Securities

AFFIN HWANG CAPITAL

Out**think**. Out**perform.**

Slow start

Net profit declined 15% yoy to RM105m, mainly due to a forex loss of RM1.5m compared to a forex gain of RM25m in 1Q16. The company achieved sales of RM801m in the first 4 months of this year and remains confident of achieving its target sales of RM4bn for FY17 with planned new launches worth RM4.47bn.

Lower progress billings

Net profit fell 75% qoq to RM105.2m in 1Q17, comprising 14% of full-year Bloomberg's consensus forecast of RM739.7m. Associate earnings of RM131.6m in 4Q16 was boosted by the delivery of residential units at Battersea Power Station Phase 1 to buyers. This compares to associate losses of RM7.5m in 1Q17. Lower progress billings and the completion of its Singapore projects in 4Q16 led to revenue declining 47% qoq to RM940.2m in 1Q17. Management is planning new property launches to bolster its current unbilled sales of RM7.84bn.

New launches

SP Setia plans to launch RM2.82bn worth of new properties in Malaysia and AUD516m (RM1.65bn) in Australia in FY17. Most of the new launches are in its existing township development projects such as Setia Alam (RM292m) and Setia Eco Hill (RM498m) and integrated mixed development such as KL Eco City (RM615m). The company also plans to launch its new mixed development project along Exhibition Street in Melbourne (AUD478m) this year.

Expansion via acquisitions

SP Setia has proposed on 14 April 2017 to acquire I&P Group Sdn Bhd from Permodalan Nasional Bhd (PNB) at an indicative price within the range of RM3.5-3.75bn and Bangi Estates for RM447.5m. PNB is consolidating the two property companies in its stable to increase operational efficiency and to attain synergistic benefits. Affin Hwang Investment Bank is the independent adviser for the proposed Bangi land acquisition to advice the non-interested shareholders and directors of SP Setia. Separately, SP Setia won the tender for a 4.6-acre leasehold land along Toh Tuck Road, Singapore, at a price of SGD265m from the Urban Redevelopment Authority on 18 April 2017. The land will have an allowable development of 327 units of condominium with expected gross development value of about SGD457m.

Earnings & Valuation Summary

FYE 31 Dec (RMm)	2015	2016	2017E	2018E	2019E
Revenue	5,782.6	4,957.2	4,730.4	5,587.8	6,274.1
EBITDA	1,326.5	1,091.0	1,176.3	1,398.8	1,606.4
Pretax profit	1,222.7	1,184.7	1,155.4	1,310.5	1,681.0
Net profit	787.1	808.0	787.2	897.7	1,161.8
EPS (sen)	30.6	28.7	26.5	28.1	36.3
PER	11.6	12.4	13.4	12.6	9.8
Core net profit	786.5	855.1	787.2	897.7	1,161.8
Core EPS (sen)	30.5	28.0	24.6	28.1	36.3
Core EPS growth (%)	97.8	(8.3)	(12.1)	14.0	29.4
Core PER	11.6	12.7	14.4	12.6	9.8
Net DPS (sen)	23.0	18.5	17.1	18.1	23.4
Dividend Yield (%)	6.5	5.2	4.8	5.1	6.6
EV/EBITDA	7.9	11.4	10.2	8.4	6.9
Chg in EPS (%)			0.0	0.0	0.0
Affin/Consensus (x)			1.1	1.3	1.4

Source: Company, Affin Hwang estimates

Results Note

SP Setia

SPSB MK
Sector: Property

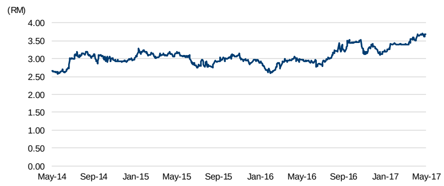
RM3.68 @ 11 May 2017

N/A

Downside N/A

Price Target: N/A

Previous Target: N/A



Price Performance

	1M	3M	12M
Absolute	+5.1%	+7.6%	+15.0%
Rel to KLCI	+3.0%	+3.0%	+6.0%

Stock Data

Issued shares (m)	2,854.3
Mkt cap (RMm)/(US$m)	10503.7/2415.6
Avg daily vol - 6mth (m)	2.5
52-wk range (RM)	2.8-3.77
Est free float	22.7%
BV per share (RM)	2.68
P/BV (x)	1.37
Net cash/ (debt) (RMm) (1Q17)	(3,101.05)
ROE (2017E)	8.2%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

PNB	55.6%
KWAP	10.1%
EPF	5.9%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FY 31 Dec (RMm)	1Q16	4Q16	1Q17	QoQ % chg	YoY % chg	Comment
Revenue	**908.5**	**1,771.8**	**940.2**	**(46.9)**	**3.5**	Higher progress billings drove revenue growth yoy but the completion of its Singapore projects led to a decline qoq.
Operating costs	(720.4)	(1,354.2)	(749.1)	(44.7)	4.0	
EBITDA	**188.1**	**417.6**	**191.1**	**(54.2)**	**1.6**	
EBITDA margin (%)	*20.7*	*23.6*	*20.3*	-3.2ppt	-0.4ppt	
Depreciation	(4.9)	(6.4)	(6.8)	5.3	38.4	
EBIT	**183.2**	**411.1**	**184.4**	**(55.2)**	**0.6**	
Interest income	31.1	34.2	29.1	(15.0)	(6.6)	
Interest expense	(27.1)	(31.6)	(30.0)	(5.0)	10.6	
Associates	(18.1)	131.6	(7.5)	(105.7)	(58.5)	The delivery of units at its Battersea Power Plant Phase 1 project boosted associate earnings in 4Q16.
Forex gain (loss)	25.2	(19.7)	(1.5)	(92.2)	(106.1)	Forex gain from the translation of GBP loans due to weaker GBP in 4Q16 but forex loss in 1Q17 due to stronger GBP.
Exceptional gain/(loss)	0.0	1.6	(0.0)	NA	NA	
Pre-tax profit	**194.3**	**527.2**	**174.4**	(66.9)	(10.2)	
Core pre-tax profit	**169.1**	**545.3**	**176.0**	**(67.7)**	**4.0**	
Taxation	(54.9)	(64.6)	(54.7)	(15.3)	(0.5)	
Tax rate (%)	*(28.3)*	*(12.2)*	*(31.3)*	-19.1ppt	-3.1ppt	Higher tax rate due to higher contribution from Malaysian projects in 1Q17.
Minority interests	(16.0)	(37.9)	(14.6)	(61.5)	(8.8)	
Net profit	**123.4**	**424.8**	**105.2**	**(75.2)**	**(14.8)**	Below market expectation.
EPS (sen)	4.7	15.0	3.7	(75.4)	(21.3)	
Core net profit	**98.2**	**442.9**	**106.7**	**(75.9)**	**8.6**	Better core earnings on a yoy basis but lower qoq.

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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