SP Setia (SPSB MK)

2Q26: Below Expectations; Growing Non-Residential Projects

Highlights

- Results were below our expectations due to lower-than-expected residential revenue recognition.
- While residential demand is softer, management expects to bridge the gap with higher sales contribution from the industrial and commercial segments, which typically generate higher margins.
- Maintain BUY with a lower target price of RM1.06. While the REIT listing is now targeted for 2Q27 (1Q27 previously), investor sentiment could gradually improve on faster monetisation from industrial and commercial landbank.

2Q26 Results

Year to 31 Dec (RMm)	2Q26	qoq%	yoy%	1H26	yoy%
Revenue	821.4	(0.6)	(13.0)	1,647.9	(3.9)
Gross Profit	320.1	31.6	(16.2)	563.3	(15.1)
EBIT	278.4	23.3	(10.4)	504.2	(7.6)
PBT	190.4	76.7	(2.7)	298.2	(11.6)
PATAMI	98.1	215.1	(1.7)	129.2	(22.6)
Core PATAMI	67.0	44.3	(40.4)	113.4	(36.8)
Margins (%)	%	ppt	ppt	%	ppt
GP	39.0	9.5	(1.5)	34.2	(4.5)
EBIT	33.9	6.6	1.0	30.6	(1.2)
PBT	23.2	10.1	2.4	18.1	(1.6)
Core PATAMI	8.2	2.5	(3.7)	6.9	(3.6)

Source: SP Setia, UOB Kay Hian

Analysis

- **Below expectations.** SP Setia's 2Q26 core PATAMI came in at RM67m (+44% qoq, -40% yoy) on the back of a revenue of RM821m (-1% qoq, -13% yoy). This brings 1H26 core PATAMI to RM113m (-37% yoy), accounting for 29%/30% of our and consensus full-year forecasts, slightly behind our full-year expectation due to weaker-than-expected residential revenue. As of end-2Q26, unbilled sales were at RM3,975m (-6% qoq, +2% yoy).

Key Financials

Year to 31 Dec (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	5,294	4,218	3,963	4,643	4,824
EBITDA	1,610	1,466	1,214	1,479	1,557
EBIT	1,564	1,425	1,175	1,417	1,473
Net profit (rep./act.)	576	510	390	502	523
Net profit (adj.)	622	697	390	502	523
Net profit (adj. after RCPS)	525	615	300	413	434
EPS (sen) (adj. after RCPS)	12.0	12.3	6.0	8.2	8.7
PE (x)	7.0	6.8	14.0	10.2	9.7
P/B (x)	0.3	0.3	0.3	0.3	0.3
EV/EBITDA (x)	7.8	8.6	10.4	8.8	8.5
Dividend yield (%)	3.4	3.0	1.7	2.3	2.5
Net margin (%)	11.7	16.5	9.8	10.8	10.8
Net debt/(cash) to equity (%)	37.3	36.1	35.6	35.9	35.9
Interest cover (x)	5.5	5.7	4.7	5.6	5.7
ROE (%)	3.6	4.2	2.0	2.8	2.9
Consensus net profit			424	439	470
UOBKH/Consensus (x)			0.7	0.9	0.9

Source: SP Setia, Bloomberg, UOB Kay Hian

Analyst(s)

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BUY (Maintained)

Share Price	RM0.845
Target Price	RM1.06
Upside	25.9%
Previous TP	RM1.22

Stock Data

Sector	Real Estate
Bloomberg ticker	SPSB MK
Shares issued (m)	5,003.4
Market cap ({{Curr}}m)	5,904.0
Market cap (US$m)	1,502.1
3-mth avg daily t'over (US$m)	2.9

Price Performance (%)

52-week high/low: RM1.3/RM0.72

1mth	3mth	6mth	1yr	YTD
39.6	24.9	44.8	1.7	61.6

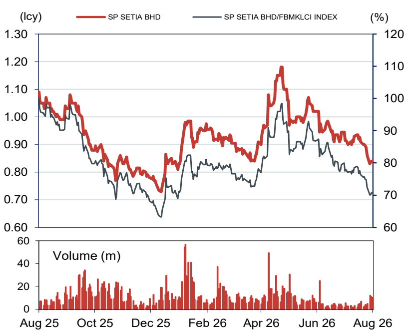
Major Shareholders (%)

PNB	48.8
EPF	15.4
KWAP	8.6

Balance Sheet Metrics

FY26 NAV/Share (RM)	2.92
FY26 Net Debt/Share (RM)	1.07

Price Chart



Source: Bloomberg

Company Description

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

- **2Q26 PBT margin for property development segment improved** to 25.0% (+4.2ppt yoy; +11.4ppt qoq), due to: a) recognition of Setia Alaman land sales of RM220m-330m during the quarter, with a margin of 39%; and b) non-core land sales of RM42m, with a margin higher than 25%.
- **We expect net gain of around RM70m from non-core land disposals in 2H26.** Looking ahead, we expect SP Setia's earnings to be supported by the recognition of two non-core land transactions, including: a) RM248m Glengowrie land sale to Mah Sing, with an estimated RM30m net disposal gain; and b) RM100m EcoHill land sale to the JV with Mitsui Fudosan, which could contribute RM40m assuming a margin of around 40%. Recognition is pending Economic Planning Unit approval, amid expectations that the Bumiputera equity requirement could revert back to 30% from the current 50%. Vietnam should provide further earnings support as sales are progressively recognised upon commencement of progress billing.
- **Commercial and industrial to cushion softer residential demand.** Management maintained its 2026 sales target of RM4.6b, despite 1H26 sales of RM1.4b, or around 31% of the target, with softer residential demand seen outside its core locations, including Semenyih. To bridge the gap, management is accelerating commercial launches, including the final phase of Setia Alam shops, where gross margin is guided at over 25%. Pricing traction has been encouraging with shops launched at around RM1.7m now seeing a subsale price of around RM3.3m while corner lots have risen from RM2.5m to RM5m. Other 2H26 sales drivers include: a) RM500m of Vietnam sales recognition following permit issuance, now in Sep 26 from Jun 26 previously; b) maiden industrial sales from Setia Fontaines; and c) 4Q26 launches of Carlton Land in Melbourne and St Leonards in Sydney. As of 7 Aug 26, RM1.68b of projects had been launched, with RM2.75b scheduled for the rest of 2026.
- **Potential data centre (DC) land sales of around RM518m from Setia Fontaines.** Of the RM1.1b sales recorded from Setia Alaman (vs total GDV: RM2.4b), there remains RM500m-550m to be recognised progressively from 3Q26 to 1Q27. Upcoming industrial sales growth should come from Setia Fontaines (targeting sales in 2H26) and Setia EcoHill 2. EcoHill 2 is slated for launch in 4Q26, comprising 30 acres of land plots and ready-built factories priced at RM90-120psf. Meanwhile, management expects maiden sales at Setia Fontaines in 2H26. Notably, 85 acres have been earmarked for DC land sales at around RM140psf, implying potential proceeds of around RM518m. To support water requirements, management plans to invest RM11m-12m in its own water treatment plant and sell treated water to industrial/DC users, which it expects to be net earnings-accretive. Verbal approval has been obtained from the Penang state government.
- **Battersea Phase 3C progressing well.** Phase 3C construction commenced in Jun 26, with 44 units sold as of Jul 26. Management indicated that over £60m of sales have been secured, with 60% of buyers from Turkey and Saudi Arabia. Meanwhile, remaining completed inventory at earlier phases has largely been cleared, with only eight units remaining across Phase 2 and Phase 3A as of end-Jul 26. 50 Electric Boulevard reached 53% occupancy (vs 45% as of end 1Q26), with further leasing under negotiation for completion by year-end.

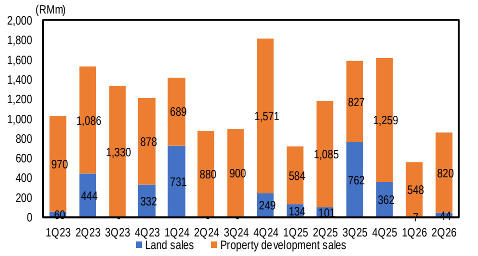
Valuation/Recommendation

- **Maintain BUY with a lower target price of RM1.06 (from RM1.22),** as we increased our discount to RNAV from 60% to 65%. Our target price implies 13x 2027F PE and 0.3x 2027F P/B.

Earnings Revision/Risk

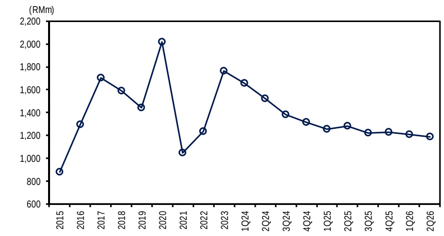
- We cut our earnings forecasts by 24%/6%/3% for 2026-28 respectively to factor in a lower residential revenue.

Quarterly Sales



Source: SP Setia, UOB Kay Hian

Inventory Level



Source: SP Setia, UOB Kay Hian

RNAV-Based Valuation

NPV of Development Profits	(RMm)
Central Region	1,240.5
Northern Region	289.1
Southern Region	214.9
Eastern Region	71.5
Battersea Power Station	268.8
Australia, Vietnam & Others	144.3
Total	2,229.2
Shareholders' Funds	14,797.8
RNAV	17,027.0
Existing Share Base (m)	5,051.7
RCPS-i A	375.2
RCPS-i C	209.4
Enlarged Sharebase (m)	5,636.3
RNAV/share (RM)	3.02
Discount (%)	65%
Target Price (RM/share)	1.06

Source: SP Setia, UOB Kay Hian

Environment, Social, Governance (ESG) Updates

Environmental
- Energy intensity ratio decreased to 12.6kW/h from 17.9kW/h.

Social
- Total investment for communities by S P Foundation: RM405,154.

Governance
- Good company transparency along with an anti-bribery and anti-corruption policy.

Profit & loss

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Net turnover	4,217.8	3,963.1	4,643.2	4,824.1
EBITDA	1,465.5	1,214.2	1,479.1	1,556.7
Deprec. & amort.	40.1	39.3	61.7	83.8
EBIT	1,425.5	1,174.9	1,417.4	1,472.9
Associate contributions	(101.7)	(96.6)	(96.6)	(96.6)
Net interest income/(expense)	(256.3)	(258.1)	(264.3)	(275.4)
Pre-tax profit	969.1	820.3	1,056.6	1,101.0
Tax	(365.5)	(359.2)	(462.6)	(482.1)
Minorities	(93.6)	(71.5)	(92.1)	(95.9)
Net profit	510.0	389.6	501.9	523.0
Net profit (adj.)	615.1	300.3	412.6	433.7

Balance Sheet

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Fixed assets	12,415.2	13,060.4	13,837.4	14,605.8
Other LT assets	3,799.2	3,702.6	3,606.0	3,509.4
Cash/ST investment	2,572.1	2,889.7	3,104.1	3,378.9
Other current assets	8,296.9	8,132.0	8,572.2	8,689.2
Total assets	27,083.4	27,784.6	29,119.7	30,183.5
ST debt	1,543.0	1,543.0	1,543.0	1,543.0
Other current liabilities	2,547.8	2,535.0	2,946.1	3,054.1
LT debt	4,887.0	5,229.3	5,648.6	6,074.7
Other LT liabilities	2,016.9	2,016.9	2,016.9	2,016.9
Shareholders' equity	16,088.7	16,460.5	16,965.1	17,494.7
Minority interest	1,290.8	1,362.3	1,454.4	1,550.3
Total liabilities & equity	27,083.4	27,784.6	29,119.7	30,183.5

Cash flow

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Operating	1,458.8	1,007.2	987.4	1,065.6
Pre-tax profit	969.1	820.3	1,056.6	1,101.0
Tax	(299.0)	(299.0)	(299.0)	(299.0)
Deprec. & amort.	40.1	39.3	61.7	83.8
Associates	(101.7)	(96.6)	(96.6)	(96.6)
Working capital changes	333.3	152.1	(29.1)	(9.0)
Other operating cashflows	516.9	391.1	293.8	285.4
Investing	(655.8)	(684.4)	(838.7)	(852.3)
Capex (growth)	(795.4)	(684.4)	(838.7)	(852.3)
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	139.6	0.0	0.0	0.0
Financing	(1,291.9)	(5.2)	65.8	61.5
Dividend payments	(258.3)	(89.3)	(89.3)	(89.3)
Issue of shares	1.1	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	(668.3)	342.2	419.4	426.1
Others/interest paid	(366.5)	(258.1)	(264.3)	(275.4)
Net cash inflow (outflow)	(489.0)	317.5	214.4	274.8
Beginning cash & cash equivalent	3,141.5	2,572.1	2,889.7	3,104.1
Changes due to forex impact	(80.4)	0.0	0.0	0.0
Ending cash & cash equivalent	2,572.1	2,889.7	3,104.1	3,378.9

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	34.7	30.6	31.9	32.3
Pre-tax margin	23.0	20.7	22.8	22.8
Net margin	12.1	9.8	10.8	10.8
ROA	2.2	1.0	1.4	1.4
ROE	4.2	2.0	2.8	2.9
Growth				
Turnover	(10.9)	(16.3)	(1.9)	1.9
EBITDA	143.3	101.6	145.5	158.4
Pre-tax profit	69.9	43.8	85.2	93.0
Net profit	22.0	(6.8)	20.1	25.2
Net profit (adj.)	17.2	(51.2)	37.4	5.1
EPS	17.2	(51.2)	37.4	5.1
Leverage				
Debt to total capital	49.2	50.2	51.2	52.0
Debt to equity	53.5	54.7	56.0	57.1
Net debt/(cash) to equity	36.1	35.6	35.9	35.9
Interest cover (x)	5.7	4.7	5.6	5.7