S P Setia

Weaker Margins, Delayed REIT Listing

By Chris Tong I christong@kenanga.com.my

SPSETIA's 9MFY26 earnings disappoints, making up only 28% and 26% of our full-year forecasts and consensus estimates. Apart from lower land sales profit recognition, its performance took a hit from weaker-than-expected margins potentially due to less favourable product mix and slower-than-expected project launches. Sales achieved in 9MFY26 stood at only RM2.3b which makes the group's RM4.6b sales target for FY26 challenging. As per guided during its results briefing, the regulatory submission in relation to its proposed REIT listing exercise saw further delays. We lower our forecasts for its FY26-FY27 earnings by 24% and 23%, respectively. Following the group's latest performance, we are recalibrating our discount rate to its RNAV from 60% to 75%, resulting in a lower TP of RM0.89 from RM1.43 to reflect the abovementioned weaker-than-expected net margins and slower-than-expected project roll-out. We keep an OUTPERFORM call on the stock on valuation basis.

Below expectations. SPSETIA's 9MFY26 net profit (adjusted for forex gains and RCPS payment) made up only 28% of our full-year forecast and 26% of consensus estimate. The shortfall was attributable to lower net margins and slower-than-expected launches YoY.

YoY, 9MFY26 revenue was 10% lower while core net profit fell sharply by 40%, respectively. Apart from having lower profits recognized from land sales, it was also largely weighed down by (i) lower net margins potentially due to less favourable product mix and (ii) softer launches at RM2.1b versus RM3.6b YoY. While its overall products take-up rates remained healthy at above 65%, its sales achieved YTD stood at RM2.3b (considerably below its FY26 sales target of RM4.6b). On the bright side, Battersea's losses continued to gradually narrow as anticipated.

QoQ, its turnover decreased 21% largely driven by the abovementioned factors. After accounting for its biannual RCPS dividend payment of RM40m, the group registered a core net loss of RM9.4m in 3QFY26.

Updates. Per SPSETIA, the impact from the elevated fuel cost to its construction costs arising from the middle east war has been marginal. More launches are anticipated in 4QFY26. 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 0.30x from 0.33x YoY versus previous highs of 0.6x-0.7x following land monetization 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 process was further delayed, with a revised estimated RM2.0b asset size comprising the earmarked eight diversified assets.

All in, we anticipate stronger sales and revenue contribution towards year-end supported by: (i) healthy unbilled sales stood at RM3.9b versus RM4.0b QoQ, (ii) stronger planned launches worth RM2.0b, and (iii) its estimated RM500m property sales recognition in 2HFY26 from its Vietnam project.

Forecasts. In view of earnings miss from weaker margins and softer launches, we revise our property sales for FY26 assumption from RM4.6b to RM3.8b and lower our forecasts for its FY26-FY27 earnings by 24% and 23%, respectively.

OUTPERFORM ↔

Price : **RM0.605**
Target Price : **RM0.89** ↓

Share Price Performance



KLCI	1,595.19
YTD KLCI chg	-5.1%
YTD stock price chg	-17.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SPSB MK EQUITY
Market Cap (RM m)	3,056.3
Shares Outstanding	5,051.7
52-week range (H)	1.21
52-week range (L)	0.60
3-mth avg. daily vol.	5,246,709
Free Float	50%
Beta	1.3

Major Shareholders

Amanah Saham Nasional	28.3%
Yayasan Pelaburan Bumiputra	20.7%
Employees Provident Fund	15.7%

Summary Earnings Table

FYE Dec (RM m)	2025A	2026F	2027F
Turnover	4,217.8	3,840.6	4,432.1
EBIT	1,327.0	731.7	997.4
PBT	969.1	625.9	893.7
Net Profit (NP)	**510.0**	**331.3**	**473.1**
Core NP	**629.1**	**249.7**	**371.7**
Consensus (CNP)	-	349.3	409.4
Earnings Revision (%)	-	-24%	-23%
Core EPS (sen)	12.6	5.0	7.4
Core EPS Growth (%)	37.5%	-60.3%	48.9%
NDPS (sen)	2.6	2.5	3.0
NTA/Share (RM)	3.22	3.26	3.32
Core PER (x)	4.8	12.1	8.1
Price/NTA (x)	0.19	0.19	0.18
Net Gearing (x)	0.36	0.29	0.28
Dividend Yield (%)	4.2%	4.1%	5.0%

** 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 may have defined their CNP as before RCPS interest costs, resulting in higher forecasts.*

Maintain OUTPERFORM with a reduced TP at RM0.89. Following the SPSETIA's latest 9MFY26 performance, we are recalibrating our discount rate to its RNAV from 60% to 75%, resulting to a lower TP at RM0.89 from RM1.43 to reflect the abovementioned weaker-than-expected net margins and slower-than-expected project roll-out. Our TP is based on a revised 75% discount to RNAV (vs. 55% applied average for the sector). In spite of this, we believe SPSETIA could still leverage on its ample landbanks to capture the shift in market dynamics, including Setia Federal Hill and its upcoming industrial development in Setia Fontaines. This could be bolstered by its ongoing proposed REIT listing exercise that is expected to materialize by FY27 (delayed from FY26). Meanwhile, we also expect better performance from its JV projects in the medium to long-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.

Risks to our call include: (i) slower-than-expected project launches, (ii) changes in mortgage rates, (iii) prolonged elevated construction costs

Results Highlight

FYE Dec (RM m)	3Q FY26	2Q FY26	QoQ Chg	3Q FY25	YoY Chg	9M FY26	9M FY25	YoY Chg
Revenue	**672.6**	**821.4**	**-18.1%**	**872.3**	**-22.9%**	**2,320.5**	**2,586.7**	**-10.3%**
Cost of Sales	-418.2	-501.3	-16.6%	-547.5	-23.6%	-1,502.8	-1,598.6	-6.0%
Gross Profits	**254.3**	**320.1**	**-20.5%**	**324.8**	**-21.7%**	**817.7**	**988.1**	**-17.2%**
Other Income	68.7	80.5	-14.7%	62.5	10.0%	210.5	185.5	13.5%
Sales and Marketing	-12.9	-10.4	24.1%	-6.8	88.3%	-33.0	-22.8	44.6%
Administrative Exp.	-123.3	-111.7	10.3%	-111.2	10.9%	-304.2	-335.6	-9.4%
Forex Gains/(Losses)	2.2	8.0	-72.9%	-6.3	-134.1%	-10.1	1.3	-867.2%
Operating Profit	**189.0**	**286.4**	**-34.0%**	**262.9**	**-28.1%**	**680.9**	**816.5**	**-16.6%**
Joint Venture	-34.3	-32.1	6.9%	-36.1	-5.1%	-85.2	-101.2	-15.8%
Associates	7.3	10.3	-29.6%	6.3	15.8%	23.2	20.9	11.4%
Finance Cost	-68.9	-74.3	-7.3%	-80.5	-14.5%	-227.7	-246.5	-7.6%
Other Gains	0.0	0.0	N.M	8.5	-100.0%	0.0	8.5	-100.0%
Profit before tax	**93.1**	**190.4**	**-51.1%**	**161.0**	**-42.1%**	**391.3**	**498.1**	**-21.4%**
Taxation	-45.0	-68.4	-34.2%	-62.4	-28.0%	-163.5	-189.1	-13.5%
Minority interest	-15.6	-24.0	-35.1%	-30.5	-49.1%	-66.1	-74.2	-11.0%
Net Profit	**32.6**	**98.1**	**-66.7%**	**68.0**	**-52.1%**	**161.8**	**234.9**	**-31.1%**
RCPS-i A dividends	-35.3	0.0	N.M	-35.3	-0.1%	-70.6	-70.7	-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	-4.5	0.0	N.M	-5.6	-18.8%	-10.1	-11.1	-9.4%
One-off Adjustments *	-2.2	-8.0	-72.9%	6.3	-134.1%	10.1	-1.3	-867.2%
Core Net Profit	**-9.4**	**90.1**	**-110.4%**	**33.5**	**-128.0%**	**91.2**	**151.7**	**-39.9%**
Gross Profit Margin	37.8%	39.0%		37.2%		35.2%	38.2%	
Operating Margin	28.1%	34.9%		30.1%		29.3%	31.6%	
Pretax Margin	13.8%	23.2%		18.5%		16.9%	19.3%	
Core Net Margin	-1.4%	11.0%		3.8%		3.9%	5.9%	
Effective Tax Rate	48.3%	35.9%		38.8%		41.8%	38.0%	
Effective Net Gearing (x)	0.30	0.30		0.38		0.30	0.38	

** Relates to adjustments for: (i) forex gains/(losses) and (ii) other non-core one-off gains*

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			75%
Discounted RNAV			**4,665.4**
Number of shares (including RCPS) (m)			5,215.5
Target Price (RM)			**0.89**

Source: Company, Kenanga Research

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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	1.80	2.35	30.6%	5,827.8	Y	10/2026	17.9	18.1	28.9%	1.4%	10.1	9.9	0.8	8.6%	10.0	5.6%
IOI PROPERTIES GROUP BHD	MP	3.08	4.09	32.8%	16,958.9	Y	06/2027	16.7	16.5	15.7%	-1.6%	18.4	18.7	0.7	4.5%	10.0	3.2%
LBS BINA BHD	OP	0.360	0.510	41.7%	550.1	Y	12/2026	6.9	7.7	-1.7%	10.6%	5.2	4.7	0.3	6.0%	0.0	0.0%
MAH SING GROUP BHD	OP	0.905	1.82	101.1%	2,316.9	Y	12/2026	11.7	17.9	14.7%	53.7%	7.8	5.1	0.5	7.2%	10.0	11.0%
MALAYSIAN RESOURCES CORP BHD	MP	0.255	0.560	119.6%	1,139.2	Y	12/2026	1.8	1.4	19.2%	-18.9%	35.9	19.3	0.2	1.7%	0.0	0.0%
PARAMOUNT CORPORATION BHD	OP	0.970	1.47	51.5%	604.1	Y	12/2026	16.3	19.1	42.4%	17.1%	5.9	5.1	0.4	6.7%	10.0	10.3%
S P SETIA BHD	OP	0.605	0.89	47.9%	3,056.3	Y	12/2026	5.0	7.4	-60.3%	48.9%	12.1	8.1	0.2	1.9%	2.5	4.1%
SIME DARBY PROPERTY BHD	OP	1.28	2.01	57.0%	8,705.1	Y	12/2026	8.5	9.5	11.2%	11.8%	15.1	13.5	0.8	5.3%	0.0	0.0%
SUNWAY BHD	OP	4.41	5.78	31.1%	29,813.5	Y	12/2026	21.6	21.6	19.9%	0.3%	20.5	20.4	1.7	8.3%	10.0	2.3%
UOA DEVELOPMENT BHD	OP	1.49	1.82	22.1%	4,007.2	Y	12/2026	12.3	13.9	7.2%	13.0%	12.1	10.7	0.6	5.3%	10.0	6.7%
SECTOR AGGREGATE					**72,979.1**					**9.4%**	**8.6%**	**15.6**	**14.4**	**0.6**	**5.6%**		**4.3%**

Source: Kenanga Research

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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.***

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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