

SP Setia hits the right note in changing times

- **Strategy** is knowing what buyers want and shaping the products accordingly
- **Starter** homes and established township much in demand



by
Roznah Abdul Jabbar

The current market sentiment hasn't deterred property developer SP Setia Bhd from achieving positive results in the six months ended June 30, 2018 (1HFY18).

President and CEO Datuk Khor Chap Jen says the group's good performance despite the lacklustre market is because SP Setia is able to meet the needs of buyers.

"People still want to own houses and we have to provide the products suitable for them," he tells *FocusM*.

He says for the group, the demand has been for established townships with comfortable landed units and homes with smaller built-ups, termed as 'starter homes.'

"We scaled down to build smaller homes to cater for the young professionals and new families and then provide larger homes for those who want to upgrade," he explains.

For the six months just ended,

demand is important in gaining the trust of buyers.

The company's new launches in the second quarter - ranging from apartments, terrace houses and semi-Ds to commercial shops, and spreading across Setia Eco Park, Bandar Baru Sri Petaling, Alam Damai, Alam Impian and Kota Bayuemas - continued to be appealing to purchasers.

The launches at the southern region in 1H2018 comprise Setia Tropika, Bukit Indah, Setia Eco Gardens and Taman Rinting, which have seen an encouraging take-up rate for the semi-Ds launched in Taman Rinting.

Khor says this also indicates that the underlying demand is strong for landed properties in Iskandar Malaysia.

On the local front, the sales secured were largely in the central region at RM880.1 mil whereas the southern and northern regions contributed a combined sales of RM525.7 mil.

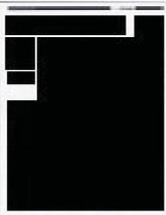
Khor notes that the group is



Khor says the demand is for established townships and starter homes

Glenmarie, Setia Alamsari and Setia Alaman with a combined gross development value (GDV) of RM2.23 bil.

In the northern region, the group will be launching more landed properties in its flagship townships where the underlying demand for such properties by owner occupiers is still strong.



net profit rose to RM504.23 mil from RM362.68 mil a year ago despite posting lower revenue of RM1.58 bil versus RM1.89 bil.

SP Setia achieved sales of RM2.11 bil in 1HFY18. In terms of secured sales, it says local projects contributed two-thirds of the total sales which amounts to RM1.41 bil, while international projects' contribution is at RM705.3 mil.

In the central region, the sales were led by SP Setia's township of Setia Alam where the strategy emphasises on landed homes with smaller built-up or starter home, which suits first time home buyers.

Khor says the concept received good response and the interest remains strong, as these units are offered within the affordability range of most first time buyers who prefer landed homes in an established township.

He says SP Setia's approach of changing the products to what people can afford and what they

are on track to achieve its RM5 bil sales target this year.

"In addition, we are pleased to note that the ongoing integration of recently-acquired I&P Group's land banks and projects are making good progress, especially in the land banks where importance is placed on value enhancements for both the townships and mixed-use developments," he says.

Commenting on the market performance prospects in 2H18, Khor says the market will still be moving "sideways" and there is still underlying strong demand, especially for landed properties.

Mid-range properties

In 2H18, SP Setia's launches will focus more on the local market with the emphasis on the launches of mid-range landed properties in the Klang Valley.

The planned major launches are in Setia Alam, Setia Ecohill, Setia Ecohill 2, Setia Eco Templer, Setia Eco Glades, Setia Sky Seputeh (Tower B), Temasya

The much anticipated Setia Fontaines will be unveiled in the fourth quarter.

The local property market will continue to be subdued as the public adopts a wait-and-see approach pending a clearer direction from the authorities on housing policy matters.

Khor notes that the overall sentiment has improved after the general election of last May but a clearer direction is awaited in the anticipated changes to the national housing policy.

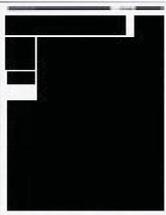
"The government has been engaging the industry players on the policy changes needed, and until then people will only think about buying," he says.

Brexit factor

On the international front, the protracted negotiations over Brexit (Britain's exit from the European Union) are still ongoing, with reported calls for a fresh referendum, and this further increases the anxiety in the UK and Europe.



Artist's impression of the UNO Melbourne project, which will begin in 3Q18 and to be completed by 1Q21



Over in Singapore, the market is adjusting to the surprise imposition of higher additional buyer's stamp duty.

As for the international projects, the Australian market continues to lead and SP Setia achieved sales of RM668.1 mil with contributions largely from UNO Melbourne.

"Notwithstanding the reported oversupply and tighter lending policies in Australia, the contribution from UNO Melbourne proves that there is still demand for properties in the right locations and this reinforces the group's presence as a prominent property player in Australia," Khor says.

Mixed responses

The company's announcement of the 1H18 results received a mixed response from analysts.

Kenanga Research has maintained 'outperform' on SP Setia with an unchanged target price of RM3.50, noting that SP Setia is confident of meeting its RM5 bil sales target this year, backed by RM4.05 bil worth of new launches in the second half of 2018.

It says the estimated value of £1.6 bil (RM8.51 bil) from the sale of the Battersea Phase 2 project with Employees Provident Fund and Permodalan Nasional Bhd, which is on track with the targeted signing of this deal by end-September 2018, certainly alleviates cash-call concerns.

The research arm also notes that SP Setia's maiden venture in Japan with its Izumisano City Centre in Osaka, which carries a tentative GDV of RM1.88 bil, should attract foreign investors.

The project will benefit from being near Kansai International Airport, Rinku Premium Outlet and the soon-to-be Japan's first integrated casino resort.

PublicInvest Research has also maintained 'outperform' on SP Setia with an unchanged target price of RM4.50.

It says the group would focus more on the local market, emphasising on the launches of mid-range landed properties in the Klang Valley.

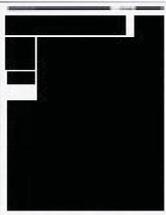
The group's prospects going forward remain positive with total unbilled sales of RM8.12 bil, anchored by 46 ongoing projects and an effective remaining land bank of 9,587 acres with a GDV of RM155.94 bil as at 30 June 2018, given the planned pipeline of launches, the sustained momentum and the strong sales achieved to-date.

As of June 30, 2018, the group has 46 ongoing projects, with effective remaining land banks comprising 9,587 acres with a GDV of RM155.94 bil and total unbilled sales of RM8.12 bil.

Meanwhile, MIDF Research revised the company's target price downwards to RM3.10 from RM3.69, underpinned by slower-than-expected progress billing of local projects.

The research house also downgraded its call on SP Setia to 'neutral' from 'buy' due to the weak earnings outlook and limited upside.

HLIB Research has also downgraded its call from 'buy' to 'hold' with a lower target price of RM3.05, from RM3.76. **FocusM**



SP Setia Bhd

PROPERTIES

KEY BOARD MEMBERS AND MANAGEMENT

Tan Sri Dr. Wan Mohd Zahid Mohd Noordin (chairman)
Datuk Khor Chap Jen (President & CEO)

MAJOR SHAREHOLDERS

Permodalan Nasional Bhd
49.8%
Employees Provident Fund Board
9.99%
Kumpulan Wang Persaraan (Diperbadankan)
7.71%

MARKET CAP (Sept 5)

RM10.81 b

Share price (Sept 5)

RM2.77

52-week high (Dec 29, 2017)

RM4

52-week low (Sept 3)

RM2.62

FINANCIAL RESULTS

(Q2 ended June 30)

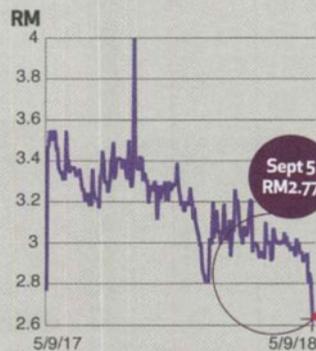
Revenue

RM925.97m

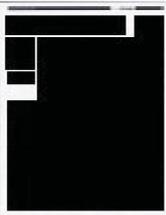
Net profit

RM442.74m

One-year price chart



Source: Bloomberg



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Page 5 of 5

SUMMARIES

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