S P Setia

Soft 1Q but Long-term Prospect Intact

By Chris Tong I christong@kenanga.com.my

OUTPERFORM ↔

Price :	**RM1.06**
Target Price :	**RM1.43** ↔

SPSETIA's 1QFY26 earnings missed expectations at only 2% of our and consensus forecasts on softer topline and margins. This led us to trim our FY26F earnings by 25% post results to reflect potentially less favourable product mix, marginally higher construction cost and softer margins from the anticipated land sales revenue recognition in FY26. Still, we look forward to stronger year ahead, anchored by Setia Alaman's progress billings, Setia Fontaines targeted launch in 2QFY26, the ongoing development in Setia Federal Hill, and an improving outlook for its Battersea performance. Notwithstanding that, we maintain our OUTPERFORM rating and TP of RM1.43. SPSETIA is one of our sector Top Picks.

Below expectations. SPSETIA's 1QFY26 net profit (adjusted for a total RCPS dividend distribution of RM40.9m as well as c.RM20m forex losses), made up only 2% of our full-year forecast and consensus estimate. This was primarily due to lower-than-expected property development margins from a softer product mix as well as lower-than-expected sales recognition from both development products and land sales.

YoY, 1QFY26 revenue was 7% higher as lower development revenue was made up by higher land sales recognised. That said, core net profit decreased by 51% due to the poorer margins in both property development products and land sold. Meanwhile, Battersea's performance remained relatively stable albeit still in the red.

QoQ, its turnover and PBT were lower by 49% and 98%, respectively, attributed to the high base in 4QFY25 led by the Tanjung Kupang land sales, coupled with typically stronger property development sales performance in 4Q.

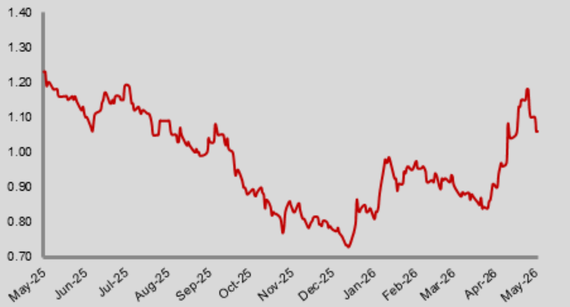
Highlights. Per SPSETIA, coming into 2QFY26, its construction cost has seen about just 5% rise since the onset of the Middle East conflicts. More launches are anticipated in FY26, which we opine would be anchored by Setia Federal Hill (GDV: RM21b), Setia Alaman (target GDV: RM4b over six years), and Setia Fontaines (GDV: RM12b). It was noted that Battersea Phase 3C development is on track while most of the heavy lifting such as infrastructure works and impairment provisions have been largely made in previous years.

Gearing for the group was reduced to 0.31x from 0.33x YoY versus previous highs of 0.6x-0.7x following land monetisation initiatives. This financial flexibility should better enable the group to undertake new high value projects such as Setia Federal Hill, targeting the more affluent customer segment. Meanwhile, SPSETIA may continue to explore data centre deals in its industrial pipeline. In relation to its proposed REIT listing, the latest estimated listing date remains to be in 1QFY27, on an estimated RM2b+ asset size comprised of the earmarked eight diversified assets.

All in, we anticipate stronger sales and revenue contribution in the year ahead supported by: (i) 12% higher unbilled sales of RM4.2b (YoY), (ii) the revenue recognition from land sales made in FY25, and (iii) its upcoming launch of Setia Fontaines industrial park in Penang that could potentially command better margins.

Forecasts. We trim our FY26F earnings by 25% post results to reflect potentially less favourable product mix, marginally higher construction cost and softer margins from the anticipated land sales revenue recognition in FY26 versus FY25. FY27F earnings remain unchanged.

Share Price Performance



KLCI	1,717.69
YTD KLCI chg	2.2%
YTD stock price chg	45.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SPSB MK Equity
Market Cap (RM m)	5,303.6
Shares Outstanding	5,003.4
52-week range (H)	1.23
52-week range (L)	0.73
3-mth avg. daily vol.	12,010,570
Free Float	51%
Beta	1.07

Major Shareholders

Amanah Saham Nasional	27.7%
Yayasan Pelaburan Bumiputra	20.9%
Employees Provident Fund	13.5%

Summary Earnings Table

FYE Dec (RM m)	**2025A**	**2026F**	**2027F**
Turnover	4,217.8	4,450.5	5,285.4
EBIT	1,327.0	889.4	1,219.2
PBT	969.1	778.0	1,103.9
Net Profit (NP)	**510.0**	**411.8**	**584.4**
Core NP	**629.1**	**330.2**	**483.0**
Consensus (CNP)	386.0	454.0	467.7
Earnings Revision (%)	-	-24.8	-
Core EPS (sen)	12.6	6.6	9.7
Core EPS Growth (%)	37.5%	-47.5%	46.3%
NDPS (sen)	2.6	2.5	3.0
NTA/Share (RM)	3.22	3.27	3.36
Core PER (x)	8.4	16.1	11.0
Price/NTA (x)	0.33	0.32	0.32
Net Gearing (x)	0.36	0.31	0.30
Dividend Yield (%)	2.4%	2.4%	2.8%

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

Maintain OUTPERFORM and TP of RM1.43. Our TP is based on a 60% discount to RNAV (vs. 50% applied average for the sector) to reflect greater market conservatism on the stock's perceived low realisability of SPSETIA's GDV and debt management in the previous quarters. In spite of this, we believe SPSETIA is well-positioned in the market to capture the shift in market dynamics, which is more favourable towards higher-end developments, bolstered by its ongoing proposed REIT listing that is on track to materialize by 1QFY27. Meanwhile, we also expect better performance from its JV projects in the medium-term as positive traction gradually picks up. There is no adjustment to our TP based on ESG given a 3-star ESG rating as appraised by us. **SPSETIA is one of our Top Picks for the Property Sector.**

Risks to our call include: (i) weak demand in the property sector, (ii) changes mortgage rates boosting affordability, (iii) elevated construction costs, and (iv) risks associated with overseas operations.

Results Highlight

FYE Dec (RM m)	1Q FY26	4Q FY25	QoQ Chg	1Q FY25	YoY Chg	3M FY26	3M FY25	YoY Chg
Revenue	**826.5**	**1,631.2**	**-49.3%**	**770.7**	**7.2%**	**826.5**	**770.7**	**7.2%**
Cost of Sales	-583.3	-956.1	-39.0%	-489.2	19.2%	-583.3	-489.2	19.2%
Gross Profits	**243.3**	**675.0**	**-64.0%**	**281.5**	**-13.6%**	**243.3**	**281.5**	**-13.6%**
Other Income	61.3	118.9	-48.4%	61.5	-0.3%	61.3	61.5	-0.3%
Sales and Marketing	-9.7	-18.0	-46.3%	-8.9	8.4%	-9.7	-8.9	8.4%
Administrative Exp.	-69.1	-173.9	-60.3%	-98.8	-30.0%	-69.1	-98.8	-30.0%
Forex Gains/(Losses)	-20.3	-13.1	55.0%	4.8	-522.0%	-20.3	4.8	-522.0%
Operating Profit	**205.5**	**588.8**	**-65.1%**	**240.1**	**-14.4%**	**205.5**	**240.1**	**-14.4%**
Joint Venture	-18.8	-111.9	-83.2%	-18.6	1.4%	-18.8	-18.6	1.4%
Associates	5.6	90.6	-93.8%	5.8	-2.7%	5.6	5.8	-2.7%
Finance Cost	-84.5	-96.5	-12.4%	-85.8	-1.6%	-84.5	-85.8	-1.6%
Other Gains	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
Profit before tax	**107.8**	**471.0**	**-77.1%**	**141.5**	**-23.8%**	**107.8**	**141.5**	**-23.8%**
Taxation	-50.1	-176.5	-71.6%	-52.1	-3.8%	-50.1	-52.1	-3.8%
Minority interest	-26.5	-19.4	36.7%	-22.3	18.8%	-26.5	-22.3	18.8%
Net Profit	**31.1**	**275.1**	**-88.7%**	**67.0**	**-53.6%**	**31.1**	**67.0**	**-53.6%**
RCPS-i A dividends	-35.3	0.0	N.M	-35.3	-0.1%	-35.3	-35.3	-0.1%
RCPS-i B dividends	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
RCPS-i C dividends	-5.6	0.0	N.M	-5.6	-0.1%	-5.6	-5.6	-0.1%
One-off Adjustments *	20.3	202.4	-90.0%	-4.8	-522.0%	20.3	-4.8	-522.0%
Core Net Profit	**10.5**	**477.5**	**-97.8%**	**21.3**	**-50.6%**	**10.5**	**21.3**	**-50.6%**
Gross Profit Margin	29.4%	41.4%		36.5%		29.4%	36.5%	
Operating Margin	24.9%	36.1%		31.2%		24.9%	31.2%	
Pretax Margin	13.0%	28.9%		18.4%		13.0%	18.4%	
Core Net Margin	1.3%	29.3%		2.8%		1.3%	2.8%	
Effective Tax Rate	46.5%	37.5%		36.8%		46.5%	36.8%	
Effective Net Gearing (x)	0.30	0.36		0.37		0.30	0.37	

** Relates to adjustments for: (i) forex gains/(losses) for other quarters; and (ii) other one-off gains from divestment*

Source: Company, Kenanga Research

SPSETIA's RNAV

	Remaining Land Bank (acres)	Outstanding GDV (RM b)	NPV of profits (RM m effective)
Region			
Central	3,003.2	64.4	1,750.5
Northern	1,229.0	15.7	614.2
Southern	1,119.9	10.4	673.3
Eastern	43.7	3.1	281.0
International	56.0	35.0	505.9
	5,451.8	**128.6**	**3,825.0**
Unbilled Sales		**3.9**	**239.7**
Shareholders Fund			14,597.1
Total RNAV (RM m)			**18,661.8**
Discount to RNAV			60%
Discounted RNAV			**7,464.7**
Number of shares (including RCPS) (m)			5,215.5
Target Price (RM)			**1.43**

Source: Company, Kenanga Research

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS 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.
PROPERTY DEVELOPERS																	
ECO WORLD DEVELOPMENT GROUP	OP	2.04	2.35	15.2%	6,573.8	Y	10/2026	17.9	18.1	28.9%	1.4%	11.4	11.3	1.0	8.6%	8.0	3.9%
IOI PROPERTIES GROUP BHD	MP	4.26	3.70	-13.1%	23,456.2	Y	06/2026	13.5	14.3	154.5%	5.9%	31.6	29.9	0.9	5.0%	6.0	1.4%
LBS BINA BHD	OP	0.460	0.640	39.1%	709.1	Y	12/2026	8.1	8.8	15.1%	8.3%	5.7	5.2	0.3	6.9%	3.3	7.2%
MAH SING GROUP BHD	OP	0.990	1.78	79.8%	2,534.5	Y	12/2026	10.9	11.7	7.0%	7.3%	9.1	8.5	0.6	6.7%	5.5	5.6%
MALAYSIAN RESOURCES CORP BHD	MP	0.345	0.560	62.3%	1,541.3	Y	12/2026	1.8	1.4	19.2%	-18.9%	48.6	26.1	0.3	1.7%	1.0	2.9%
PARAMOUNT CORPORATION BHD	OP	1.03	1.47	42.7%	641.5	Y	12/2026	19.1	21.8	66.6%	14.2%	5.4	4.7	0.4	7.8%	7.5	7.3%
S P SETIA BHD	OP	1.06	1.43	34.9%	5,303.6	Y	12/2026	6.6	9.7	-47.5%	46.3%	16.1	11.0	0.3	2.4%	2.5	2.4%
SIME DARBY PROPERTY BHD	OP	1.44	1.97	36.8%	9,793.2	Y	12/2026	8.2	9.2	8.0%	11.4%	17.5	15.7	0.9	5.1%	3.3	2.3%
SUNWAY BHD	UP	5.44	5.32	-2.2%	36,776.7	Y	12/2026	20.5	19.4	7.8%	-5.4%	26.5	28.0	2.0	7.8%	6.5	1.2%
UOA DEVELOPMENT BHD	OP	1.82	1.91	4.9%	4,832.1	Y	12/2026	13.7	14.5	18.1%	6.0%	13.3	12.5	0.8	5.8%	12.0	6.6%
SECTOR AGGREGATE					**92,161.9**					**18.3%**	**5.5%**	**20.4**	**19.4**	**0.8**	**5.8%**		**4.1%**

Source: Kenanga Research

This section is intentionally left blank

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Community Investment	★	★	★		
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	☆		
	Anti-Corruption Policy	★	★	☆		
	Emissions Management	★	★	☆		
SPECIFIC	Product Quality & Safety	★	★	★	☆	
	Effluent/Water Management	★	★	★	☆	
	Waste Management	★	★	★		
	Biodiversity & Conservation	★	★	★	☆	
	Green Building	★	★	★		
	Supply Chain Management	★	★	★		
	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.***

Published by:

KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my