

24 November 2021

S P Setia Berhad

9MFY21 Missed Expectations

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9MFY21 CNP of RM38.1m missed expectations stemming from larger-than-expected losses incurred in 3QFY21 due to FMCO and in Battersea JV. That said, 9MFY21 sales of RM3.4b is above our/management's target of RM3.8b in anticipation of a strong 4Q on last-minute property buying before the HOC ends in Dec 2021. Hence, we raise FY21E sales target to RM4.3b (from RM3.8b). However, FY21E earnings are cut by 33% on lower margins and Battersea JV contributions. With its share price performing lately despite the lack of re-rating catalyst, downgrade to UP (from MP) with an unchanged TP of RM1.19 (0.4x PBV).

Below expectations. 3QFY21 core net loss (CNL) of RM76.1m dragged 9MFY21 CNP to RM38.1m – below our/consensus expectations at 20%/15% of full-year estimates. While a loss was anticipated in 3QFY21 stemming from the Full Movement Control Order (FMCO) which started in 1st June 2021 spanning till mid-August; the quantum of loss was larger than expected as: (i) operating margins were compressed due to operating leverage effect (i.e. low revenue on the back of fixed costs), and (ii) losses incurred from its 40%-owned Battersea JV due to aggressive marketing. No dividends, as expected.

3QFY21 sales of RM0.67b led 9MFY21 sales to RM3.38b – above our/management's RM3.8b target (89%). We anticipate 4QFY21 sales to come in strong as property buyers seize the opportunity to purchase properties before the Home Ownership Campaign (HOC) ends by Dec 2021. Management has earmarked RM1.2b worth of launches in 4QFY21 (9MFY21 - launched RM1.5b). Consequently, we raise FY21 sales target to RM4.3b. Unbilled sales of RM9.8b provide two years coverage.

Highlights. QoQ, 3QFY21 core loss (CNL) of RM76.1m plunged 203% mainly because it was weighed down by: (i) weaker revenue of 45% stemming from the full movement control order (FMCO) which only allowed 1.5 months of works at sub-optimal operating capacity, and (ii) the semi-annual RCPS dividend distribution* of RM66m. **YoY,** 9MFY21 CNP of RM38.1m swung back into the black from a loss position of RM44.7m, attributable to stronger top-line contribution (+29%) as 9MFY20's productivity was severely impacted by the first MCO back in March 2020.

*RCPS distribution occur every 1Q and 3Q.

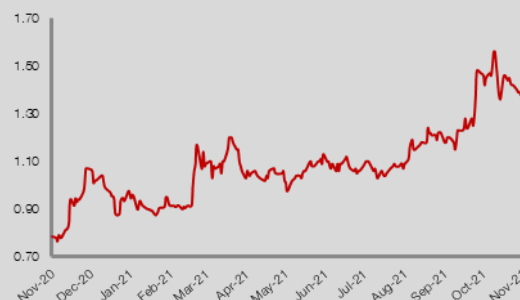
Downgrade FY21E earnings by 33% to RM130m on weaker OP margins and lower Battersea JV contributions. However, we keep FY22 estimates unchanged. Note, FY22E bumper earnings estimate of RM509m is mainly from: (i) two Melbourne projects (Uno and Sapphire) which recognise earnings upon completion, and (ii) completion of RM236m land sale at Johor Bahru (to Scientx).

With share price rallying in recent months despite the lack of convincing re-rating catalyst i.e. indication of stronger demand data-wise, we choose to downgrade SP SETIA to Underperform (from Market Perform) with an unchanged Target Price of RM1.19 based on an unchanged FY22E PBV of 0.40x (-1.5SD). Being one of the largest developers in the country, we view SP SETIA as a proxy for the sector's outlook which appears challenging in the near-to-medium term, plagued by affordability, oversupply and policy issues.

UNDERPERFORM ↓

Price : RM1.38
Target Price : RM1.19 ↔

Share Price Performance



KLCI	1,522.88
YTD KLCI chg	-6.4%
YTD stock price chg	39.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SPSB MK EQUITY
Market Cap (RM m)	5,613.8
Shares Outstanding	4,068.0
52-week range (H)	1.72
52-week range (L)	0.76
3-mth avg daily vol:	5,826,303
Free Float	20%
Beta	1.4

Major Shareholders

Amanah Saham Nasional	34.9%
Yayasan Pelaburan Bumiputra	26.1%
Kumpulan Wang Persaraan	10.1%

Summary Earnings Table

FYE Dec (RM m)	2020A	2021E	2022E
Turnover	3,228	3,471	3,702
EBIT	41	663	1,074
PBT	-156	483	894
Net Profit (NP)	-318	262	641
Core NP	37	130	509
Consensus (CNP)	n.a.	256	439
Earnings Revision	n.a.	-33%	0%
Core EPS (sen)	0.9	3.2	12.5
Core EPS growth (%)	-81	253	291
NDPS (sen)	0.0	0.0	3.8
NTA/Share (RM)	2.90	2.93	3.02
Core PER (x)	151.4	42.9	11.0
Price/NTA (x)	0.48	0.47	0.46
Net Gearing (x)	0.6	0.6	0.6
Dividend Yield (%)	0.0	0.0	2.7

* Note our CNP estimate 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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Risks to our call include: (i) lower-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

Results Highlight								
FYE Dec (RM m)	3Q21	2Q21	QoQ	3Q20	YoY	9M21	9M20	YoY
Revenue	594.6	1082.8	-45%	1080.5	-45%	2730.1	2114.5	29%
COGS	-418.7	-812.9	-48%	-838.5	-50%	-2018.3	-1553.7	30%
Impairment of completed Inventories	0.0	0.4	-100%	3.5	-100%	1.2	-128.1	n.a.
GP	175.8	270.3	-35%	245.4	-28%	713.1	432.7	65%
Other income	35.9	40.2	-11%	28.1	28%	113.6	109.6	4%
Selling and marketing expenses	-12.4	-10.7	15%	-13.6	-9%	-32.8	-36.0	-9%
Admin expenses	-98.4	-96.0	3%	-92.7	6%	-265.8	-257.4	3%
Gain/(loss) on Forex								
- Realised	0.0	0.0	-40%	0.0	n.a.	1.1	0.0	14038%
- Unrealised	21.0	1.1	1817%	0.0	n.a.	-11.1	7.5	-248%
OP	121.9	204.9	-41%	167.2	-27%	518.2	256.3	102%
JV	-13.9	0.7	-1986%	-343.6	-96%	-18.0	-360.1	-95%
Associates	-2.2	4.1	-154%	6.5	-134%	4.8	6.9	-31%
EBIT	105.8	209.8	-50%	-169.8	n.a.	504.9	-96.9	n.a.
Finance costs	-53.5	-50.8	5%	-49.2	9%	-151.2	-179.4	-16%
PBT	52.3	159.0	-67%	-219.0	n.a.	353.7	-276.3	n.a.
Taxation	-30.0	-54.7	-45%	-25.0	20%	-133.0	-48.4	174%
PAT	22.3	104.3	-79%	-244.0	n.a.	220.7	-324.7	n.a.
MI	11.3	29.5	-62%	19.4	-42%	59.7	48.9	22%
PATAMI	11.0	74.8	-85%	-263.4	n.a.	161.1	-373.7	n.a.
RCPS-i A dividends	-35.3	0.0	#DIV/0!	-35.3	0%	-70.7	-70.7	0%
RCPS-i B dividends	-30.7	0.0	#DIV/0!	-30.7	0%	-61.4	-61.4	0%
Exceptional	21.0	1.1	1808%	-336.8	n.a.	-9.1	-461.0	-98%
CNP	-76.1	73.7	-203%	7.4	-1126%	38.1	-44.7	n.a.
DPS	0.0	0.0		0.0		0.0	0.0	
Net Gearing	0.64	0.64		0.65		0.64	0.65	
GP margin	30%	25%		23%		26%	20%	
EBIT margin	18%	19%		-16%		18%	-5%	
Pretax margin	9%	15%		-20%		13%	-13%	
PAT margins	4%	10%		-23%		8%	-15%	
CNP margin	-13%	7%		1%		1%	-2%	
Effective tax	-57%	-34%		11%		-38%	18%	

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	0.845	2,488.0	Y	10/2021	-7.5%	29.6%	-25.6%	23.5%	10.6	10.6	9.4	0.5	0.5	3.7%	2.5%	0.850	MP	
IOI PROPERTIES GROUP BHD	1.12	6,166.9	Y	06/2022	-18.2%	9.5%	1.4%	11.3%	9.8	9.7	8.7	0.3	0.3	3.4%	2.5%	1.32	MP	
MAH SING GROUP BHD	0.715	1,735.8	Y	12/2021	44.7%	16.2%	115.9%	36.0%	51.1	14.9	10.8	0.5	0.5	3.9%	4.2%	0.850	MP	
MALAYSIAN RESOURCES CORP BHD	0.370	1,653.0	Y	12/2021	-31.8%	255.8%	-3787%	65.1%	N.A.	N.A.	33.6	0.3	0.3	-0.6%	2.7%	0.405	MP	
SIME DARBY PROPERTY BHD	0.675	4,590.6	Y	12/2021	1.9%	11.4%	11.9%	119.3%	32.1	29.3	13.2	0.5	0.5	1.7%	1.9%	0.735	MP	
SP SETIA BHD	1.38	5,613.8	Y	12/2021	7.5%	6.7%	141.2%	291.3%	153.3	44.5	11.0	0.5	0.5	0.9%	2.8%	1.19	UP	
SUNWAY BHD	1.69	8,262.5	Y	12/2021	22.5%	17.4%	-44.3%	102.0%	27.3	49.0	24.3	0.9	0.9	2.1%	0.8%	1.90	MP	
UEM SUNRISE BHD	0.350	1,770.5	Y	12/2021	-17.9%	46.6%	-126.0%	57.6%	N.A.	N.A.	33.7	0.2	0.2	-0.4%	0.0%	0.400	MP	
UOA DEVELOPMENT BHD	1.70	3,955.0	Y	12/2021	-51.2%	20.1%	-53.9%	31.2%	11.3	12.1	11.3	0.7	0.7	3.0%	7.6%	1.76	OP	
Simple Average					-5.6%	45.9%	-418.5%	81.9%	42.2	24.3	17.3	0.5	0.5	2.0%	2.8%			

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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