

S P Setia Berhad

A Challenging Year Indeed

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1HFY20 CNL of RM81m is below our and consensus expectations on lower-than-expected revenue recognitions due to halted progress billings and weaker-than-expected product margins. 1HFY20 sales of RM875m is deemed broadly within (23%) on expectations of better sales in 2H. Lower FY20-21E CNP by 71-25% on fewer launches and weaker product margins given the challenging property climate. Downgrade to UP (from OP) on a lower TP of RM0.680 (from RM0.860) based on a lower PBV of 0.25x (-2SD below mean).

1HFY20 CNL* of RM81m came in below our and consensus expectations of CNP of RM291m and RM190m, respectively. The deviation from our estimate was mainly due to top-line coming below our expectation at only 29% while weaker-than-expected margin resulted in EBIT coming in at only 7% of our FY20 estimate. 1HFY20 sales of RM875m is deemed broadly within at 23% of our forecast and management's RM3.8b target as we expect stronger sales in coming quarters from inventory clearing and marketing efforts. No dividend announced, as expected.

Results' highlights. YoY-Ytd, top-line was down by 53% as most site projects were stalled during most of 2QFY20 due to the MCO and CMCO periods. As a result of the weak top-line, the Group recorded LBT of RM59m (vs. PBT of RM327m). All in, CNL was at RM81m (vs. 1HFY19 CNP of RM123m) on an effective tax charge of RM71m despite making losses and excluding the one-off impairment of RM146m. QoQ, top-line was also down by 53% due to the MCO and CMCO. However, CNL was only higher by 10% to RM42m (from RM38m) on; (i) lower associate and JCE losses, (ii) lower tax of RM23m (vs. 1QFY20: RM48m), (iii) excluding the one-off impairment of RM146m, and (iv) absence of the i-RCPS cost this quarter (1QFY20: RM66m).

Outlook. FY20 sales target of RM3.80b remains unchanged and in line with management's target (which was previously lowered in 1Q from RM4.6b) given the slower economy and signing pace of SPAs in CY20. 2HFY20 is expected to be challenging but better than 1HFY20 in light of easing lockdowns and further spurred by PENJANA initiatives (i.e. stamp duty exemption, removal of 70% margin of financing limit and RPTG exemption). However, we believe product margins may come under pressure in the current challenging environment while the Group will also be holding back on launches, targeting lower launches of only RM2.78b (revised from RM4.4b) in FY20 with most launches coming mostly from the Central region, as they put greater emphasis on inventory clearing efforts. Unbilled sales of RM9.7b provide two years of earnings visibility allowing some buffer during this challenging period, but its high gearing of 0.63x remains a concern.

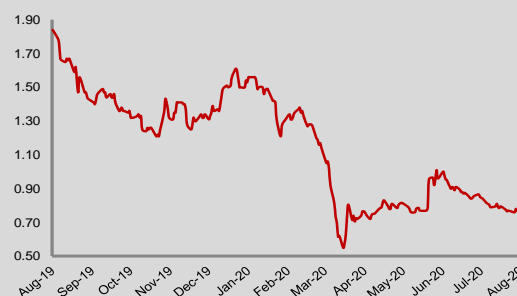
Lowering earnings by 71-25% in FY20-21 to RM84-388m. Despite work progress resuming in 2HFY20, we believe there is earnings pressure from significantly lower launches of RM2.8-3.0b in FY20-21 (from RM4.4-4.5b) as the group is rationalising launches going forward to focus on clearing unsold inventory (of RM1.2b currently), as well as significantly lower margins of 13-18% (PBT level) from the earlier estimated 18-21% for FY20-2, on revised product pricing and change in marketing strategy.

Downgrade to UNDERPERFORM (from OP) on a lower Target Price of RM0.680 (from RM0.860). We maintain our conservative P/BV valuation to ascertain the trough valuations amid the prevailing market down-cycle. Our TP is based on a lower P/BV of 0.24x (from 0.30x) @ -2.0SD below mean on an adjusted BV/share of RM2.83 (from RM2.86) after imputing a 40% discount to its latest available inventory level of completed properties and also taking into account the Group's relatively high net gearing of 0.63x.

UNDERPERFORM ↓

Price : RM0.790
Target Price : RM0.680 ↓

Share Price Performance



KLCI 1,576.42
YTD KLCI chg -0.8%
YTD stock price chg -50.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SPSB MK EQUITY
Market Cap (RM m)	3,204.8
Shares Outstanding	4,056.7
52-week range (H)	1.84
52-week range (L)	0.55
3-mth avg daily vol:	11,011,780
Free Float	18%
Beta	1.6

Major Shareholders

Amanah Saham Nasional	36.1%
Yayasan Pelaburan Bumiputra	26.1%
Kumpulan Wang Persaraan	9.9%

Summary Earnings Table

FYE Dec (RM m)	2019A	2020E	2021E
Turnover	3,929	2,294	3,863
EBIT	852	494	761
PBT	623	305	684
Net Profit (NP)	236	84	388
Core NP	254	84	388
Consensus (CNP)	n.a.	190	349
Earnings Revision	n.a.	-71%	-25%
Core EPS (sen)	6.3	2.1	9.6
Core EPS growth (%)	22	-67	364
NDPS (sen)	1.0	0.6	2.9
NTA/Share (RM)	3.02	3.09	3.15
Core PER (x)	12.6	38.1	8.2
Price/NTA (x)	0.3	0.3	0.3
Net Gearing (x)	0.6	0.6	0.5
Dividend Yield (%)	1.3	0.8	3.7

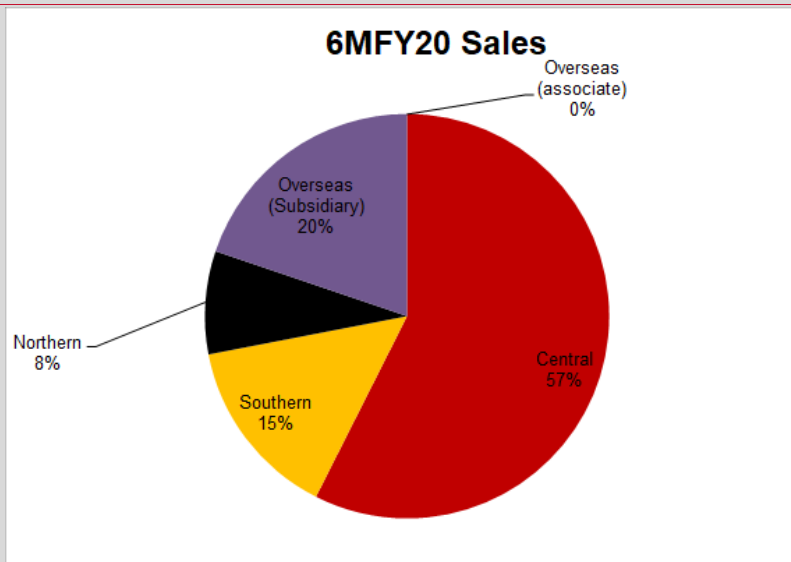
* Note our CNP is based on **profit attributable to ordinary shareholders** i.e. after deducting Perpetual Bonds and iRCPS (A & B) interest costs. Note that consensus' estimates have defined their CNP as before iRCPS interest costs, resulting in higher estimates.

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OTHER POINTS

Risks to our call include: (i) higher-than-expected property sales, (ii) margin fluctuations, (iii) changes in real estate policies and lending environment, (iv) cash-calls, and (v) timing of overseas/local billings.

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1H20 Sales Composition

Source: Company, Kenanga Research

Results Highlight

FYE: Dec (RM m)	2Q20	1Q20	QoQ%	2Q19	YoY%	1HFY19	1HFY20	Ytd-YoY
Revenue	331.3	702.7	-53%	1335.7	-75%	2200.6	1034.0	-53%
Op costs w/o depr/amort	-474.2	-569.9	-17%	-1137.6	-58%	-1837.2	-1044.1	-43%
Other Op Income	45.2	43.9	3%	48.8	-7%	96.2	89.1	-7%
EBITDA	-97.7	176.6	-155%	247.0	-140%	459.7	78.9	-83%
EBIT	-105.2	169.1	-162%	239.6	-144%	445.6	63.9	-86%
Interest Expense	-51.1	-55.4	-8%	-61.2	-16%	-117.4	-106.5	-9%
Associate/JCE	-6.2	-10.0	-38%	0.5	-1231%	-1.0	-16.1	-1548%
Pretax profit/(loss)	-162.5	103.8	-257%	179.0	-191%	327.2	-58.7	-118%
Taxation	-23.4	-47.8	-51%	-53.6	-56%	-102.0	-71.2	-30%
MI/P.Bond/iRCPS/Disc'td Ops	-2.5	-93.7	-97%	-77.7	-97%	-102.5	-96.2	-6%
Net profit	-188.4	-37.7	399%	47.8	-494%	122.7	-226.1	-284%
Core Net Profit/(Loss)	-42.5	-38.5	10%	47.8	-189%	122.7	-80.9	-166%
EPS (sen)	(1.05)	(1.0)	-10%	1.8	-158%	3.1	(2.0)	-164%
DPS (sen)	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Net gearing (x)	0.63	0.60		0.57		0.57	0.63	
Pretax margin	-49.0%	14.8%		13.4%		14.9%	-5.7%	
Effective tax rate	-14.4%	46.1%		29.9%		31.2%	-121.3%	

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div.Yld. (%)	Target Price (RM)	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
PROPERTY DEVELOPERS UNDER COVERAGE																		
ECO WORLD DEVELOPMENT GROUP	0.425	1,251.4	Y	10/2020	-26.6%	2.1%	-22.0%	17.6%	6.3	8.0	6.8	0.3	0.3	3.4%	1.9%	0.440	MP	
IOI PROPERTIES GROUP BHD	0.920	5,065.7	Y	06/2020	-20.0%	18.6%	-19.1%	28.7%	7.7	9.5	7.4	0.3	0.3	2.9%	3.3%	1.29	OP	
LBS BINA GROUP BHD	0.400	624.7	Y	12/2020	-0.7%	12.7%	-38.2%	65.0%	9.2	14.9	9.1	0.5	0.5	3.1%	2.0%	0.330	UP	
MAGNA PRIMA BHD	0.850	282.7	Y	12/2020	-13.0%	33.9%	-115.9%	-126.8%	N.A.	N.A.	N.A.	0.6	0.6	-5.2%	0.0%	0.520	N.R	
MAH SING GROUP BHD	0.740	1,796.5	Y	12/2020	-20.6%	49.0%	-45.9%	108.5%	16.4	30.8	14.5	0.5	0.5	1.7%	4.1%	0.570	MP	
MALAYSIAN RESOURCES CORP BHD	0.530	2,338.4	Y	12/2020	-36.4%	42.7%	174.3%	70.8%	98.1	89.8	35.8	0.5	0.5	1.4%	0.0%	0.750	OP	
SIME DARBY PROPERTY BHD	0.635	4,318.5	Y	12/2019	-49.3%	6.6%	-42.1%	21.1%	6.1	10.5	8.7	0.5	0.4	4.3%	2.8%	0.800	OP	
SP SETIA BHD	0.790	3,204.8	Y	12/2020	-41.6%	68.4%	-66.9%	361.9%	12.6	38.1	8.2	0.3	0.3	0.6%	0.8%	0.680	UP	
SUNWAY BHD	1.32	6,469.8	Y	12/2020	-14.9%	32.5%	-34.1%	43.5%	10.2	15.4	10.8	0.7	0.7	4.4%	3.3%	1.68	OP	
UEM SUNRISE BHD	0.415	1,883.0	Y	12/2020	-39.6%	6.7%	-70.2%	25.9%	6.0	6.7	7.7	0.3	0.2	1.4%	0.0%	0.565	OP	
UOA DEVELOPMENT BHD	1.49	2,929.4	Y	12/2020	6.6%	15.7%	-9.0%	13.3%	8.1	8.3	7.3	0.6	0.6	7.0%	9.4%	1.82	MP	
Simple Average					-23.3%	26.3%	-26.3%	57.2%	18.1	23.2	11.6	0.4	0.4	2.3%	2.5%			
CONSENSUS NUMBERS																		
GLOMAC BHD	0.285	220.0	Y	04/2021	22.9%	12.6%	73.8%	23.6%	17.5	10.1	8.1	0.2	N.A.	2.0%	3.2%	0.295	N.A	
MATRIX CONCEPTS HOLDINGS BHD	1.75	1,459.9	Y	03/2021	-19.3%	15.1%	-16.0%	16.3%	6.2	7.4	6.4	0.9	0.9	11.9%	5.7%	1.98	BUY	
PARAMOUNT CORP BHD	0.775	476.2	Y	12/2020	-3.4%	11.6%	-73.1%	96.4%	4.6	17.0	8.7	0.3	0.3	38.9%	2.6%	0.930	N.A	
TAMBUN INDAH LAND BHD	0.525	227.6	Y	12/2020	-28.0%	26.8%	-49.6%	40.3%	4.7	9.3	6.6	0.4	0.4	3.6%	4.0%	0.597	BUY	
TITIJAYA LAND BHD	0.600	764.9	Y	06/2020	-52.0%	8.0%	-73.3%	51.7%	23.0	85.9	56.7	0.7	0.6	0.7%	41.7%	0.280	N.A	
YONG TAI BHD	0.145	140.1	Y	06/2020	22.0%	11.4%	-284.8%	-124.9%	N.A.	N.A.	N.A.	0.3	0.3	-5.9%	0.0%	0.085	N.A	

Source: Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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