

16 November 2020

S P Setia Berhad

Expecting a Better 4QFY20

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9MFY20 CNL of RM73.5m is below our and consensus expectations of RM84m and RM135m given weak contributions from Battersea, but we expect sales and earnings to continue to improve given the improvements in 3QFY20. 9MFY20 sales of RM2.3b is broadly within (59%) on expectations of better sales in 4Q from inventory clearing efforts. We lower FY21E CNP by 79-24% on weaker contributions from Battersea given the tepid outlook in the UK. Maintain UP and TP of RM0.680 on PBV of 0.24x (-2SD below mean).

9MFY20 CNL* of RM73.5m came in below our and consensus expectations of CNP of RM84m and RM135m, respectively. This is as we expected a stronger 2HFY20 on higher revenue recognitions post the various MCO's and stronger contributions from Battersea. 9MFY20 sales of RM2.26b came in broadly within at 59% of our annual target and management's of RM3.8b as we expect stronger sales in 4Q as sales began to pick up in 2HFY20 due to inventory clearing and marketing efforts. Local sales made up 82% of total sales, driven by sales in the central region, while 18% were from international sales from projects such as UNO Melbourne, Sapphire by the Gardens and Marque Residences in Australia as well as Daintree Residence in Singapore. No dividends, as expected.

Results' highlights. YoY-Ytd, top-line was down by 33% as site work at all projects came to a standstill during the MCO period mostly in 2QFY20 while during the 9MFY19, the group completed the sale of its British Embassy land in Jalan Ampang for RM449m. As a result, EBIT margin declined to 12% vs. 23%, while impairments at Phase 2 and 3A of Battersea of RM336m resulted in a NL of RM556m (vs. NP of RM166m) while accounting for the impairments resulted in CNL of RM73.5m. QoQ, top-line was up by 226% as progress billings improved significantly post the MCO in 2QFY20. All in, CNP improved to RM7.4m (from CNL of RM43m) after accounting for the one-off impairments at Battersea and RCPS payment.

Outlook. FY20 sales target of RM3.80b remains unchanged and is in line with management's target as the Group remains optimistic on meeting full-year sale target. 2HFY20 is expected to be better than 1HFY20 due to easing lockdowns and further spurred by PENJANA initiatives (i.e. stamp duty exemption, removal of 70% margin of financing limit and RPGT exemption). However, we believe product margins may come under pressure in the current challenging environment. Unbilled sales of RM9.8b provide two years of earnings visibility allowing some buffer during this challenging period, but its high gearing of 0.65x remains a concern.

Lowering FY20-21E CNP by 79-24% to RM18-294m on expectation of weaker contributions from Battersea Phase 2 and 3A given the recent impairment which was a conservative measure due to escalating cases of Covid-19 and lockdowns that disrupted the UK economy and placed pressure on properties prices. We expect improvements in 4QFY20 vs. 9MFY20 from local sales but turned more conservative on FY20-21 given the tepid outlook due to Covid-19. We also had initially been more optimistic expecting the Covid-19 situation to improve by then.

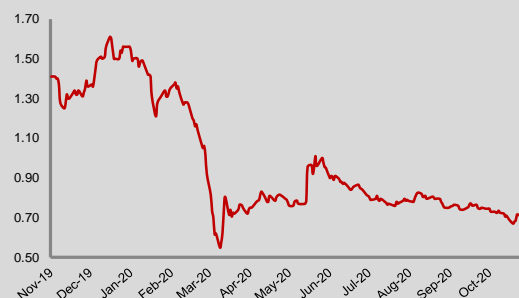
Maintain UNDERPERFORM and Target Price of RM0.680 on our conservative P/BV valuation to ascertain the trough valuations amid the prevailing market down-cycle. Our TP is based on a P/BV of 0.24x @ -2.0SD below mean on an adjusted BV/share of RM2.83 after imputing a 40% discount to its latest available inventory level of completed properties and also taking into account the Group's relatively high net gearing of 0.65x.

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.

UNDERPERFORM ↔

Price : RM0.715
Target Price : RM0.680 ↔

Share Price Performance



KLCI 1,589.69
YTD KLCI chg 0.1%
YTD stock price chg -55.3%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker SPSB MK EQUITY
Market Cap (RM m) 2,900.6
Shares Outstanding 4,056.7
52-week range (H) 1.63
52-week range (L) 0.55
3-mth avg daily vol: 2,091,846
Free Float 18%
Beta 1.5

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 | 2,753 | 3,174 |
| EBIT | 852 | 367 | 633 |
| PBT | 623 | -143 | 576 |
| Net Profit (NP) | 236 | -345 | 294 |
| Core NP | 254 | 18 | 294 |
| Consensus (CNP) | n.a. | 135 | 350 |
| Earnings Revision | n.a. | -79% | -24% |
| Core EPS (sen) | 6.3 | 0.4 | 7.3 |
| Core EPS growth (%) | 22 | -93 | >100 |
| NDPS (sen) | 1.0 | 0.1 | 2.2 |
| NTA/Share (RM) | 3.02 | 3.09 | 3.12 |
| Core PER (x) | 11.4 | 162.1 | 9.8 |
| Price/NTA (x) | 0.2 | 0.2 | 0.2 |
| Net Gearing (x) | 0.6 | 0.6 | 0.5 |
| Dividend Yield (%) | 1.4 | 0.2 | 3.1 |

* 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.

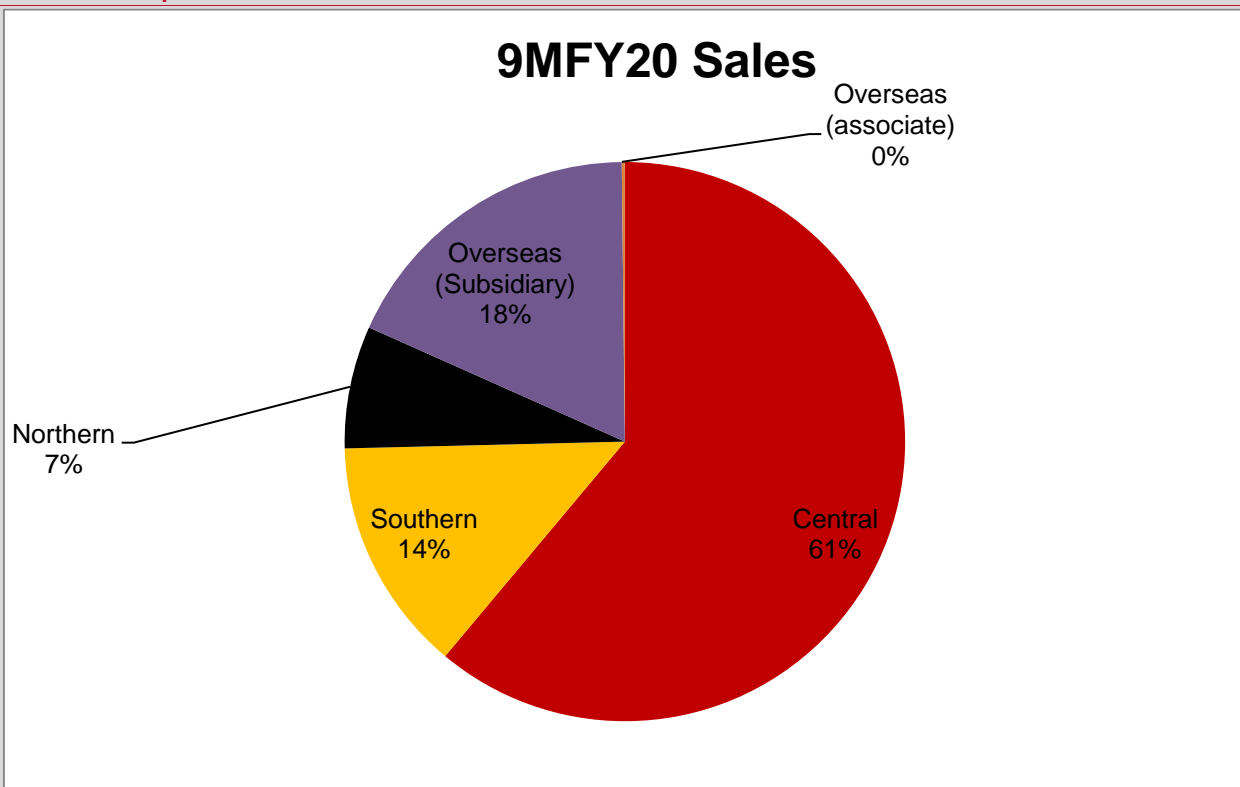
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OTHER POINTS

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

| Results Highlight | | | | | | | | |
|------------------------------|---------------|---------------|-------------|--------------|--------------|--------------|---------------|--------------|
| FYE: 31st Dec (RMm) | 3Q20 | 2Q20 | QoQ% | 3Q19 | YoY% | 9MFY19 | 9MFY20 | Ytd-YoY |
| Revenue | 1080.5 | 331.3 | 226% | 932.1 | 16% | 3132.7 | 2114.5 | -33% |
| Op costs w/o deprn/amort | -934.1 | -474.2 | 97% | -775.6 | 20% | -2612.8 | -1978.2 | -24% |
| Other Op Income | 28.1 | 45.2 | -38% | 92.7 | -70% | 188.9 | 117.1 | -38% |
| EBITDA | 174.5 | -97.7 | -279% | 249.2 | -30% | 708.8 | 253.4 | -64% |
| EBIT | 167.2 | -105.2 | -259% | 241.8 | -31% | 687.5 | 231.2 | -66% |
| Interest Expense | -49.2 | -51.1 | -4% | -59.8 | -18% | -177.3 | -155.6 | -12% |
| Associate/JCE | -337.1 | -6.2 | 5359% | -2.9 | 11500% | -3.9 | -353.2 | -8992% |
| Pretax profit | -219.0 | -162.5 | 35% | 179.1 | -222% | 506.3 | -277.7 | -155% |
| Taxation | -25.0 | -23.4 | 7% | -39.6 | -37% | -141.5 | -96.2 | -32% |
| MI/P.Bond/iRCPS/Discount Ops | -85.5 | -2.5 | 3301% | -96.6 | -12% | -199.2 | -181.7 | -9% |
| Net profit | -329.5 | -188.4 | 75% | 42.9 | -868% | 165.6 | -555.5 | -435% |
| Core Net Profit | 7.4 | -42.5 | n.m. | 42.9 | n.m. | 165.6 | -73.5 | n.m. |
| EPS (sen) | 0.18 | (1.1) | 117% | 1.1 | -83% | 4.2 | (1.8) | -143% |
| DPS (sen) | 0.0 | 0.0 | >100% | 0.0 | n.a. | 0.0 | 0.0 | n.a. |
| NTA/share (RM) | 3.43 | 3.48 | -1% | 3.52 | -3% | 3.52 | 3.43 | -3% |
| Net gearing (x) | 0.65 | 0.63 | | 0.56 | | 0.56 | 0.65 | |
| EBIT margin | 15.5% | -31.7% | | 26.7% | | 22.6% | 12.0% | |
| Pretax margin | -20.3% | -49.0% | | 19.2% | | 16.2% | -13.1% | |
| Effective tax rate | -11.4% | -14.4% | | 22.1% | | 28.0% | -34.6% | |

Source: Company, Kenanga Research

9M20 Sales Composition

Source: Company, Kenanga Research

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Peer Comparison

| Name | Last Price | Market Cap (RM'm) | Shariah Compliant | Current FYE | Revenue Growth | | Core Earnings Growth | | PER (x) - Core Earnings | | | PBV (x) | | ROE (%) | | Net Div.Yld. (%) | Target Price (RM) | Rating |
|---|------------|-------------------|-------------------|-------------|----------------|--------------|----------------------|---------------|-------------------------|-------------|------------|------------|------------|-------------|-------------|------------------|-------------------|--------|
| | (RM) | | | | 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. | | | |
| PROPERTY DEVELOPERS UNDER COVERAGE | | | | | | | | | | | | | | | | | | |
| ECO WORLD DEVELOPMENT GROUP | 0.385 | 1,133.6 | Y | 10/2020 | -26.6% | 2.1% | 10.0% | 8.5% | 5.5 | 4.8 | 4.8 | 0.3 | 0.2 | 4.8% | 2.9% | 0.490 | OP | |
| IOI PROPERTIES GROUP BHD | 0.895 | 4,928.0 | Y | 06/2021 | -2.2% | -1.6% | 10.3% | 1.2% | 8.0 | 7.2 | 7.1 | 0.3 | 0.3 | 3.7% | 3.4% | 0.970 | MP | |
| LBS BINA GROUP BHD | 0.385 | 601.2 | Y | 12/2020 | -43.3% | 22.6% | -44.1% | 81.6% | 9.0 | 15.4 | 8.8 | 0.4 | 0.4 | 2.8% | 1.8% | 0.330 | UP | |
| MAH SING GROUP BHD | 0.910 | 2,209.2 | Y | 12/2020 | -21.5% | 59.1% | -49.1% | 229.8% | 22.2 | 43.3 | 13.0 | 0.6 | 0.6 | 1.7% | 3.3% | 1.05 | OP | |
| MALAYSIAN RESOURCES CORP BHD | 0.435 | 1,919.2 | Y | 12/2020 | -19.8% | 36.0% | 58.1% | 110.2% | N.A. | 39.5 | 18.9 | 0.4 | 0.4 | 1.0% | 0.5% | 0.750 | OP | |
| SIME DARBY PROPERTY BHD | 0.595 | 4,046.5 | Y | 12/2020 | -49.3% | 6.6% | -52.4% | 27.2% | 5.7 | 12.0 | 9.4 | 0.4 | 0.4 | 3.5% | 2.5% | 0.700 | OP | |
| SP SETIA BHD | 0.715 | 2,900.6 | Y | 12/2020 | -29.9% | 15.3% | -93.1% | 1554.8% | 11.3 | 162.1 | 9.8 | 0.2 | 0.2 | -2.4% | 0.2% | 0.680 | UP | |
| SUNWAY BHD | 1.24 | 6,062.3 | Y | 12/2020 | -14.9% | 32.5% | -34.1% | 43.5% | 9.5 | 14.5 | 10.1 | 0.6 | 0.6 | 4.4% | 3.5% | 1.57 | OP | |
| UEM SUNRISE BHD | 0.410 | 2,074.0 | Y | 12/2020 | -47.6% | 19.9% | -83.1% | 104.8% | 6.0 | 6.6 | 7.6 | 0.2 | 0.2 | 0.8% | 0.0% | 0.555 | OP | |
| UOA DEVELOPMENT BHD | 1.52 | 3,228.1 | Y | 12/2020 | 6.6% | 15.7% | -9.0% | 13.3% | 8.2 | 8.4 | 7.5 | 0.6 | 0.6 | 7.0% | 9.2% | 1.82 | OP | |
| Simple Average | | | | | -24.9% | 20.8% | -28.7% | 217.5% | 9.5 | 31.4 | 9.7 | 0.4 | 0.4 | 2.7% | 2.7% | | | |

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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