

26 February 2021

S P Setia Berhad

FY20 Above, A Better FY21

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FY20 CNP of RM53.9m sprung above our estimate at 303% on a stronger-than-expected top-line, but below consensus at 79% on weaker-than-expected margins. FY20 sales was spot on at RM3.82b, while unbilled sales of RM10b provides two years of visibility. Maintain FY21E earnings of RM294m and introduce FY22E earnings of RM411m on steady recognitions pipeline and contributions from Battersea Phase 2 and 3A. Upgrade to MP and TP to RM0.94 (from RM0.68) post rolling forward our valuations to FY21E on PBV of 0.28x (from 0.24x) at -2SD.

FY20 recorded a CNP* of RM53.9m which is above our expectation of RM18m (303% of our estimate) due to a low base effect, but below consensus at 79%. The deviation from our estimate was due to a stronger-than-expected top-line which came in at 117% of our estimate from higher recognitions in 4Q, which trickled straight to bottom-line, while the deviation from consensus earnings were likely due to weaker-than-expected EBIT margin which only came in at 90% of consensus'. FY20 sales of RM3.82b were spot on with our and management's targets of RM3.8b each on strong 4QFY20 sales of RM1.56b, with local sales making up 82% of total sales driven by sales in the central region. No dividends, as expected.

Results' highlights. YoY-Ytd, top-line was down by 18% due to halted work progress during the MCO period mostly in 2QFY20 vs. FY19 when the group completed the sale of its British Embassy land in Jalan Ampang for RM449m resulting in weaker EBIT margin of 12.9% (vs. 22.4%). Impairments of RM336m at Phase 2 and 3A of Battersea resulted in a NL of RM453m (vs. NP of RM236m). Post accounting for impairments and other one-off items, the Group recorded a CNP of RM53.9m (-79%). QoQ, top-line was up by 3% on marginally better progress billings. All in, CNP improved to RM80.1m (from RM7.4) due to the absence of perpetual bond payments.

Outlook. The Group expects flattish sales of RM3.8b in FY21. Management remains cautious on the outlook for the sector but expects improvements in 2H21 which are reliant on the economy recovering from the pandemic with the roll-out of mass vaccinations currently. Unbilled sales of RM10b provide two years of earnings visibility allowing some buffer during this challenging period, but its high gearing of 0.65x remains a concern. For now, the Group will continue to focus on stock clearing and acceleration on the digitalisation journey, while we do not discount the possibility of possible land sales.

Maintain FY21E CNP of RM294m and introduce FY22E CNP of RM411m. FY21-22 will be driven by steady recognitions from ongoing projects and unbilled sales and will also see more significant contributions from Battersea which is expected to be completed by Aug 2021 for Phase 2 and Mar 2022 for Phase 3A.

Upgrade to MARKET PERFORM (from UNDERPERFORM) and a higher Target Price of RM0.94 (from RM0.680) as we roll forward our valuation to FY21 on BV/share of RM3.48 (from adjusted BV/share of RM2.83 based on FY20) post updating earnings and applying a higher P/BV of 0.28x @ -2.0SD (from 0.24x @ -2.0SD). We believe that FY21 would be a recovery year for the Group, albeit in the 2H and increased contributions from overseas, but we remain cautious in the near term and given its 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.

MARKET PERFORM ↑

Price : **RM0.915**
Target Price : **RM0.940** ↑

Share Price Performance



KLCI 1,581.54
YTD KLCI chg -2.8%
YTD stock price chg -7.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SPSB MK EQUITY
Market Cap (RM m)	3,711.9
Shares Outstanding	4,056.7
52-week range (H)	1.32
52-week range (L)	0.55
3-mth avg daily vol:	5,426,212
Free Float	18%
Beta	1.3

Major Shareholders

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

Summary Earnings Table

FYE Dec (RM m)	2020A	2021E	2022E
Turnover	3,228	3,481	3,496
EBIT	387	627	678
PBT	-157	578	706
Net Profit (NP)	-453	294	411
Core NP	54	294	411
Consensus (CNP)	n.m.	331.2	420.6
Earnings Revision	n.m.	n.m.	n.m.
Core EPS (sen)	1.3	7.3	10.2
Core EPS growth (%)	-79	448	40
NDPS (sen)	0.0	2.2	3.1
NTA/Share (RM)	3.43	3.48	3.55
Core PER (x)	68.8	12.6	9.0
Price/NTA (x)	0.3	0.3	0.3
Net Gearing (x)	0.7	0.6	0.5
Dividend Yield (%)	0.0	2.4	3.3

* 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

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Results Highlight								
FYE: 31st Dec (RMm)	4Q20	3Q20	QoQ%	4Q19	YoY%	FY19	FY20	Ytd-YoY
Revenue	1113.7	1080.5	3%	796.2	40%	3928.9	3228.1	-18%
Op costs w/o deprn/amort	-985.4	-934.1	5%	-675.4	46%	-3288.2	-2963.6	-10%
Other Op Income	35.9	28.1	28%	50.9	-29%	239.8	153.0	-36%
EBITDA	164.2	174.5	-6%	171.7	-4%	880.5	417.6	-53%
EBIT	155.9	167.2	-7%	164.3	-5%	851.8	387.1	-55%
Interest Expense	-17.0	-49.2	-65%	-60.4	-72%	-237.7	-172.6	-27%
Associate/JCE	-18.2	-337.1	-95%	12.4	-247%	8.5	-371.5	-4476%
Pretax profit	120.7	-219.0	-155%	116.3	4%	622.6	-157.0	-125%
Taxation	-38.3	-25.0	54%	-34.7	11%	-176.2	-87.8	-50%
MI/P.Bond/iRCPS/Disc'td Ops	-26.9	-85.5	-69%	-11.5	134%	-210.6	-208.5	-1%
Net profit	55.5	-329.5	-117%	70.1	-21%	235.8	-453.3	-292%
Core Net Profit	80.7	7.4	990%	88.3	-9%	253.9	53.9	-79%
EPS (sen)	1.99	0.2	986%	1.7	15%	5.9	1.3	-78%
DPS (sen)	0.0	0.0	>100%	1.0	-100%	1.0	0.0	-100%
Net gearing (x)	0.65	0.65		0.57		0.57	0.65	
EBIT margin	14.0%	15.5%		20.6%		22.4%	12.9%	
Pretax margin	10.8%	-20.3%		14.6%		15.8%	-4.9%	
Effective tax rate	31.8%	-11.4%		29.8%		28.3%	-55.9%	

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.				
PROPERTY DEVELOPERS UNDER COVERAGE																		
ECO WORLD DEVELOPMENT GROUP	0.495	1,457.5	Y	10/2021	15.7%	10.5%	2.2%	5.9%	6.2	6.2	5.5	0.3	0.3	5.1%	4.2%	0.490	MP	
IOI PROPERTIES GROUP BHD	1.38	7,598.5	Y	06/2021	-2.2%	-1.6%	10.3%	1.2%	12.3	11.1	11.0	0.4	0.4	3.7%	2.2%	1.32	MP	
MAH SING GROUP BHD	0.790	1,917.9	Y	12/2021	47.7%	19.9%	195.2%	33.3%	56.4	12.0	9.0	0.5	0.5	5.3%	3.8%	1.05	OP	
MALAYSIAN RESOURCES CORP BHD	0.415	1,831.0	Y	12/2021	2.9%	-32.7%	5800%	8.5%	0.0	31.9	27.7	0.4	0.4	1.2%	2.4%	0.650	OP	
SIME DARBY PROPERTY BHD	0.575	3,910.5	Y	12/2021	1.9%	11.5%	2100%	36.7%	-2.9	13.7	10.0	0.4	0.4	3.0%	2.3%	0.560	MP	
SP SETIA BHD	0.915	3,711.9	Y	12/2021	7.8%	-0.4%	444.4%	39.8%	68.8	12.6	9.0	0.3	0.3	2.0%	2.4%	0.940	MP	
SUNWAY BHD	1.49	7,284.5	Y	12/2020	-16.6%	32.8%	-43.5%	38.0%	11.5	20.3	14.7	0.8	0.8	3.7%	2.5%	1.54	MP	
UEM SUNRISE BHD	0.405	2,048.7	Y	12/2020	-55.1%	25.2%	-91.4%	219.9%	5.9	59.8	18.7	0.2	0.2	0.4%	0.0%	0.430	UP	
UOA DEVELOPMENT BHD	1.79	3,801.6	Y	12/2021	18.2%	11.8%	-7.3%	8.1%	11.9	12.8	11.9	0.7	0.7	5.9%	7.3%	1.76	MP	
Simple Average					2.3%	8.5%	934.4%	43.5%	19.4	20.1	13.0	0.5	0.4	3.4%	3.0%			

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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