

## SP Setia (SPSB MK)

# Valuation at half the industry average

### Profit below but sales above expectation

SPSB's 2Q23 core net profit of MYR60m (-16% YoY, +20% QoQ) was below expectations while 6M23 property sales of MYR2.6b were above. We adjust our FY23-25 earnings forecasts by -61% to +41%. We raise our TP to MYR1.20 on 0.4x FY24E PBV (historical mean; from 0.2x) where the higher PBV is justified by SPSB's stronger balance sheet (<0.5x net gearing in FY24E) post-land sales. SPSB's has 2,063 acres of undeveloped landbank in Iskandar M'sia. BUY.

### Earnings should pick up in 4Q23

Excluding MYR17m forex loss, SPSB's 2Q23 core net profit of MYR60.2m lifted 1H23 net profit to MYR110.5m (-12.5% YoY; before MYR40.6m distribution to RCPS holders); the latter accounted for just 15.6%/41% of our/consensus full-year estimates. While earnings should pick up strongly in 4Q23 with the delivery of its Melbourne projects, the land sale in Johor (estd. MYR320m gain) which has already been included in our FY23 forecast (in 4Q23) will now only be recognised in 2Q24 due to the delays in getting approvals.

### On track to hit MYR4.2b sales target

SPSB has managed to lock in property sales of MYR2.6b in 6MFY23 or 61% of its FY23 sales goal. Majority of the MYR2.6b sales (20% was completed stocks) were derived from Klang Valley, followed by Johor (23%) and overseas (16%). As at June 2023, SPSB has MYR470m worth of bookings. In end-2Q23, unbilled sales stood at MYR6.8b (1.1x our FY24E revenue) while net gearing remained largely unchanged at 0.55x (0.56x in end-1Q23).

### Earnings adjustments

We adjust our FY23/24 net profit by -61%/+41% to factor in the delay in recognising the Johor land sale from 4Q23 to 2Q24. We have also lowered 2025 net profit by -45% as the price adjustment for Battersea Power Station retail space will only happen in 2027 (instead of 2025). Potential surprise could come from further land sale in Klang Valley. SPSB trades at an undemanding 0.25x FY24E PBV (industry average 0.53x).

FYE Dec (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	3,763	4,454	5,527	6,962	5,262
EBITDA	734	815	789	783	755
Core net profit	296	287	277	591	288
Core FDEPS (sen)	7.3	7.0	6.8	14.5	7.1
Core FDEPS growth(%)	101.2	(3.1)	(3.5)	113.4	(51.2)
Net DPS (sen)	0.7	1.5	1.5	3.2	1.5
Core FD P/E (x)	17.8	8.5	11.6	5.5	11.2
P/BV (x)	0.4	0.2	0.3	0.3	0.2
Net dividend yield (%)	0.5	2.5	1.9	4.1	1.9
ROAE (%)	2.4	2.6	2.3	4.7	2.2
ROAA (%)	1.0	0.9	1.0	2.1	1.0
EV/EBITDA (x)	23.0	16.2	13.6	12.7	13.5
Net gearing (%) (incl perps)	60.7	57.0	55.3	48.2	48.8
Consensus net profit	-	-	273	284	325
MIBG vs. Consensus (%)	-	-	1.4	107.9	(11.4)

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# BUY

Share Price	MYR 0.79
12m Price Target	MYR 1.20 (+52%)
Previous Price Target	MYR 0.73

### Company Description

S P Setia Bhd is involved in the real estate businesses. Its reputable projects including Setia Alam and Setia Eco Park.

### Statistics

52w high/low (MYR)	0.79/0.42
3m avg turnover (USDm)	1.0
Free float (%)	68.9
Issued shares (m)	4,080
Market capitalisation	MYR3.2B USD696M

### Major shareholders:

Bumiputra Investment Foundation	26.0%
Permodalan Nasional Bhd.	24.7%
Kumpulan Wang Persaraan	9.6%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	33	48	3
Relative to index (%)	28	44	7

Source: FactSet

Table 1: Quarterly summary - SP Setia

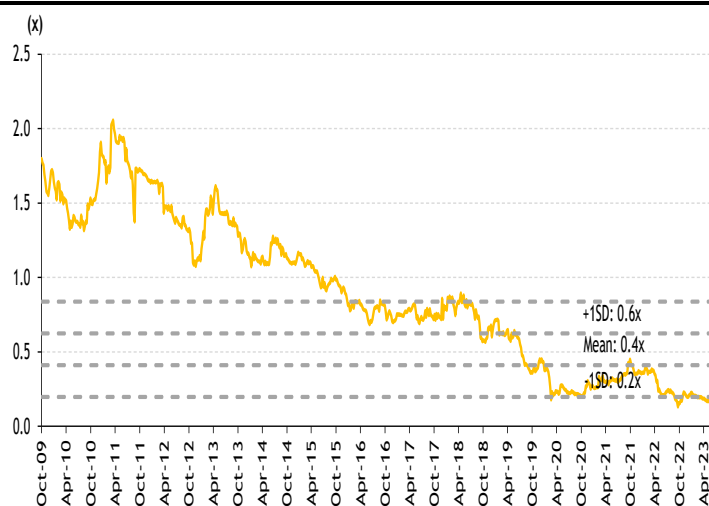
FY Dec (MYR m)	Quarterly					Cumulative		
	2Q23	2Q22	% YoY	1Q23	% QoQ	6M23	6M22	%YoY
Revenue	942.7	1,018.4	-7.4	967.7	-2.6	1,910.4	1,885.5	1.3
EBIT	251.1	200.9	25.0	207.1	21.3	458.2	360.1	27.3
Finance costs	-94.1	-60.0	-56.8	-76.4	-23.2	-170.5	-109.9	-55.1
Associate	-19.8	-13.9	-42.1	-19.7	-0.4	-39.5	-17.8	>-100
Forex	-17.2	8.2	>-100	5.0	>-100	-12.2	21.0	>-100
Profit before tax	120.1	135.1	-11.2	116.0	3.6	236.0	253.4	-6.8
Taxation	-62.0	-30.1	>-100	-53.0	-16.8	-115.0	-69.0	-66.5
Minority interest	-15.1	-24.9	39.6	-7.5	>-100	-22.5	-36.7	38.6
Net profit	43.1	80.1	-46.2	55.4	-22.3	98.5	147.6	-33.3
Core net profit	60.2	71.9	-16.3	50.3	19.7	110.5	126.4	-12.5
			+/- ppt		+/- ppt			+/- ppt
EBIT margin (%)	26.6	19.7	6.9	21.4	5.2	24.0	19.1	4.9
Tax rate (%)	51.6	22.3	29.3	45.7	5.9	48.7	27.3	21.5

Source: Company

## Downside risks

There are several risk factors to our earnings estimates and TP for SPSB: 1) Slower-than-expected property sales and longer-than-expected downturn in the property sector; 2) delay in obtaining the necessary approvals for its projects; 3) slower progress billings in construction works; 4) higher raw material costs; 5) labour shortage hitting its construction operations; 6) higher finance expenses due to the surge in interest; rates and 7) higher-than-expected losses from its 40%-owned Battersea Power Station project.

Fig 2: SPSB's 1-year forward PBV (2018-2023)



Source: Bloomberg, Company data, Maybank IBG Research

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Metrics</b>					
P/E (reported) (x)	16.1	11.6	11.6	5.4	11.2
Core P/E (x)	17.7	8.5	11.6	5.4	11.2
Core FD P/E (x)	17.8	8.5	11.6	5.5	11.2
P/BV (x)	0.4	0.2	0.3	0.3	0.2
P/NTA (x)	0.4	0.2	0.3	0.3	0.2
Net dividend yield (%)	0.5	2.5	1.9	4.1	1.9
FCF yield (%)	13.2	51.9	45.9	1.0	3.0
EV/EBITDA (x)	23.0	16.2	13.6	12.7	13.5
EV/EBIT (x)	23.0	16.2	13.6	12.7	13.5
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	3,762.7	4,454.4	5,526.9	6,962.0	5,262.2
EBITDA	733.7	815.0	789.3	783.0	755.3
Depreciation	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	733.7	815.0	789.3	783.0	755.3
Net interest income / (exp)	(194.1)	(260.3)	(377.5)	(342.9)	(348.4)
Associates & JV	14.5	(21.1)	(30.0)	0.0	0.0
Exceptionals	(11.6)	30.6	0.0	0.0	0.0
Other pretax income	0.0	0.0	77.7	428.7	77.7
Pretax profit	542.5	564.1	459.5	868.9	484.6
Income tax	(195.1)	(200.6)	(110.3)	(208.5)	(116.3)
Minorities	(63.0)	(55.5)	(72.5)	(69.8)	(80.4)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	284.4	308.1	276.7	590.6	287.9
Core net profit	296.0	286.8	276.7	590.6	287.9
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	3,071.2	2,632.9	3,686.9	3,520.3	3,320.9
Accounts receivable	972.3	822.5	1,211.4	1,525.9	1,153.4
Inventory	1,049.6	1,238.6	1,592.2	2,548.2	3,407.5
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	727.8	789.5	789.5	789.5	789.5
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	4,103.9	3,674.5	3,674.5	3,674.5	3,674.5
Other assets	21,259.5	20,661.3	16,937.3	15,770.8	15,244.6
<b>Total assets</b>	<b>31,184.4</b>	<b>29,819.2</b>	<b>27,891.8</b>	<b>27,829.2</b>	<b>27,590.3</b>
ST interest bearing debt	3,247.2	4,420.4	4,220.4	3,306.4	3,306.4
Accounts payable	2,299.1	2,309.9	2,400.8	2,794.0	2,328.3
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	9,308.6	6,959.2	6,959.2	6,959.2	6,959.2
Other liabilities	698.0	783.0	762.0	762.0	762.0
<b>Total Liabilities</b>	<b>15,552.6</b>	<b>14,472.8</b>	<b>14,342.7</b>	<b>13,821.9</b>	<b>13,356.2</b>
Shareholders Equity	14,175.5	14,082.5	12,285.2	12,743.4	12,970.2
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>14,175.5</b>	<b>14,082.5</b>	<b>12,285.2</b>	<b>12,743.4</b>	<b>12,970.2</b>
Perpetual securities	1,456.2	1,263.9	1,263.9	1,263.9	1,263.9
<b>Total liabilities and equity</b>	<b>31,184.4</b>	<b>29,819.2</b>	<b>27,891.8</b>	<b>27,829.2</b>	<b>27,590.3</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	542.5	564.1	459.5	868.9	484.6
Depreciation & amortisation	0.0	0.0	0.0	0.0	0.0
Adj net interest (income)/exp	21.1	25.0	(377.5)	(342.9)	(348.4)
Change in working capital	572.5	1,110.9	1,351.8	(442.6)	(83.2)
Cash taxes paid	(162.8)	(167.1)	(110.3)	(208.5)	(116.3)
Other operating cash flow	144.9	159.5	159.5	159.5	159.5
Cash flow from operations	1,118.1	1,692.4	1,526.7	81.3	145.9
Capex	(427.3)	(423.6)	(50.0)	(50.0)	(50.0)
Free cash flow	690.7	1,268.7	1,476.7	31.3	95.9
Dividends paid	0.0	(26.4)	(59.9)	(61.1)	(132.4)
Equity raised / (purchased)	0.3	(2.1)	0.0	0.0	0.0
Change in Debt	614.7	(1,176.3)	(200.0)	(914.0)	0.0
Perpetual securities distribution	(132.0)	(258.7)	(162.9)	(162.9)	(162.9)
Other invest/financing cash flow	(1,024.2)	(416.2)	0.0	940.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>149.5</b>	<b>(610.9)</b>	<b>1,054.0</b>	<b>(166.7)</b>	<b>(199.4)</b>

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	16.6	18.4	24.1	26.0	(24.4)
EBITDA growth	66.8	11.1	(3.2)	(0.8)	(3.5)
EBIT growth	66.8	11.1	(3.2)	(0.8)	(3.5)
Pretax growth	nm	4.0	(18.5)	89.1	(44.2)
Reported net profit growth	nm	8.3	(10.2)	113.4	(51.2)
Core net profit growth	101.5	(3.1)	(3.5)	113.4	(51.2)
<b>Profitability ratios (%)</b>					
EBITDA margin	19.5	18.3	14.3	11.2	14.4
EBIT margin	19.5	18.3	14.3	11.2	14.4
Pretax profit margin	14.4	12.7	8.3	12.5	9.2
Payout ratio	9.3	19.4	22.1	22.4	21.2
<b>DuPont analysis</b>					
Net profit margin (%)	7.6	6.9	5.0	8.5	5.5
Revenue/Assets (x)	0.1	0.1	0.2	0.3	0.2
Assets/Equity (x)	2.2	2.1	2.3	2.2	2.1
ROAE (%)	2.4	2.6	2.3	4.7	2.2
ROAA (%)	1.0	0.9	1.0	2.1	1.0
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.0	2.1	1.9	2.0	2.1
Net gearing (%) (incl perps)	60.7	57.0	55.3	48.2	48.8
Net gearing (%) (excl. perps)	66.9	62.1	61.0	52.9	53.5
Net interest cover (x)	3.8	3.1	2.1	2.3	2.2
Debt/EBITDA (x)	17.1	14.0	14.2	13.1	13.6
Capex/revenue (%)	11.4	9.5	0.9	0.7	1.0
Net debt/ (net cash)	9,484.7	8,746.7	7,492.7	6,745.3	6,944.7

Source: Company; Maybank IBG Research

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## APPENDIX I: TERMS FOR PROVISION OF REPORT, DISCLAIMERS AND DISCLOSURES

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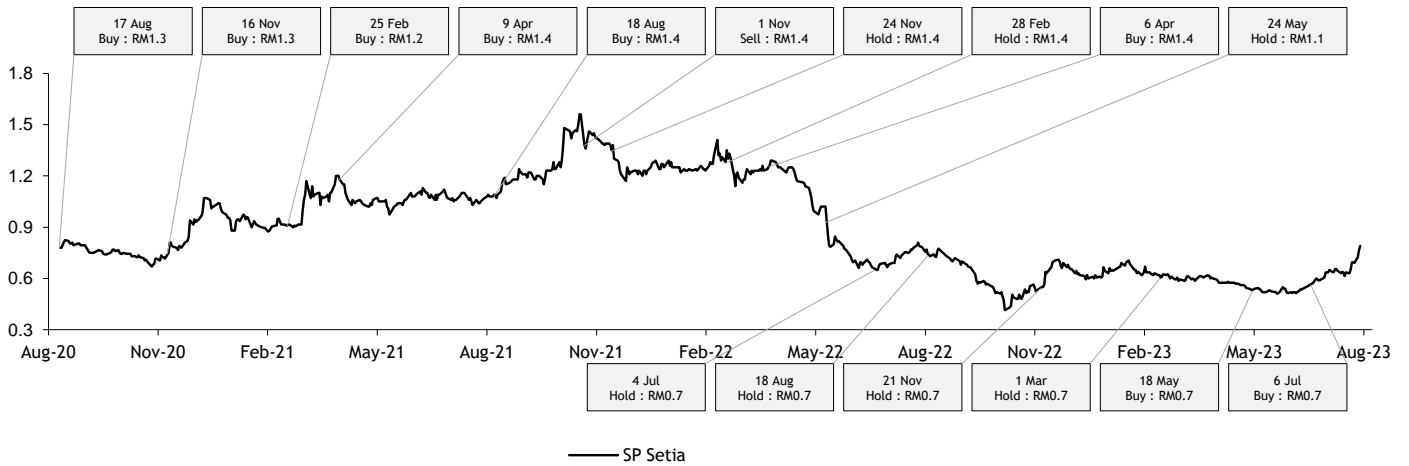
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