

S P Setia Berhad

Ambitious Launches in 2HFY22

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1HFY22 CNP of RM61m is deemed within expectation as we expect a stronger 2HFY22 with the completion of its Australian projects and the recognition of land sale gains. Meanwhile, 1HFY22 sales of RM1.67b are within our full-year target of RM3.3b but trail its own target of RM4b. We maintain our earnings forecasts and **UNDERPERFORM** call but raise our TP up by 7% to RM0.58 (from RM0.54) as we rationalise our valuation method to RNAV from PBV.

Within expectations. 1HFY22 CNP of RM60.6m accounted for 23% and 21% of our and consensus full-year forecasts, respectively. We deem the results within expectation as we expect a bumper 2HFY22 on: (i) the completion of Sapphire Melbourne (RM1.2b GDV) and stage 1 Uno Melbourne (RM1.1b GDV) (of which profits are recognised on a full completion basis vs. progress billings in Malaysia), and (ii) the completion of the first (RM236m) of three land sales worth a total of RM518m to SCIENTX.

With RM1.67b sales in 1HFY22, SPSETIA is on track to meet our full-year assumption of RM3.3b but trailing its own target of RM4b target. SPSETIA is keeping its target, banking on RM3.2b launches in 2HFY22 (vs. RM0.8b in 1HFY22.). We have reservation whether it is able to put onto the market the entire RM3.2b launches in 2HFY22 given the still soft market condition, labour shortages, rising mortgage rates (that are eroding affordability), persistent inflation (that is eating into consumers' disposable incomes) and the absence of an extension to the Home Ownership Campaign by the government. Nonetheless, its unbilled sales of RM8.71b shall sustain its earnings for at least another two years.

1HFY22 CNP dipped 47% YoY on: (i) weaker revenue (-12%) due to lower sales of completed inventories worth RM272m (vs. RM425m), (ii) wider JV losses from Battersea, and (iii) higher financing costs (+13%) on higher borrowings.

SPSETIA's proposed rights issue of up to 1.4b RCPS-C to raise up to RM1.18b to replace its existing RCPS-B is expected to be completed in Nov 2022. As its share price has fallen significantly since the exercise was first announced in April 2022, we believe the illustrative conversion price of RM1.39 is no longer relevant. It also means SPSETIA will have to issue significantly more RCPS-C than the proposed 1.4b if the conversion price is to be revised down in accordance with its current share price – potentially leading to a more severe overhang.

We maintain our forecasts, and **UNDERPERFORM** call but raise our TP up by 7% to RM0.58 (from RM0.54) as we rationalise our valuation method to RNAV (at a 85% discount vs. peers' 60-65% to reflect the low realisability of SPSETIA's GDV) from PBV (0.18x). There is no adjustment to TP based on ESG for which it is given a 3-star ESG rating as appraised by us (see Page 4).

Risks to our call include: (i) strong recovery in the property sector; (ii) a decline in mortgage rates boosting affordability; (iii) construction costs stabilise/decline; and (iv) lower risks associated with overseas operations.

UNDERPERFORM ↔

Price : RM0.740
Target Price : RM0.580 ↑

Share Price Performance



KLCI 1,516.62
YTD KLCI chg -3.2%
YTD stock price chg -42.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SPSB MK EQUITY
Market Cap (RM m)	3,015.9
Shares Outstanding	4,075.5
52-week range (H)	1.72
52-week range (L)	0.63
3-mth avg daily vol:	3,627,275
Free Float	21%
Beta	1.3

Major Shareholders

Amanah Saham Nasional	34.9%
Yayasan Pelaburan Bumiputra	26.0%
Kumpulan Wang Persaraan	9.6%

Summary Earnings Table

FYE Dec (RM m)	2021A	2022F	2023F
Turnover	3,763	4,571	4,475
EBIT	737	844	779
PBT	542	664	601
Net Profit (NP)	284	400	361
Core NP	163	268	229
Consensus (CNP)	n.a.	291	277
Earnings Revision	n.a.	0%	0%
Core EPS (sen)	4.0	6.6	5.6
Core EPS growth (%)	341	64	-14
NDPS (sen)	0.65	2.0	1.5
NTA/Share (RM)	2.97	3.02	3.06
Core PER (x)	18.5	11.2	13.1
Price/NTA (x)	0.25	0.25	0.24
Net Gearing (x)	0.67	0.66	0.68
Dividend Yield (%)	0.9	2.7	2.0

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

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Results Highlight

FYE Dec (RM m)	2Q22	1Q22	QoQ	2Q21	YoY	1H22	1H21	YoY
Revenue	1018.4	867.1	17%	1082.8	-6%	1885.5	2135.6	-12%
COGS	-742.5	-658.4	13%	-812.9	-9%	-1400.9	-1599.6	-12%
Impairment of completed Inventories	0.0	0.0	n.a.	0.4	-100%	0.0	1.2	-100%
GP	275.9	208.7	32%	270.3	2%	484.6	537.3	-10%
Other income	36.8	29.2	26%	40.2	-9%	66.0	77.7	-15%
Selling and marketing expenses	-13.4	-10.1	32%	-10.7	25%	-23.6	-20.4	15%
Admin expenses	-98.4	-68.6	43%	-96.0	2%	-167.0	-167.3	0%
Gain/(loss) on Forex								
- Realised	0.1	0.0	n.a.	0.0	n.a.	0.1	1.1	-95%
- Unrealised	8.1	12.8	-37%	1.1	n.a.	20.9	-32.1	n.a.
OP	209.1	172.0	22%	204.9	2%	381.0	396.2	-4%
JV	-16.7	-4.7	256%	0.7	-2367%	-21.4	-4.2	410%
Associates	2.7	0.8	225%	4.1	-34%	3.6	7.0	-49%
EBIT	195.2	168.1	16%	209.8	-7%	363.3	399.1	-9%
Finance costs	-60.0	-49.9	20%	-50.8	18%	-109.9	-97.7	13%
PBT	135.1	118.2	14%	159.0	-15%	253.4	301.4	-16%
Taxation	-30.1	-38.9	-22%	-54.7	-45%	-69.0	-103.0	-33%
PAT	105.0	79.3	32%	104.3	1%	184.3	198.4	-7%
MI	24.9	11.8	111%	29.5	-16%	36.7	48.4	-24%
PATAMI	80.1	67.5	19%	74.8	7%	147.6	150.0	-2%
RCPS-i A dividends	0.0	-35.3	n.a.	0.0	n.a.	-35.3	-35.3	0%
RCPS-i B dividends	0.0	-30.7	n.a.	0.0	n.a.	-30.7	-30.7	0%
Exceptional (reverse out Forex)	8.2	12.8	-36%	1.1	642%	21.0	-30.2	n.a.
CNP	71.9	-11.3	n.a.	73.7	-2%	60.6	114.2	-47%
DPS	0.0	0.0		0.0		0.0	0.0	
Net Gearing	0.70	0.69		0.64		0.70	0.64	
GP margin	27%	24%		25%		26%	25%	
EBIT margin	19%	19%		19%		19%	19%	
Pretax margin	13%	14%		15%		13%	14%	
PAT margins	10%	9%		10%		10%	9%	
CNP margin	7%	-1%		7%		3%	5%	
Effective tax	-22%	-33%		-34%		-27%	-34%	

Source: Company, Kenanga Research

RNAV

Project	Effective Stakes	Remaining Land Bank	GDV left (RM m)	NPV of profits (effective)
Subsidiaries				
Central	100%	4230	76984	543
Northern	100%	1305	16056	113
Southern	100%	1178	12095	85
Eastern	100%	53	554	4
International	100%	294	15847	112
		7060	121535	858
Unbilled Sales (as of FY21)	100%		9840	598
Shareholders Fund (FY21)				14175.5
Total RNAV (RM m)				15631.7
Number of shares				4057
RNAV/share				3.85
Discount to RNAV				85%
Target Price				0.58
BV/share (1 yr Fwd)				3.02
EPS (1yr Fwd)				0.07
ROE				2.19%
Implied PBV (x)				0.19

Source: Company, Kenanga Research

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Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core Earnings Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div. Yld. (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
ECO WORLD DEVELOPMENT GROUP	OP	0.660	0.830	25.76%	1,943.3	Y	10/2022	8.0	8.0	-1.3%	-0.2%	8.3	7.3	0.4	4.9%	4.0	6.1%
IOI PROPERTIES GROUP BHD	OP	0.980	1.65	68.37%	5,396.0	Y	06/2022	11.6	12.9	1.4%	11.3%	8.4	7.6	0.3	3.4%	2.8	2.9%
MAH SING GROUP BHD	MP	0.595	0.600	0.84%	1,444.5	Y	12/2022	6.2	5.8	41.5%	-6.0%	9.6	10.3	0.4	4.9%	3.0	5.0%
MALAYSIAN RESOURCES CORP BHD	MP	0.340	0.375	10.29%	1,519.0	Y	12/2022	1.2	0.5	-56.7%	-56.9%	28.3	68.0	0.3	1.1%	1.0	2.9%
SIME DARBY PROPERTY BHD	OP	0.460	0.550	19.57%	3,128.4	Y	12/2022	3.5	3.7	68.9%	5.9%	13.3	12.5	0.3	2.5%	2.0	2.8%
SP SETIA BHD	UP	0.740	0.580	-21.62%	3,015.9	Y	12/2022	6.6	5.6	64.4%	-14.6%	11.2	13.2	0.2	2.9%	2.0	5.1%
SUNWAY BHD	OP	1.59	2.05	28.93%	7,773.6	Y	12/2022	8.6	14.4	29.3%	67.5%	19.9	11.9	0.8	4.4%	3.0	1.9%
UEM SUNRISE BHD	MP	0.295	0.320	8.47%	1,492.3	Y	12/2022	(0.9)	(0.6)	-139.3%	-165.2%	N.A.	N.A.	0.2	-0.6%	0.0	0.0%
UOA DEVELOPMENT BHD	MP	1.67	1.76	5.39%	4,020.4	Y	12/2022	9.1	10.6	-5.6%	16.2%	11.9	11.1	0.7	3.9%	10.0	7.8%
Simple Average								6.0	6.8	0.3%	-15.8%	13.9	17.7	0.4	3.0%		3.8%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★				
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★	☆		
	Corruption-Free Pledge	★	★	☆		
	Carbon-Neutral Initiatives	★	★	★		
SPECIFIC	Digital Transformation	★	★	★	★	☆
	Adoption of Green Financing	★	★	★	☆	
	Waste Management	★	★	★	☆	
	Flora and Fauna Preservation	★	★	★	☆	
	Green Building Planning	★	★	★		
	Supply Chain Auditing	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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