

S P Setia

Barely Profitable in 1QFY23

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SPSETIA's 1QFY23 results met our forecast but missed consensus estimate. It returned to the black from losses a year ago driven by higher progress billings and improved margins. With RM1b sales achieved during the quarter, it is on track to meet our full-year assumption of RM3.3b. We remain concerned over its high debt and maintain our forecasts, TP of RM0.38 and UNDERPERFORM call.

1QFY23 core net profit of RM10m came in at only 8% and 3% our full-year forecast and the full-year consensus estimate, respectively. We consider the results within our expectation as: (i) its 1Q are normally weighed down by the RCPS dividend distribution (so is 3Q), and (ii) we expect stronger earnings during the remaining quarters. However, we regard the results as below market expectations as 1QFY23 core net profit only made up a fraction of the full-year consensus estimate.

It returned to the black in 1QFY23 driven by higher progress billings (+12%), improved gross profit margins (+4ppts) and a lower RCPS distribution.

1QFY23 sales of RM1.03b are on track to meet our full-year assumption of RM3.3b (which is slightly more conservative than the company's full-year target of RM4.2b).

The key takeaways from its analyst briefing yesterday are as follows:

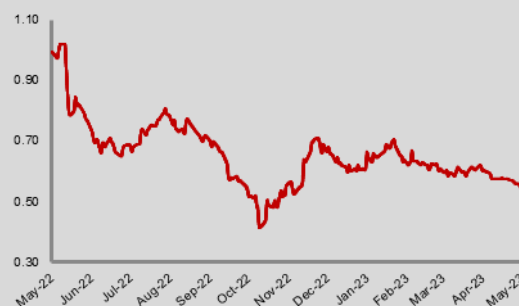
- For FY23, it intends to launch RM4.9b worth of projects (already launched RM683m in 1QFY23) to achieve its RM4.2b sales target. Of these launches, 78% would be from central region, 8% from Johor and the rest from Penang. However, we doubt whether the lofty aim is a realistic target amidst the challenging backdrop. Recall, in FY22, the group planned to launch RM4b worth of properties but only managed to hit RM1.3b.
- It intends to bring its net gearing of 0.61x down further mainly through land sales. SPSETIA is hoping to finalise a 500-acre land sale by June/July 2023 and is also in serious discussions to revive the 960-acre Pelangi (Johor) land sale (which fell through earlier this year).
- The group intends to pivot into the industrial development space. It has earmarked land parcels for this purpose in Setia Alaman, Tanjung Kupang and Setia Fountaines. It is currently converting titles of these land parcels from commercial to industrial.
- For the rest of the year, its Australian developments (UNO and Sapphire) have outstanding 35% of vacant possession left to be delivered worth c.RM800m. Post completion of these developments in FY23, it intends to repatriate c.AUD55m cash back to Malaysia but will remain active in Australia, developing land pockets.
- Its 40%-owned Battersea JV registered a loss of RM23m in 1QFY23 as impairments were made arising from discounts given to clear off units and the higher interest rates in the UK. It does not expect profitability from this JV anytime soon but assured that cash flows are healthy enough for repatriation this year.

Forecasts. Maintained.

UNDERPERFORM ↔

Price : RM0.530
Target Price : RM0.380 ↔

Share Price Performance



KLCI 1,424.34
YTD KLCI chg -4.8%
YTD stock price chg -11.7%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker SPSB MK Equity
Market Cap (RM m) 2,162.5
Shares Outstanding 4,080.3
52-week range (H) 1.04
52-week range (L) 0.41
3-mth avg daily vol: 2,451,245
Free Float 23%
Beta 1.3

Major Shareholders

Amanah Saham Nasional 34.8%
Yayasan Pelaburan Bumiputra 26.0%
Kumpulan Wang Persaraan 8.7%

Summary Earnings Table

FYE Dec (RM m)	2022A	2023F	2024F
Turnover	4,454	4,448	3,553
EBIT	824	704	602
PBT	564	434	342
Net Profit (NP)	308	246	208
Core NP	103	119	81
Consensus (CNP)	n.a.	301	293
Earnings Revision	n.a.	0%	0%
Core EPS (sen)	2.5	2.9	2.0
Core EPS growth (%)	-37	15	-32
NDPS (sen)	1.5	1.5	1.5
NTA/Share (RM)	3.00	3.01	3.02
Core PER (x)	20.9	18.2	26.5
Price/NTA (x)	0.18	0.18	0.18
Net Gearing (x)	0.66	0.69	0.73
Dividend Yield (%)	2.8	2.8	2.8

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

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We maintain our TP of RM0.38 on unchanged RNAV discount of 90%, steeper than peers' 60%-65% to reflect its elevated debt levels (highest net gearing within our coverage). There is no adjustment to our TP based on ESG given a 3-star ESG rating as appraised by us (see Page 5).

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. 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)	1Q23	4Q22	QoQ	1Q22	YoY	1Q23	1Q22	YoY
Revenue	967.7	1708.0	-43%	867.1	12%	967.7	867.1	12%
COGS	-701.1	-1365.6	-49%	-658.4	6%	-701.1	-658.4	6%
Impairment of completed Inventories	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
GP	266.6	342.4	-22%	208.7	28%	266.6	208.7	28%
Other income	50.5	57.5	-12%	29.2	73%	50.5	29.2	73%
Selling and marketing expenses	-14.0	-20.0	-30%	-10.1	38%	-14.0	-10.1	38%
Admin expenses	-96.1	-116.9	-18%	-68.6	40%	-96.1	-68.6	40%
Gain/(loss) on Forex								
- Realised	0.2	-0.2	n.a.	0.0	n.a.	0.2	0.0	n.a.
- Unrealised	4.7	3.2	47%	12.8	n.a.	4.7	12.8	-63%
OP	212.0	266.0	-20%	172.0	23%	212.0	172.0	23%
JV	-23.9	3.9	-711%	-4.7	409%	-23.9	-4.7	409%
Associates	4.2	6.6	-37%	0.8	395%	4.2	0.8	395%
EBIT	192.3	276.5	-30%	168.1	14%	192.3	168.1	14%
Finance costs	-76.4	-82.4	-7%	-49.9	53%	-76.4	-49.9	53%
PBT	116.0	194.1	-40%	118.2	-2%	116.0	118.2	-2%
Taxation	-53.0	-91.2	-42%	-38.9	36%	-53.0	-38.9	36%
PAT	62.9	102.9	-39%	79.3	-21%	62.9	79.3	-21%
MI	7.5	12.6	-41%	11.8	-37%	7.5	11.8	-37%
PATAMI	55.4	90.3	-39%	67.5	-18%	55.4	67.5	-18%
RCPS-i A dividends	-35.3	0.0	n.a.	-35.3	0%	-35.3	-35.3	0%
RCPS-i B dividends	0.0	-30.8	n.a.	-30.7	n.a.	0.0	-30.7	n.a.
RCPS-i C dividends	-5.3	0.0	n.a.	0.0	n.a.	-5.3	0.0	n.a.
Exceptional (reverse out Forex)	5.0	-8.9	n.a.	12.8	-61%	5.0	12.8	-61%
CNP	9.9	68.4	-86%	-11.3	n.a.	9.9	-11.3	n.a.
DPS	0.0	1.5		0.0		0.0	0.0	
Net Gearing	0.61	0.62		0.69		0.61	0.69	
GP margin	28%	20%		24%		28%	24%	
EBIT margin	20%	16%		19%		20%	19%	
Pretax margin	12%	11%		14%		12%	14%	
PAT margins	7%	6%		9%		7%	9%	
CNP margin	1%	4%		-1%		1%	-1%	
Effective tax	-46%	-47%		-33%		-46%	-33%	

Source: Company, Kenanga Research

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SPSETIA's RNAV			
Project	Remaining Land Bank (acres)	Outstanding GDV (RM m)	NPV of profits (RM m)
Central	4,230	76,984	543
Northern	1,305	16,056	113
Southern	1,178	12,095	85
Eastern	53	554	4
International	294	15,847	112
	7,060	121,535	858
Unbilled Sales (as of FY21)		9,840	598
Shareholders Fund (FY21)			14,175.5
Total RNAV (RM m)			15,631.7
Number of shares (m)			4,075
RNAV/share (RM)			3.84
Discount to RNAV (%)			90
TP (RM)			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	0.745	0.830	11.41%	2,193.6	Y	10/2023	8.3	8.4	2.1%	1.5%	9.3	8.3	0.5	5.0%	5.0	6.7%
IOI PROPERTIES GROUP	OP	1.13	1.60	41.59%	6,221.9	N	06/2023	13.5	14.3	4.2%	5.9%	8.4	7.9	0.3	4.0%	3.0	2.7%
MAH SING GROUP BHD	OP	0.590	0.700	18.64%	1,432.3	Y	12/2023	6.6	7.0	1.9%	6.9%	9.0	8.4	0.4	4.6%	4.0	6.8%
SIME DARBY PROPERTY BHD	OP	0.460	0.550	19.57%	3,128.4	Y	12/2023	4.1	4.6	-16.5%	11.3%	11.2	10.0	0.3	3.0%	2.0	2.8%
SP SETIA BHD	UP	0.530	0.380	-28.30%	2,162.5	Y	12/2023	2.9	2.0	15.5%	-31.9%	18.3	26.5	0.2	1.8%	1.5	7.2%
UOA DEVELOPMENT BHD	MP	1.74	1.75	0.57%	4,189.0	Y	12/2023	10.6	11.7	-2.7%	10.2%	12.4	11.6	0.7	4.5%	10.0	7.5%
Simple Average					28,464.2					-1.2%	5.6%	15.9	15.0	0.4	3.7%		4.8%

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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