (x)	29.13	15.83	14.41	15.06	15.24
ii. Potential M&A plans.						
<b>Key risks</b>	<b>Income statement (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
Weaker/better-than-expected market conditions	Total turnover	3,228	3,763	4,483	4,172	3,822
	Gross profit	657	1,007	1,091	1,006	921
	EBITDA	418	764	849	788	759
	Depreciation and amortisation	(30)	(30)	(32)	(32)	(32)
	Operating profit	387	734	817	756	727
	Net interest	(173)	(194)	(213)	(237)	(239)
	Pre-tax profit	(157)	542	604	520	489
	Taxation	(88)	(195)	(169)	(140)	(132)
	Reported net profit	(321)	284	386	337	317
	Recurring net profit	(321)	284	386	337	317
	<b>Cash flow (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Change in working capital	(283)	(50)	(559)	197	465
	Cash flow from operations	454	906	489	1,191	1,438
	Capex	(438)	0	0	0	(300)
	Cash flow from investing activities	(187)	(683)	(51)	0	(500)
	Dividends paid	(39)	0	(27)	(42)	(43)
	Cash flow from financing activities	472	431	(221)	(236)	(242)
	Cash at beginning of period	3,060	2,919	3,071	3,012	3,351
	Net change in cash	738	653	217	955	696
	Ending balance cash	3,799	3,573	3,288	3,968	4,047
	<b>Balance sheet (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Total cash and equivalents	2,919	3,071	3,012	3,351	2,778
	Tangible fixed assets	15,471	15,355	15,324	15,292	15,560
	Intangible assets	13	13	13	13	13
	Total investments	3,264	4,021	4,021	4,021	4,221
	Total other assets	497	530	454	481	509
	Total assets	30,381	31,184	32,040	31,977	31,210
	Short-term debt	2,583	3,247	3,247	3,147	2,797
	Total long-term debt	9,358	9,309	9,309	9,209	8,709
	Total liabilities	15,040	15,553	16,015	15,616	14,541
	Shareholders' equity	13,922	14,176	14,519	14,814	15,082
	Minority interests	1,419	1,456	1,505	1,548	1,587
	Total equity	15,341	15,632	16,025	16,361	16,670
	Total liabilities & equity	30,381	31,184	32,040	31,977	31,210
	<b>Key metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Revenue growth (%)	(17.8)	16.6	19.1	(6.9)	(8.4)
	Recurring net profit growth (%)	(193.9)	0.0	35.6	(12.5)	(6.0)
	Recurrent EPS growth (%)	(191.2)	0.0	33.4	(14.7)	(8.3)
	Gross margin (%)	20.4	26.8	24.3	24.1	24.1
	Recurring net profit margin (%)	(9.9)	7.6	8.6	8.1	8.3
	Dividend payout ratio (%)	0.0	9.3	10.8	12.7	15.2

Source: Company data, RHB

## Results At a Glance

Figure 1: Quarterly results

FYE Dec (MYRm)	4Q20	3Q21	4Q21	QoQ %	YoY %	FY20	FY21	YoY %	Comments
Turnover	1,113.7	594.6	1,032.6	73.7	(7.3)	3,228.1	3,762.7	16.6	Sequential growth in turnover was mainly due to higher billings from ongoing projects and higher property sales.
EBIT	155.9	100.9	205.6	103.8	31.8	387.4	733.7	89.4	
EBIT margin (%)	14.0	17.0	19.9			12.0	19.5		
Net int inc/(exp)	(17.0)	(53.5)	(42.9)	(19.9)	152.3	(172.6)	(194.1)	12.4	
Associate	(18.2)	(16.1)	(38.8)	141.4	113.1	(371.5)	(52.1)	(86.0)	
Pre-tax profit	120.7	52.3	188.8	261.1	56.4	(156.7)	542.5	(446.3)	
PBT margin (%)	10.8	8.8	18.3			(4.9)	14.4		
Taxation	(38.3)	(30.0)	(62.1)	107.2	62.1	(87.9)	(195.1)	122.0	The higher effective tax rate was due to certain non-tax deductible expenses.
Effective tax rate (%)	31.8	57.4	32.9						
Net profit	55.5	11.0	123.3	1019.7	122.2	(321.0)	284.4	(188.6)	
Core net profit	84.5	(10.0)	123.3	n.m.	45.9	(293.5)	294.3	(200.3)	Above expectations
Core net margin (%)	7.6	(1.7)	11.9			(9.1)	7.8		
EPS (sen)	1.4	(1.4)	3.0	-	-	(9.6)	3.7		
NTA /share (RM)	2.9	2.9	3.0	-	-	2.9	3.0		
DPS (sen)	0.0	0.0	0.7	-	-	0.0	0.7		

Source: Company data, RHB

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Figure 2: RNAV estimate

Projects	Remaining landbank (acres)	Remaining GDV (MYR m)	Stake	NPV (@ 9%)
<b>Central Region</b>				
Setia Alam	282	887	100%	89.5
Setia City	71	7,740	100%	448.3
Setia Alaman	399	4,178	100%	276.6
Setia Ecohill	204	1,814	100%	105.0
Setia EcoHill 2	844	4,148	100%	220.7
Glengowrie	805	4,600	100%	183.5
Setia Mayuri	131	586	100%	37.2
Setia Eco Park	87	2,088	50%	103.7
Precinct Arundina @ Setia Eco Park	36	376	100%	27.9
Setia Eco Glades	33	1,073	70%	49.2
Setia Safiro	20	402	70%	15.5
Setia Eco Templer	90	1,047	100%	63.3
Setia Warisan Tropika	66	610	100%	33.6
Setia Eco City	4	2,253	100%	93.8
Setia Federal Hill	52	20,190	100%	195.9
Setia Alamsari North	224	1,147	100%	47.7
Setia Alamsari South	342	3,194	100%	112.8
Putrajaya	94	362	60%	11.3
Setia Trio	1	46	70%	2.1
Mixed development at QSPH	39	16,298	50%	132.3
Bandar Kinrara	42	2,962	51%	118.3
Setia Bayuemas (I&P)	104	2,280	52%	71.6
Setia Bayuemas (PG)	51	373	100%	24.7
Alam Damai	15	644	70%	29.8
Alam Sutera	-	-	70%	-
Alam Impian	293	8,404	100%	323.0
Temasya Glenmarie	44	3,026	66%	137.4
<b>Northern Region</b>				
Setia Fontaines	1,205	12,589	100%	308.0
Setia Eco Forest @ Tj Bungah	35	960	100%	39.7
Setia Pearl Island	21	635	100%	25.8
Bukit Dumbur	6	539	100%	16.4
Setia Sky Vista	14	450	100%	19.1
SPICE Hotel	3	350	100%	10.3
Setia Sky Hill	4	341	100%	8.4
Seri Bayu	13	240	100%	8.6
Setia Raintree Residence	21	200	100%	7.0
Setia Greens	11	200	100%	7.0
Setia Sky Ville	3	153	100%	5.4
Setia Sky Cubes	3	80	100%	2.9
Pangsapuri Rimbun, Balik Pulau	3	19	100%	0.8
<b>Southern Region</b>				
Setia Indah Johor	11	229	100%	21.7
Setia Tropika	177	1,257	100%	104.0
Setia Eco Cascadia	116	1,645	100%	98.9
Setia Business Park II	43	293	100%	13.2
Bukit Indah Johor	42	576	100%	39.9
Setia Eco Gardens	160	1,295	70%	70.0
Setia Business Park I	38	249	70%	7.6
Taman Perling	16	270	100%	14.9
Taman Pelangi	17	1,921	100%	85.2
Taman Rinting	83	796	89%	37.3
Taman Pelangi Indah I	169	2,297	100%	97.7
Taman Industri Jaya	21	177	100%	8.0
Mukim Tanjung Kupang	321	1,800	100%	29.8
Mukim Serkat, Pontian	55	311	100%	5.9
<b>Eastern Region</b>				
Aeropod @ Tg Aru	44	1,728	100%	42.0
Lintas Land	9	1,560	100%	25.0
<b>Overseas</b>				
Shangri-la Melbourne Hotel	-	1,961	100%	161.3
Battersea Power Station, UK	6	22,233	40%	130.0
EcoLakes, My Phuoc	278	1,606	57%	35.5
EcoXuan, Lai Thieu	10	553	95%	31.7
Setia Izumisano City Centre	5	2,488	100%	58.2
Unbilled sales				787.2
Total				5,319.4
Shareholders' funds (incl. RCPS-i)				14,175.5
Total RNAV				19,494.9
Enlarged share cap (incl. RCPS-I A&B, rights issue, placement shares)				4,668.2
RNAV/share				4.18
Discount				70%
Intrinsic value				1.25
ESG premium				2%
Target price				1.28

Source: RHB

## Recommendation Chart

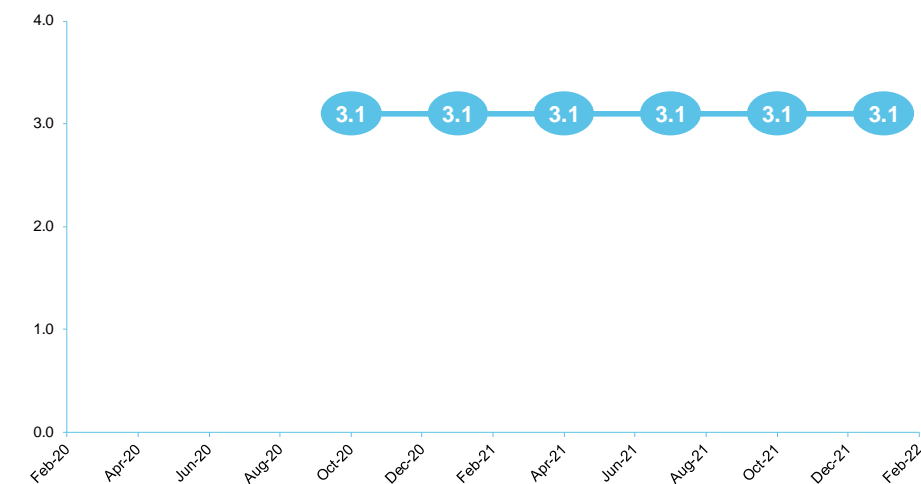


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2018-05-15	Neutral	3.20	3.00
2018-05-08	Buy	3.34	3.11
2018-03-09	Buy	3.88	3.15
2018-02-28	Buy	3.85	3.39

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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