

COMPANY UPDATE

SP Setia (SPSB MK)

Battersea Worries Fade: Industrial Strength Takes the Spotlight

SP Setia's 2025 outlook remains positive, driven by industrial land sales from Setia Alaman and the upcoming Tanjung Kupang Industrial Park, with potential net profits of RM350m from these projects. The leasing activity in the newly-completed office has improved (occupancy increased to 50%), reducing further concerns on Battersea. The launch of Atlas Melbourne has seen a strong start with >25% of units sold to date. Upgrade to BUY with a higher target price of RM1.95 (from RM1.64).

WHAT'S NEW

- 2025 may still be SP Setia's year.** Contrary to most street forecasts (including our initial view) predicting a profit decline for 2025, our recent meeting with management suggests that 2025 could still show some growth or at least remain flat. Growth is expected from Setia Alaman Industrial Park in Shah Alam, with a gross development value (GDV) of RM3.09b. Over 50% of the industrial plots have been taken up, raking in RM600m sales (yet to be recognised as revenue, expected in 2025). We estimate a net profit of RM200m, assuming a 30-35% net margin for industrial plot sales. Additionally, SP Setia plans to launch Tanjung Kupang Industrial Park in 2025 (307 acres; GDV: RM1.9b), where we estimate RM450m in sales to be recognised in the first year, contributing a potential RM150m in net profit. All in, total net profit from industrial plot sales to be recognised in 2025 could amount to RM350m.
- Battersea worries fade.** While it may take time for SP Setia's JV project to become profitable, we believe the earnings weakness for Battersea has bottomed out, and no further significant impairments are expected. To recap, SP Setia recorded a -RM101m impairment on the newly-completed 50 Electric Boulevard office tower in 2Q24, following the April handover with a five-year rental guarantee. The guarantee falls under IFRS 17 (insurance contract), requiring the full future rental income forecast, leading to a one-off P&L item for prudence.
- This impairment surprised the investment community and led us to downgrade the stock to HOLD, initially thinking the impairment was recurring. However, after clarifications from SP Setia and its JV partner Sime Darby Property coupled with our own channel check, we now understand the impairment is non-recurring. Leasing activity has since gained traction, with occupancy rising to 50% (from 22% in Aug 24) and management expecting it to reach 80% within the next 12 months. We also see a potential for a positive reversal on this impairment (although management prefers to remain prudent and wait before making any reversal) which could benefit future net profit.

KEY FINANCIALS

Year to 31 Dec (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	4,454	4,374	6,000	5,774	4,409
EBITDA	820	993	1,728	1,661	1,253
Operating profit	786	953	1,682	1,596	1,175
Net profit (rep./act.)	308	299	634	674	468
Net profit (adj.)	277	336	634	674	468
EPS (sen)	6.8	8.0	14.2	15.1	10.5
PE (x)	19.2	16.4	9.2	8.6	12.5
P/B (x)	0.4	0.4	0.4	0.4	0.4
EV/EBITDA (x)	21.0	16.2	8.8	8.6	10.3
Dividend yield (%)	0.5	1.1	1.0	1.1	1.2
Net margin (%)	6.2	7.7	10.6	11.7	10.6
Net debt/(cash) to equity (%)	62.1	52.9	44.1	36.7	26.5
Interest cover (x)	4.1	4.0	7.9	8.9	8.2
ROE (%)	2.0	2.3	4.3	4.5	3.1
Consensus net profit	-	-	538	319	339
UOBKH/Consensus (x)	-	-	1.2	2.1	1.4

Source: SP Setia Berhad, Bloomberg, UOB Kay Hian

BUY

(Upgraded)

Share Price	RM1.31
Target Price	RM1.95
Upside	+48.9%
(Previous TP)	RM1.64

COMPANY DESCRIPTION

SP Setia is one of the leading property developers in Malaysia with vast landbanks in Klang Valley, Penang and Iskandar.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	SPSB MK
Shares issued (m):	4,858.8
Market cap (RMm):	6,365.1
Market cap (US\$m):	1,480.2
3-mth avg daily t'over (US\$m):	4.5

Price Performance (%)

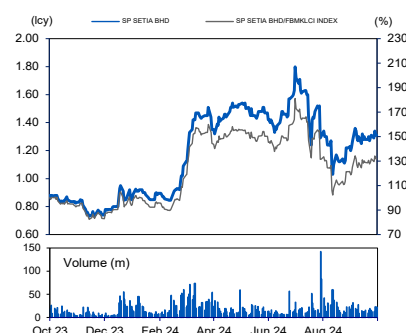
52-week high/low	RM1.80/RM0.615			
1mth	3mth	6mth	1yr	YTD
6.5	(17.6)	(3.0)	37.9	63.8

Major Shareholders

	%
PNB	52.5
EPF	8.3
KWAP	8.2

FY24 NAV/Share (RM)	3.40
FY24 Net Debt/Share (RM)	1.54

PRICE CHART



Source: Bloomberg

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• **Share price has yet to recover to its pre-impairment levels**, currently trading at RM1.25-1.35, down from RM1.50-1.60 before the Aug 24 impairment announcement, and below the mid-July high of RM1.80. As previously mentioned, this impairment is non-recurring, therefore we do not expect further impairment from Battersea at this juncture. The next development phase, Phase 3C, is planned as an assisted living project. Given the strong potential for growth in the UK assisted living market, where demand for senior living facilities is rising due to an ageing population and a significant undersupply of 614,000 units (according to CBRE report), we believe the risk for this project is lower. The JV company is actively seeking strategic investors to jointly develop future phases 4-7 to mitigate risks. Therefore, we no longer view Battersea as a significant concern.

• **Atlas Melbourne gaining traction.** SP Setia launched its latest Australia project, Atlas Melbourne, in early-Oct 24. Within just a week, the take-up rate has been very positive with more than 25% sold to date, out of the total 839 units. Given that this is the first apartment project to be launched in Melbourne CBD in over five years, interests have been strong with take up rate expected to gain further traction towards the end of the year. Located at 383 La Trobe Street in Melbourne's CBD, Atlas Melbourne offers a variety of residential options with prices ranging from A\$410,000 to A\$12.8m (RM1.18m to RM36.7m). The 73-storey project has attracted buyers from Malaysia, China, Hong Kong, Indonesia, Singapore and Vietnam.

• Strong interests have also been coming from local Australian buyers given the current undersupply of housing in Australia. The project has a GDV of A\$750m (RM2.36b), with construction slated to begin in 2Q25 and overall completion expected by mid-29 in phases (with first phase to be completed and handed over in 2027, hence lumpy revenue recognition is expected only in 2027). All of SP Setia's previous Australian projects were fully sold, with UNO Melbourne selling 98% to date. Given Atlas' prime CBD location and its proximity to universities like RMIT, University of Melbourne, and Victoria University, we expect strong demand, which could positively impact the company's future profitability.

• **Monetisation of investment properties on track.** SP Setia has appointed an advisor and is progressing with plans to monetise its investment properties into a real estate investment trust (REIT) within the next 12 months, with an estimated valuation of around RM1.5b. The REIT is expected to be diversified, covering multiple segments such as malls, offices, schools, and convention centre/hotels. We estimate if SP Setia retains a 40-50% stake, it could raise RM750m-900m in cash proceeds. Additionally, the company continues its de-gearing efforts, aiming to reduce its gearing ratio to 0.3x by 2027. With current net gearing at 0.41x (0.55x including redeemable convertible preference shares), this target seems achievable. Borrowings currently stand at RM9.4b, with a short-term target reduced to RM8.4b, which could result in annual interest savings of RM20m-30m.

• **SP Setia is set to soft launch the first phase of its Federal Hill project in Nov 24 with a GDV of RM1.4b (total GDV for entire project is RM20b).** We eagerly anticipate its performance, given its prime location in an affluent neighbourhood near KL Sentral. Luxury projects tend to perform well in the right locations. For instance, Avaland's Aetas Damansara was fully sold before construction finished, despite being launched during the pandemic in 2020. Similarly, SP Setia's Sky Seputeh project, with both Tower A and Tower B being >90% sold, underscores the strong demand for luxury condos in prime locations. We understand that management is targeting at least a 40% take-up rate for the first year of the Federal Hill launch, which we believe is achievable. Recent luxury launches, like Avaland's Aetas Seputeh, achieved a 50% take-up rate during the official launch in Jun 24 (soft launch in Apr 24), indicating continued strong demand in the luxury segment.

• **SP Setia could post strong 3Q24 results yoy in Nov 24 from a low base last year.** We gather that 3Q24 is set to recognise RM141m land sales net profit from the Setia City land sales to KSL Holding Berhad. Adding its sustainable quarterly net profit for the property development business of RM60m-80m and normalised Battersea losses of around RM20m quarterly, 3Q24 net profit may come in at RM181m-201m (about +300% of 3Q23 net profit of RM43m).

BATTERSEA POWER STATION



Project commencement 2012

Total Gross Area 41.67 acres

Developed Gross Area 24.21 acres

• Phase 1 • Phase 3A • Phase 2 • Phase 3B

Future Development 15.15 acres

• Phase 3C • Phase 4-7

Source: SP Setia

INVESTMENT PROPERTIES ASSET



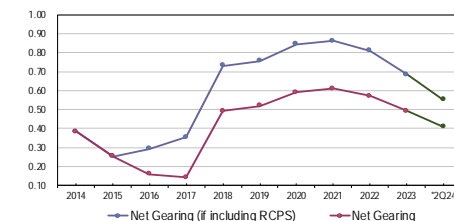
Source: SP Setia

SETIA FEDERAL HILL - PHASE 1



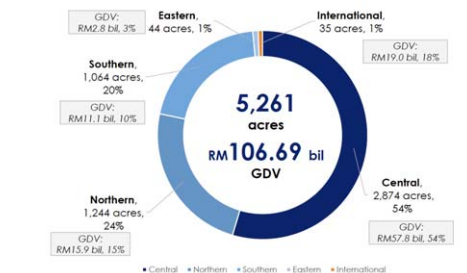
Source: SP Setia

NET GEARING LEVEL



Source: SP Setia, UOB Kay Hian

REMAINING LANDBANK



Source: SP Setia, UOB Kay Hian

EARNINGS REVISION/RISK

- **We increase our 2024-25 net profit forecasts by 20-50% as we now reduce Battersea impairment to only -RM101m in 2024** (from -RM150m to -RM200m impairment for 2024 and 2025 initially). Our 2026 net forecast remains largely unchanged.
- For 2024, the total land sales net profit to be recognised is RM578m. After accounting for a one-time impairment expense from Battersea of -RM101m and normalised annual losses of around -RM80m, we forecast 2024 net profit to come in at RM634m.
- For 2025, while we expect a lower net profit from industrial land sales at RM350m, we anticipate reduced JV losses of around -RM40m, given an expected improvement in Battersea (especially with lower interest costs as the rate cut cycle has begun). We also expect a stronger performance in the property development segment from higher sales. We expect 2025 sales to come in at RM4.7b-4.8b (+8% to +9% yoy), supported by the new Federal Hill project and accelerated development in existing townships like Setia Alam Impian and Bandar Kinrara. As a result, we conservatively forecast a 2025 net profit of RM674m (+6% yoy). There could be upside potential to our net profit forecast if industrial land sales exceed expectations (especially if SP Setia is able to sell its Tanjung Kupang land to a data centre player at a premium).

VALUATION/RECOMMENDATION

- **Upgrade to BUY with a higher target price of RM1.95 (from RM1.64)** as we increased our earnings base and accelerated its existing property development project. Our target price implies 11-15x 2024-26F PE (peers' average: 22x) and 0.5x 2024-26F P/B (peers' average: 0.9x). We believe the company's strategic de-gearing efforts, combined with its cautious approach to product launches aimed at avoiding overstretching its balance sheet while pursuing sustainable earnings have contributed significantly to a more promising outlook. Additionally, concerns around Battersea should ease, and there are a few near-term catalysts for the stock, including: a) the industrial project gaining traction, with potential for a data centre development on its Tanjung Kupang land in Johor; and b) the monetisation of its property investments into a REIT, expected within the next 12 months, with an estimated valuation of RM1.5b.
- **The stock is currently trading at 0.4x 2024-26F P/B (five-year mean: 0.3x; 10-year mean: 0.7x) with 3-5% 2024-26F ROE (five-year mean: 1.9%; 10-year mean: 3.9%).** In P/E terms, the stock is currently trading at 9-13x 2024-26F P/E (five-year mean: 13x; 10-year mean: 19x).

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

<ul style="list-style-type: none"> • Environmental <ul style="list-style-type: none"> - Energy intensity ratio decreased to 12.6kW/h from 17.9kW/h. • Social <ul style="list-style-type: none"> - Total investment for communities by S P Foundation: RM405,154. • Governance <ul style="list-style-type: none"> - Good company transparency with an anti-bribery and anti-corruption policy.

LAND SALES REVENUE (2024)

Announced Land Sales	Size (acres)	Total Proceed (RMm)	PAT (RMm)	Net Margin (%)	Estimated Timeline
					2024F
Central					
Glenowrie (dispose to Mah Sing)	500	392	39	10%	1Q
Small land in Alam Impian + others	-3	32	9	28%	1Q
Bandar Setia Alam (dispose to KSL)	18	229	141	62%	3Q
Setia Federal Hill (dispose to JV compa)	2.7	103	3	3%	4Q
Alam Impian	3.4	26	7	28%	4Q*
Southern					
Pelangi Indah 2 in Tebrau (dispose to Senibong Island)	960	564	332	59%	2Q
Taman Pelangi (dispose to Maxim Glot)	6.5	167	47	28%	3Q

* own estimation

	Revenue (RMm)	PAT (RMm)
Already recognised in 1H24	988	380
Total yet to be recognised	525	198
2024 Total Land Sales	1,513	578

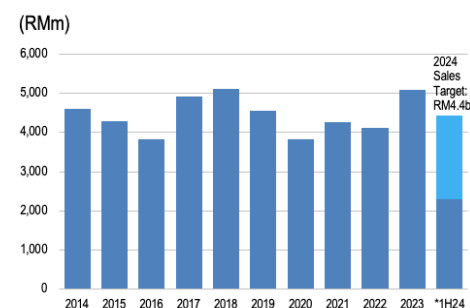
Source: SP Setia, UOB Kay Hian

INDUSTRIAL PLOT SALES REVENUE (2025)

Industrial Park	Size (acres)	GDV (RMb)	Target Revenue/Sales To Be Recognised in 2025 (RMm)	PAT (RMm)	Net Margin (%)
Central					
Setia Alam	399	3.1	600	200	33%
Southern					
Tanjung Kupang	307	1.9	450	150	33%
Northern					
Setia Fontaines	323	1.7			
Total	1,029	6.6	1,050	350	

Source: SP Setia, UOB Kay Hian

SALES TREND



Source: SP Setia, UOB Kay Hian

RNAV TARGET PRICE OF RM1.95/SHARE

NPV of Development Profits	(RMm)
Central Region	4,364.2
Northern Region	682.2
Southern Region	1,747.5
Eastern Region	146.3
Battersea Power Station	778.5
Australia, Vietnam & Others	1,066.9
Total	8,785.7
Shareholders' Funds	14,450.2
RNAV	23,235.9
Existing Share Base (m)	4,451.2
RCPS-i A	322.1
RCPS-i C	1,180.6
Enlarged Sharebase (m)	5,954
RNAV/share (RM)	3.90
Discount (%)	50%
Target Price (RM/share)	1.95

Source: SP Setia, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Net turnover	4,374	6,000	5,774	4,409
EBITDA	993	1,728	1,661	1,253
Deprec. & amort.	40	47	65	78
EBIT	953	1,682	1,596	1,175
Associate contributions	(46)	(180)	(40)	(20)
Net interest income/(expense)	(251)	(219)	(188)	(153)
Pre-tax profit	656	1,283	1,368	1,002
Tax	(299)	(584)	(623)	(456)
Minorities	(59)	(64)	(71)	(78)
Net profit	299	634	674	468
Net profit (adj.)	336	634	674	468

BALANCE SHEET

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Fixed assets	13,165	12,249	11,790	11,275
Other LT assets	4,321	4,141	4,101	4,081
Cash/ST investment	2,496	2,796	2,693	3,278
Other current assets	9,024	10,621	10,738	9,467
Total assets	29,006	29,807	29,323	28,102
ST debt	3,043	1,543	1,343	1,143
Other current liabilities	2,610	3,557	3,430	2,664
LT debt	7,102	7,935	7,935	7,935
Other LT liabilities	589	512	-288	-988
Shareholders' equity	15,663	16,260	16,904	17,348
Minority interest	1,213	1,277	1,348	1,426
Total liabilities & equity	29,006	29,807	29,323	28,102

CASH FLOW

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Operating	2,301	495	793	1,302
Pre-tax profit	656	1,283	1,368	1,002
Tax	(299)	(299)	(299)	(299)
Deprec. & amort.	40	47	65	78
Associates	(46)	(180)	(40)	(20)
Working capital changes	1,535	(650)	(245)	505
Other operating cashflows	416	294	(57)	36
Investing	(382)	870	394	437
Capex (growth)	(440)	(630)	(606)	(463)
Investments	(26)	0	0	0
Proceeds from sale of assets	0	1,500	1,000	900
Others	84	0	0	0
Financing	(2,163)	(1,064)	(1,289)	(1,154)
Dividend payments	(206)	(101)	(101)	(101)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	(1,234)	(744)	(1,000)	(900)
Others/interest paid	(723)	(219)	(188)	(153)
Net cash inflow (outflow)	(243)	300	(102)	585
Beginning cash & cash equivalent	2,633	2,496	2,796	2,693
Changes due to forex impact	106	0	0	0
Ending cash & cash equivalent	2,496	2,796	2,693	3,278

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	22.7	28.5	23.7	24.5
Pre-tax margin	15.0	21.4	23.7	22.7
Net margin	6.8	10.6	11.7	10.6
ROA	1.1	2.1	2.3	1.6
ROE	2.3	4.3	4.5	3.1
Growth				
Turnover	(7.6)	37.2	(3.8)	(23.6)
EBITDA	64.8	74.1	(3.9)	(24.6)
Pre-tax profit	15.0	95.6	6.7	(26.8)
Net profit	(28.5)	112.4	6.3	(30.6)
Net profit (adj.)	21.2	88.9	6.3	(30.6)
EPS	21.2	88.9	6.3	(30.6)
Leverage				
Debt to total capital	64.8	57.8	49.7	43.2
Debt to equity	70.2	62.7	54.0	47.1
Net debt/(cash) to equity	52.9	44.1	36.7	26.5
Interest cover (x)	4.0	7.9	8.9	8.2

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