

21 November 2022

S P Setia

Stifled by Debt

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SPSETIA's 9MFY22 results disappointed on widened JV losses and higher financing costs. On a brighter note, YTD sales of RM2.7b were on target. It is mindful of its huge debt servicing obligations that are weighing down on its performance and hence is doubling down on efforts to pare down borrowings including repatriation of overseas proceeds and land sales. We cut our FY22-23F earnings by 36-21%, reduce TP by 34% to RM0.38 (from RM0.58) and maintain our UNDERPERFORM call.

Below expectations. 9MFY22 core net profit of RM35m missed expectations at only 13% and 12% of our full-year forecast and the full-year consensus estimates, respectively, weighed down by 3QFY22 core net loss of RM26m (after stripping out forex and fair value gains worth RM30m). The variance against our forecast came largely from: (i) the higher-than-expected financing cost, and (ii) the wider-than-expected losses from 40%-owned JV in Battersea.

9MFY22 sales of RM2.7b backed by new launches of RM1.69b came in at 81% of our RM3.3b target (company targeted RM4b) which we deem inline as we anticipate weaker sales in 4Q arising from the higher interest rate environment (Bank Negara Malaysia has raised rates by 75bps YTD). Unbilled sales stood at RM8.4b which should sustain its earnings for approximately two years.

Results highlight. 3QFY22 CNL sank into the red QoQ on: (i) weaker revenue (-15%) which dragged GP (-14%), (ii) higher financing costs (+13%), (iii) higher effective tax rates of 12ppt, and (iv) incurrence of its bi-annual RCPS dividend distribution of RM66m every 1Q and 3Q. 9MFY22 CNP came off 9% YoY mainly due to higher financing (+18%) and wider JV losses.

The key takeaways from the analysts briefing last Thursday are as follows:

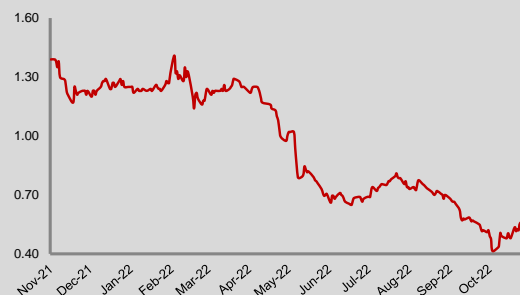
- SPSETIA has repatriated GBP36m (or c.RM195m) from Battersea with the intention to pare down RM1b worth of borrowings by year-end (currently RM12.5b borrowings) and the goal of bringing net gearing down to 0.4x by FY24 (currently 0.71x). Such target will be achieved through: (i) land sales, (ii) debt settlement in Singapore and Australia upon projects completion, and (iii) continuous repatriation of monies from Battersea.
- Losses at Battersea (40% JV) will narrow on reducing market expenses as the take-up inches towards 100%. Currently, the combined take-up rate from phase 2 and 3A (GDV of GBP1.56b) stands at 89%.
- The company's sales conversion rate remains at c.50% and they intend to continue pushing landed properties within its matured townships to achieve its RM4b sales target. As of 3QFY22, bookings stood at RM592m.

A temporary reprieve. We anticipate 4QFY22 net profit to come in strong at c.RM135m upon the handover of Sapphire Melbourne (GDV of RM1.2b, competed in Oct 2022). The contribution from Sapphire will spill over to FY23 on gradual handovers while UNO Melbourne (RM1.5b GDV) will also start to contribute on completion in FY23. Nonetheless, with rising rates, we forecast absolute financing costs to rise in FY23 despite the lower debt levels as c.85% of its existing debts are secured at floating rates.

UNDERPERFORM ↔

Price : RM0.530
Target Price : RM0.380 ↓

Share Price Performance



KLCI 1,449.32
YTD KLCI chg -7.5%
YTD stock price chg -58.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SPSB MK EQUITY
Market Cap (RM m)	2,175.4
Shares Outstanding	4,075.5
52-week range (H)	1.42
52-week range (L)	0.41
3-mth avg daily vol:	6,018,952
Free Float	21%
Beta	1.2

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	4,171	4,448
EBIT	737	790	793
PBT	542	550	523
Net Profit (NP)	284	303	308
Core NP	163	171	181
Consensus (CNP)	n.a.	286	287
Earnings Revision	n.a.	-36%	-21%
Core EPS (sen)	4.0	4.2	4.4
Core EPS growth (%)	340	4	6
NDPS (sen)	0.65	1.3	1.5
NTA/Share (RM)	2.97	2.99	3.02
Core PER (x)	13.2	12.6	11.9
Price/NTA (x)	0.18	0.18	0.18
Net Gearing (x)	0.67	0.67	0.69
Dividend Yield (%)	1.2	2.4	2.8

* 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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Forecasts. We cut our FY22F/23F net profit by 36%/21%.

We remain cautious on SPSETIA as: (i) prospects of the property sector seem to be deteriorating further, clouded by eroding affordability due to rising interest rates and elevated input costs, and (ii) its near-term performance will continued to be weighed down by high debt servicing obligations and high-cost structure. We reduce our TP by 34% to RM0.38 (from RM0.58) after raising our RNAV discount to 90% (from 85%) versus peers' 60-65% to reflect its elevated debt levels (highest net gearing within our coverage) which might potentially lead towards liquidity issues in a weaker market moving forward. There is no adjustment to our TP based on ESG given a 3-star ESG rating as appraised by us (see Page 5). Maintain **UNDERPERFORM**

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

Results Highlight								
FYE Dec (RM m)	3Q22	2Q22	QoQ	3Q21	YoY	9M22	9M21	YoY
Revenue	860.9	1018.4	-15%	594.6	45%	2746.5	2730.1	1%
COGS	-622.7	-742.5	-16%	-418.7	49%	-2023.6	-2018.3	0%
Impairment of completed Inventories	0.0	0.0	n.a.	0.0	n.a.	0.0	1.2	-100%
GP	238.3	275.9	-14%	175.8	36%	722.9	713.1	1%
Other income	64.0	36.8	74%	35.9	79%	130.0	113.6	14%
Selling and marketing expenses	-15.6	-13.4	16%	-12.4	26%	-39.1	-32.8	19%
Admin expenses	-94.7	-98.4	-4%	-98.4	-4%	-261.7	-265.8	-2%
Gain/(loss) on Forex								
- Realised	-0.1	0.1	-208%	0.0	n.a.	0.0	1.1	-101%
- Unrealised	6.6	8.1	-18%	21.0	n.a.	27.6	-11.1	n.a.
OP	198.6	209.1	-5%	121.9	63%	579.6	518.2	12%
JV	-19.3	-16.7	16%	-13.9	39%	-40.6	-18.0	125%
Associates	5.4	2.7	96%	-2.2	n.a.	9.0	4.8	87%
EBIT	184.7	195.2	-5%	105.8	75%	548.0	504.9	9%
Finance costs	-68.1	-60.0	13%	-53.5	27%	-178.0	-151.2	18%
PBT	116.6	135.1	-14%	52.3	123%	370.0	353.7	5%
Taxation	-40.3	-30.1	34%	-30.0	34%	-109.4	-133.0	-18%
PAT	76.3	105.0	-27%	22.3	242%	260.6	220.7	18%
MI	6.1	24.9	-75%	11.3	-46%	42.9	59.7	-28%
PATAMI	70.2	80.1	-12%	11.0	537%	217.8	161.1	35%
RCPS-i A dividends	-35.3	0.0	n.a.	-35.3	0%	-70.7	-70.7	0%
RCPS-i B dividends	-30.7	0.0	n.a.	-30.7	0%	-61.4	-61.4	0%
Exceptional (reverse out Forex)	30.0	8.2	267%	21.0	43%	51.0	-9.1	n.a.
CNP	-25.8	71.9	-136%	-76.1	-66%	34.7	38.1	-9%
DPS	0.0	0.0		0.0		0.0	0.0	
Net Gearing	0.71	0.70		0.64		0.71	0.64	
GP margin	28%	27%		30%		26%	26%	
EBIT margin	21%	19%		18%		20%	18%	
Pretax margin	14%	13%		9%		13%	13%	
PAT margins	9%	10%		4%		9%	8%	
CNP margin	-3%	7%		-13%		1%	1%	
Effective tax	-35%	-22%		-57%		-30%	-38%	

Source: Company, Kenanga Research

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RNAV				
Project	Effective Stakes	Remaining Land Bank	GDV left (RM m)	NPV of profits (effective)
<u>Subsidiaries</u>				
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				4075
RNAV/share				3.84
Discount to RNAV				90%
Target Price				0.38

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) 1-Yr. Fwd.	ROE (%) 1-Yr. Fwd.	Net Div. (sen) 1-Yr. Fwd.	Net Div. Yld. (%) 1-Yr. Fwd.
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.				
ECO WORLD DEVELOPMENT	OP	0.620	0.830	33.87%	1,825.5	Y	10/2022	8.0	8.0	-1.3%	-0.2%	7.8	6.9	0.4	4.9%	5.0	8.1%
IOI PROPERTIES GROUP	OP	1.06	1.60	50.94%	5,836.5	Y	06/2023	13.5	14.3	4.2%	5.9%	7.9	7.4	0.3	4.0%	3.0	2.8%
MAH SING GROUP BHD	MP	0.505	0.600	18.81%	1,226.0	Y	12/2022	6.2	5.8	41.5%	-6.0%	8.2	8.7	0.4	4.9%	3.0	5.9%
MALAYSIAN RESOURCES CORP BHD	MP	0.290	0.340	17.24%	1,295.6	Y	12/2022	0.6	0.5	-75.8%	-23.2%	48.3	58.0	0.3	0.6%	1.0	3.4%
SIME DARBY PROPERTY BHD	OP	0.455	0.550	20.88%	3,094.4	Y	12/2022	3.5	3.8	68.9%	9.8%	13.1	12.0	0.3	2.5%	2.0	2.9%
SP SETIA BHD	UP	0.530	0.380	-28.30%	2,175.4	Y	12/2022	4.2	4.4	4.9%	5.8%	12.6	12.0	0.2	2.2%	1.3	7.2%
SUNWAY BHD	OP	1.51	2.05	35.76%	7,382.5	Y	12/2022	8.6	14.4	29.3%	67.5%	18.9	11.3	0.8	4.4%	3.0	2.0%
UEM SUNRISE BHD	MP	0.210	0.320	52.38%	1,062.3	Y	12/2022	(0.9)	(0.6)	-139.3%	-165.2%	N.A.	N.A.	0.1	-0.6%	0.0	0.0%
UOA DEVELOPMENT BHD	MP	1.58	1.75	10.76%	3,803.8	Y	12/2022	9.1	10.6	-5.6%	16.2%	11.3	10.5	0.6	3.9%	10.0	8.2%
Simple Average								5.9	6.8	-8.1%	-9.9%	16.0	15.9	0.4	3.0%		4.5%

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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