Sime Darby, SP Setia

This Time, Its For Real

Half the battle won. The Mayor of London, also chairman of Transport for London, publicly gave his commitment and support to the Battersea Power Station (BPS) redevelopment and timely construction of Northern Line Extension (NLE) at last Wednesday's completion event. We are optimistic that this GBP8b GDV project will proceed as planned, as the crucial outline planning permission is in hand. The soft launch of the GBP1b GDV Phase 1 may take place as early as Dec 2012/Jan 2013. Maintain BUY on Sime, HOLD on SP Setia.

Critical success factors in place. Where the past owners have failed to redevelop BPS into a theme park, shopping mall, housing development or home to a circus troupe, the formula for a successful redevelopment of BPS is now in place. We list them below:

(i) Shareholders' financial strength. The previous owner, Real Estate Opportunities Plc (REO), was affected by the 2008/09 global financial crisis and did not have the financial means to carry out the development. New shareholders SPSB-Sime-EPF (40:40:20) have the financial muscle to see through the GBP8b GDV project over the 15-year development period.

(ii) Feasible planning consent in hand. The crucial outline planning permission has finally been granted, for the construction of 8.1m sq ft of gross internal area (previously: 4.0m sq ft) or 6.3m sq ft of net saleable area, translating to a viable net plot ratio of 4.76. The higher saleable area enhances the project's bankability.

(iii) Stronger political will. With UK's next general election due in 2014, the government is keen to revive this iconic site after several unsuccessful attempts over the past 27 years. There is also widespread support from other key stakeholders.

(iv) Management has the relevant experience. The BPS redevelopment will be led by Mr. Robert Tincknell, who was involved in obtaining the outline planning permission under the previous owner. This ensures continuity and a smooth transition.

Manageable cash flows. Earlier fears of high upfront cost have been allayed. Besides the initial land cost of GBP400m, the GBP212m NLE contribution will be made in stages according to planned launches (over eight phases). BPS' conservation cost is estimated at GBP61m, and will likely to be incurred under Phase 2 (beyond 2014).

Maintain BUY on Sime. Given Sime's large earnings base, we estimate that the BPS project is unlikely to have a significant impact on its bottom line. Still, this is a step in the right direction given its aim of generating 20% of its property profits from overseas by 2015, and as it targets to double its property earnings in five years.

Maintain SP Setia as HOLD. Our FD RNAV estimate is MYR4.71 (+3.3%) after incorporating the BPS project (post share placement: MYR4.54). Our TP is shaved to MYR4.00 (-2%) based on a higher 15% discount (previously 10%) to RNAV (pre-placement) as the execution risk on BPS remains until the project is finally off the ground and achieve good take up rates upon launch.

Sime Darby

Buy *(unchanged)*

Share price: MYR9.79
Target price: MYR11.00 *(unchanged)*

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SP Setia

Hold *(unchanged)*

Share price: MYR3.54
Target price: MYR4.00 *(from MYR4.10)*

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THE RIGHT WAY TO INVEST

Both Sime Darby, SP Setia

Table of Content

Battersea Power Station (BPS) site visit, 4-5 Sept

Two days in London. We visited SP Setia (SPSB)-Sime Darby (Sime)-EPF's 40:40:20 Battersea Power Station (BPS) joint venture project in London over a two-day period and witnessed the completion event of the site acquisition last Wednesday (5 Sept). On Day 1, we toured several ongoing property projects located within the Vauxhall Nine Elms Battersea (VNEB) Opportunity Area (OA) while on Day 2, we visited the BPS site which was followed by an on-site briefing by the management of both SPSB and Sime to analysts and UK fund managers.

An eventful visit. Day 2 ended with a cocktail party in a tent pitched within the walls of the BPS, celebrated by ~300 invited guests to mark a new chapter in the history of the BPS after 27 years of inactivity. Besides the boards of directors of SPSB, Sime and EPF, the guests of honour included the eccentric Mayor of London, Mr. Boris Johnson, and PEMANDU CEO Datuk Seri Idris Jala, who were on site to grace this historic occasion. Following are the key takeaways from our site visits and analyst/fund managers' briefing.

Cocktail party with guests of honour London Mayor Boris Johnson (fourth from left) and Malaysia's Minister in the Prime Minister's Department Datuk Seri Idris Jala (third from left)

Source: Internet

London deal sealed! The acquisition of the iconic BPS site in London was completed last week at a cost of GBP400m (MYR1.97b at MYR4.93/GBP1) or GBP63.5 psf ppr (MYR313 psf ppr) based on 6.3m sq ft of net internal area (or net saleable area equivalent). A JV company, Battersea Power Station Development Company (BPSDC), has been set up to undertake the mixed development project, whose GDV is estimated at GBP8b (MYR39.44b).

And, in good hands. The purchase cost was funded via bank borrowings by BPSDC and equity contributions (in proportion with the three shareholders' equity stake) on a 60:40 debt-to-equity basis. BPSDC's management team is led by Robert Tincknell (CEO), who was involved in obtaining the crucial outline planning permission for BPS while under employment by the previous landowner. Robert's appointment as CEO is positive, for it will ensure continuity and smooth transition for the BPS development. Robert has worked extensively in the UK property investment and development market over the last 20 years.

It is going to happen this time. The BPS site will be developed into a mixed residential and commercial project comprising private residential units, serviced apartments, offices, a convention centre and hotels, and it will also offer retail and food and beverage (F&B) spaces. Unlike the previous landowners who had to deal with planning approval risk (which takes ~5 years for any new plan) given the sensitivity surrounding BPS's status as a heritage property, this time, the purchase by BPSDC comes with a feasible outline planning permission on a (net) plot ratio of 4.76.

Key to success lies with strict compliance to approved plan. The BPSDC is willing to work within the site's existing outline planning permission granted to the previous owner as this saves the Malaysian consortium ~5 years in seeking fresh approval for any revised plan. The BPSDC is expected to submit the detailed development plan for the 1.1m sq ft Phase 1 on 1 Oct 2012; approval typically takes ~3 months. Hence, the BPSDC is expected to soft-launch this project as early as Dec 2012/Jan 2013. An awareness program (pre-marketing) has commenced, at least in Malaysia, with the company seeking registrations of interest via advertisements over the weekend in local dailies and periodicals.

Mayor of London gave his assurance on the Northern Line Extension (NLE). We are also more optimistic about this project after the Mayor of London, who is also chairman of Transport of London, publicly gave his commitment and support of the BPS redevelopment and the completion of the NLE last Wednesday. Construction of the NLE is scheduled to commence by 2014 and it should be ready for public use by 2020. The construction will be co-funded by contributions from the landowners of the Vauxhall Nine Elms Battersea (VNEB) Opportunity Area (OA) via the various developments approved by the council. The contributions to the NLE construction by the landowners will be payable in stages, in accordance with the timing and completion of each development phase. For Phase 1 of the BPS development, we understand the first payment will be ~GBP35m by BPSDC when the development starts (out of a total contribution of GBP212m by BPSDC over eight phases).

Residential to be launched first. Phase 1 of the BPS is targeted for official launch by Apr 2013. With a GDV of approximately GBP1b (or MYR4.93b), Phase 1 will comprise 800 units of private residential units (studio, 1-bedroom, 2-bedroom and 3-bedroom; mostly smaller units) and 110,000 sq ft of retail space catering for F&B outlets. The residential units range from 500-1,400 sq ft per unit, with selling prices from GBP900psf (MYR4,437psf) onwards. Meanwhile, the retail units may be retained by BPSDC to better manage tenant mix at the onset of this massive development, and for recurring income.

Commercial launches have been deferred to Phase 2 onwards, to coincide with the actual development of the NLE. The NLE is crucial for BPS' commercial launch as it would add confidence to potential buyers and help command a better premium. Phase 2 of the BPS project involves the redevelopment of the BPS heritage building that already has a detailed plan approved for 1.85m sq ft of space comprising a retail mall (277,297 sq ft), office (700,962 sq ft), convention centre, business suites and residential units (480,025 sq ft). The detailed plan approval was obtained together with the outline planning permission granted in Aug 2010 by virtue of its heritage building status.

High conservation cost offset by NLE contribution waiver in BPS' Phase 2 development. Under the approved plan, the BPS's four decaying chimneys will be demolished and replaced with a concrete replica, while the exteriors will be maintained. The total cost for this facelift is estimated at GBP61m (including GBP11m for the replacement of the chimneys). Due to the high cost of conservation for this heritage building, BPSDC will be granted a waiver from contributing to the NLE when Phase 2 is launched.

Battersea Power Station Project (57% residential: 43% commercial)

	BPS- Total	Phase 1
Residential	>3,400 new homes	800 units
Office	1.73m sq ft	-
Retail, community, cultural and leisure	1.22m sq ft	0.11m sq ft
2 hotels	>400 bedrooms	-
Car park	2,728 lots	

Sources: Company, Jones Lang LaSalle

Surrounding new launches recorded good take-ups. While in London, we had the opportunity to do some site visits in the areas surrounding BPS. Several new launches within the VNEBOA have taken off with very good sales take-up at GBP1,000-1,500psf. These new units were mostly bought by international investors. Asking prices for units at Chelsea Bridge Wharf, a completed apartment project of ~10 years located next to the BPS (separated by railway tracks) are GBP808-1,861psf in the secondary market. And across the River Thames, properties along the upmarket Chelsea embankment (a ~200m walk from BPS, across the Chelsea Bridge) are going for ~GBP2,000psf.

Nine Elms and riverside developments and sites

New launches	Launch date	ASP (GBP psf)	Remarks
Nine Elms			
Embassy Gardens (314 units under Phase 1)	Apr-12	950	1st phase of large regeneration scheme around the US Embassy has sold extremely well
New Covent Garden market (1,800 units)	2015-2022	975	10 acres site which is the first of three of New Covent Garden Market to be developed
Christies Site (Heart of Nine Elms) (498 units)	2015	725	2 phased scheme between the railway and the Royal Mail Delivery Office site
Nine Elms Parkside (Royal Mail) (1,870 units)	4Q12-1Q13	950	Complex site because a primary school and new Royal Mail delivery office need to be built before any residential blocks
Riverlight (697 units)	2011	1,000	First completions due from summer 2014
St George Wharf (223 units)	-	1,500	60% sold
Chelsea Bridge Wharf (1,200 units)	Completed and fully sold	808-1,861	A 999-year leasehold project; Size ranging from 299-2,552 sq.ft; net property yield of about 4%.
Battersea Power Station - Phase 1 (800 units)	Soft launch by end 2012/Jan 2013; official launched by Apr 2013	900 onwards	Size ranging from 500-1,400 sq.ft; car park will be sold separately
Riverside / similar developments			
Lots Road Power Station (815 units)	-	1,600	Similar redevelopment project as BPS
Chelsea Harbour/ Creek & Imperial Wharf (>1,000 units)	-	1,150	Most recent phase at Imperial Wharf is alomost sold out

Source: Jones Land LaSalle, companies, Garton Jones

Embassy Garden show unit

Source: Maybank KE

New Covent Garden Market – to be developed

Source: Maybank KE

Our take on the proposed development

We are more positive on the BPS project after our site visit as we believe this project will finally take off after 27 years of inactivity. The immediate concern, however, revolves around the existing Eurozone debt crisis which is hurting business sentiment in London; evident by the lack of domestic demand for London properties. Nonetheless, we remain confident on the BPS' long-term prospects due to:

1. **Strategic location at attractive pricing.** BPS is one of the iconic buildings in London and is strategically located approximately two miles upstream from the Houses of Parliament on the south bank of the River Thames, next to the 200-acre Battersea Park. The site is a 5-minute walk from the Battersea Park railway station and 15 minutes from Sloan Square subway station. The site also benefits from 400m of River Thames frontage. In London, we understand that properties with river or park views typically fetch pricing premiums of 15-25%. With selling prices for Phase 1 at GBP900-950psf (on par with surrounding asking/selling prices), we expect BPS's initial launch to be well received.

2. **NLE to improve connectivity and accessibility.** BPS is currently most accessible via the Battersea Park railway station. Connectivity and accessibility of the site will improve further once a river bus service and a new subway station at the BPS site under the NLE is completed and fully operational by 2020.

   We believe this will translate into stronger bargaining power for the BPS project in term of rentals and property prices once work commences on NLE. Our discussion with property consultants reveals that property prices close to London underground tube stations can command a 15% premium compared with areas

without such a convenience. To recap, BPSDC is required to contribute up to GBP212m to the NLE, which is payable in stages.

3. **Large customer base of Asian buyers.** SPSB and Sime can tap onto their large customer base of Asian buyers for the initial launch of the BPS project, as demand from UK buyers will remain weak over the near term amidst a weak economy and tight credit market. For instance, c.50% of buyers for SPSB's recent property launches in Singapore and Australia were snapped up by its existing customers from Malaysia.

4. **Low land cost provides a buffer for any downturn.** The BPS land cost of GBP400m accounts for just 5% of the project GDV. Including the GBP212m contribution to the NLE construction and GBP61m for the refurbishment of BPS, total cost will be GBP664m or 8.3% of the project GDV. This is lower than the typical land cost as a proportion of GDV (30% in London, 10-20% in Malaysia, 40-60% in Singapore). The relatively low land cost will buffer BPSDC against any possible downturn in London's property market.

5. **Affordable housing at a later stage.** We understand that approximately 500 units of affordable housing (to be sold at cost to eligible buyers identified by the UK's Housing Association) or 15% of the total residential units, are required to be built at the BPS project. Fortunately, BPSDC has managed to defer the construction of affordable housing to Phase 6 of the 8-phase project. This will allow BPSDC to better manage its project cash flow.

6. **Manageable cash flow for BPSDC.** Earlier fears of high upfront cost were allayed. Besides the upfront land cost of GBP400m, the GBP212m NLE contribution will be made in stages according to planned launches. BPSDC's Phase 1 contribution is estimated at GBP35m while the Phase 2 contribution has been waived given the need to conserve the BPS heritage site. The conservation cost of the BPS under Phase 2 (likely after 2014) is estimated at GBP61m, and comprises refurbishment of the BPS shell (GBP50m) and chimneys (GBP11m).

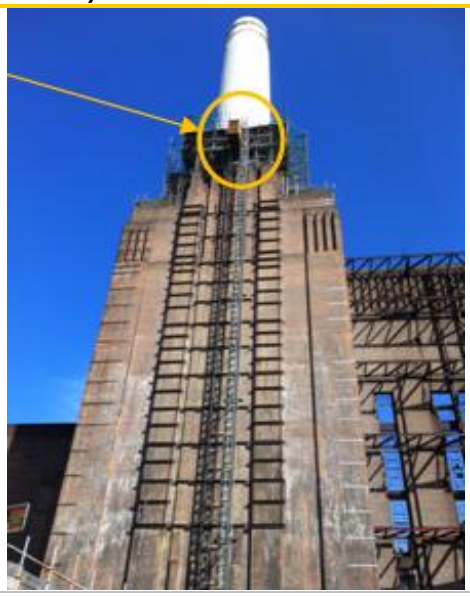
   According to BPSCD's internal cash flow projection, peak equity commitment from the three shareholders could hit GBP950m (including land and construction costs as well as contributions to the NLE) sometime mid-way through the BPS project lifecycle, which is equivalent to a maximum equity contribution of GBP380m (or MYR1.9b) from both SPSB and Sime. The development is expected to breakeven by 2017.

7. **A self-contained city.** Unlike other developments in Nine Elms which are dominated by residential units, 43% of the BPS project comprises commercial space such as hotels, offices and a convention centre. In our opinion, the substantial commercial content of the BPS project would contribute steady office/tourist traffic to the retail spaces/hotels, drawing investors to the development.

The iconic Battersea Power Station

Source: Maybank KE

An external lift took us to one of the four chimneys (~20th floor equivalent)



Source: Maybank KE

Beautiful London city view from Battersea Power Station

Source: Maybank KE

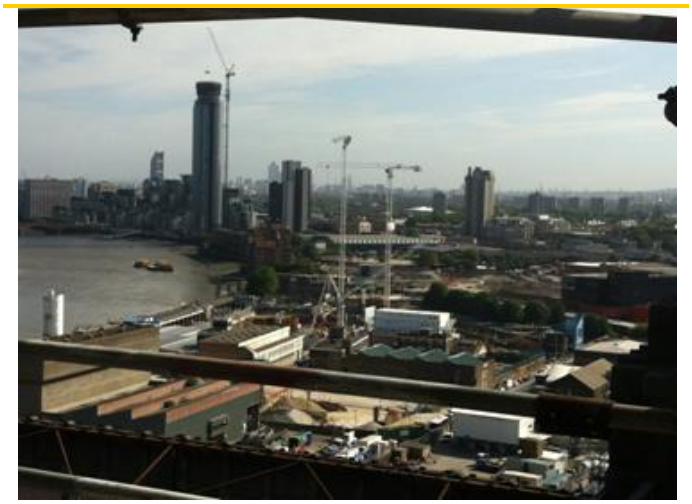
Another beautiful view from Battersea Power Station

Source: Maybank KE

Ariel view from Battersea Power Station – future commercial area and subway station

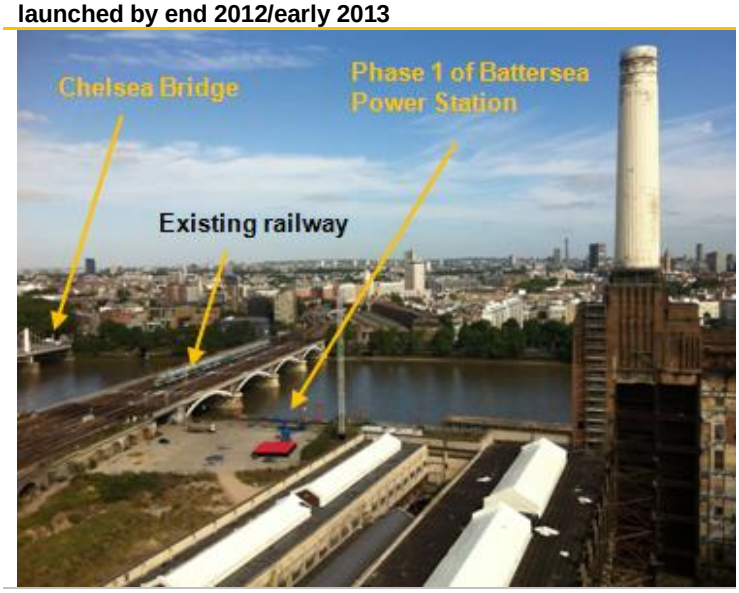
Source: Maybank KE

Other ongoing projects around the Nine Elms area



Source: Maybank KE

View from Battersea Power Station – Phase 1 will be soft launched by end 2012/early 2013



Source: Maybank KE

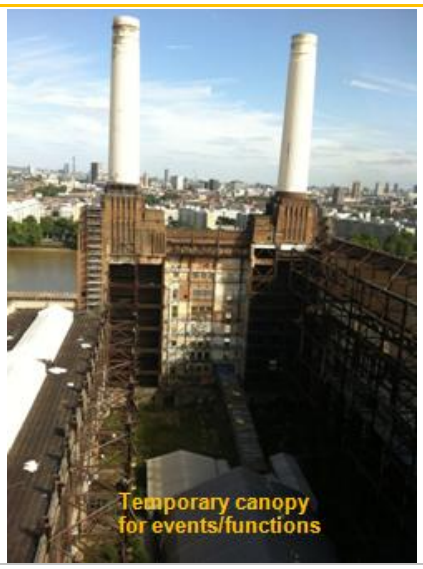
Battersea Power Station (model) – a 15-year project

Source: Maybank KE

From inside - Battersea Power Station is supported by steel structure

Source: Maybank KE

Battersea Power Station (inside) – where the cocktail party was held



Source: Maybank KE

Battersea Power Station (inside) – view from the canopy

Source: Maybank KE

Battersea Power Station – view from Chelsea Bridge

Source: Maybank KE

15 minute walk from Battersea Power Station to Sloan Square station

Source: Maybank-KE

Key concerns/risks

Banks in UK still in defensive mode. Based on our channel checks, the UK banks are adopting a defensive approach and are reluctant to provide mortgages without going through extensive filtering/due diligence processes. This is a stark contrast to 2006 when banks were even willing to provide loan-to-value (LTV) financing of up to 100%. The paperwork required to obtain a mortgage today is more extensive than ever before. Nonetheless, once the mortgagor successfully obtains a mortgage, the typical LTV loan-to-value ratio is around 70%. The banks' stringent filtering process has clearly dampened general property market sentiment in London, except for prime locations in central London.

Policy risk. Demand for London property is now largely supported by foreign buyers especially those from Asia and the Middle East, and to some extent European buyers. Hence, we are Neutral on the London property market for now as we believe the presence and appetite of local buyers is crucial in ensuring the long-term success of a property market. Given the project's 15-year development period, we are nonetheless positive on its longer term potential. Although remote for now, there is still a risk that the UK government could be less receptive to foreign fund inflows in snapping up UK properties and implement policies that may negatively impact the demand for UK properties.

Delay in NLE execution. While the Mayor of London is supportive of the NLE, there is no guarantee that its construction and completion may not be delayed beyond the envisaged timeline due to unforeseen circumstances; this could have negative consequences on the BPS project, impacting demand/take-ups.

Competition from other Nine Elms developers. About 4,705 residential units will sprout within the Nine Elms vicinity over the next 10 years. But we remain optimistic that BPS will be a better choice among the developments in Nine Elms given:

1. Its proximity to the Battersea Park railway station, and the upcoming NLE at the BPS site;
2. BPS's attraction as one of London's iconic buildings;
3. Its proximity to Sloane Square and the 200-acre Battersea Park; and
4. A higher element of commercial developments within BPS to provide a "self-contained city" and lifestyle for residents of BPS.

Financials & Valuations

Earnings impact. The redevelopment of BPS is expected to be spread across a 15-year development period. Assuming a conservative 15% pretax margin on an estimated GBP8.0b GDV, our back-of-the-envelope calculation shows that the project could deliver net profit of MYR4.32b to the BPSDC over the 15-year development period, or approximately MYR288m in yearly profits. After deducting interest cost of 5% p.a. to fund the initial investment cost, the yearly net earnings contribution to Sime and SP Setia is MYR75.2m each (based on their respective 40% equity stakes).

UK accounting rules mean profit recognition will only take place at completion. Unlike Malaysian accounting rules whereby property development profit is recognised progressively during the construction period, we believe the UK adopts a policy of recognising development profits only on completion of the respective units. Hence, the earliest profit recognition from this project may be four years away, i.e. there is no immediate enhancement to the bottom line of either company.

▪ Earnings impact on Sime

Minimal, due to Sime's huge earnings base. Given Sime's enormous earnings base of around MYR4b in FY6/13, the contribution from this 40%-associate investment is expected to be immaterial, i.e. less than 5% of Sime's bottom line. Nonetheless, the successful takeoff of this development project could lead to further collaborations in the future between SPSB and Sime, which share the same parent, Permodalan Nasional Berhad.

Sime Darby is a BUY with an unchanged TP of MYR11.00 on 16x FY6/14 PER.

▪ Earnings impact on SP Setia

To come later. The BPS project will be SPSB's fifth overseas venture after Vietnam, Australia, Singapore and China, and it will boost its total remaining GDV by 76.5% to c.MYR92.3b. SPSB's 40% stake in the project will enhance our RNAV estimate by 15sen per share (+3.3%; pre-share placement). Post-acquisition, the group's net gearing could rise to c.0.5x, from 0.33x as at Apr 2012. The recently proposed placement of 322.6m new SPSB shares (15% of existing share capital) would dilute our RNAV marginally, by 2sen. Our target price pegs SP Setia to a 15% discount to our FD RNAV estimate of MYR4.71 (post-BPS, pre-placement).

SPSB's fully diluted RNAV

Landbank	Stake	acres	MV (MYRm)	BV (MYRm)	Surplus (MYRm)
Southern region					
Bukit Indah	100%	141	184.3	33.8	150.5
Setia Indah	100%	40	34.8	5.0	29.8
Setia Cascadia	100%	259	225.6	169.2	56.4
Setia Tropika	100%	213	185.6	65.4	120.2
Setia Eco Gardens	70%	587	767.1	140.6	438.5
Setia Business Park II	100%	266	125.8	125.8	0.0
Central region					
Setia Eco Glades @ Cyberjaya	70%	268	420.4	420.4	0.0
Setia Eco Hills	100%	673	381.3	381.3	0.0
Setia Alam	100%	885	2,313.0	134.5	2,178.5
Setia Eco Park	50%	354	925.2	123.4	400.9
Setia Nexus 1&2	70%	10	37.0	24.0	9.1
Kenny Hills Grande	70%	6	95.4	71.4	16.8
Northern region					
Setia Pearl	100%	27	97.0	33.6	63.4
Setia Greens	100%	29	104.2	68.2	36.0
Sub-total:			***5,896.8***	***1,796.7***	***3,500.1***
DCF (discount factor: 13-14%)					**NPV**
Setia Sky Residences	70%				26.0
Setia City	100%				565.0
KL Eco City	100%				639.4
Brook Residences	100%				9.2
Setia V Residences	100%				26.4
Aeropod - Tg Aru, Sabah	70%				51.9
Melbourne CBD – Fulton Land, Australia	100%				92.9
Bangsar	50%				231.2
Woodsville, Singapore	100%				17.5
St Kilda, South Yarra, Australia	100%				61.6
Chestnut Avenue, Singapore	100%				81.2
Seputeh Land	100%				45.8
88 Setia	100%				45.0
Tanjung Bungah Penang	100%				143.7
Battersea Power Station	40%				315.1
Sub-total:					***2,351.8***
Grand total					**5,851.9**
Placement proceeds (322.6m at MYR3.37/share or 5% discount to current price of MYR3.54					1,084.9
Shareholders fund - 2012					3,597.4
RNAV					**9,449.3**
RNAV : post-placement					**10,534.3**
Warrants (MYR2.99 exercise price; expired in Jan 2013)					689.8
RNAV post warrant proceeds					**10,139.2**
RNAV post warrant proceeds : post-placement					**11,224.1**
Enlarged share capital (m shares)					2,151.1
Enlarged share capital (m shares) - post placement					2,473.7
FD RNAV (MYR/share)					**4.71**
FD RNAV (MYR/share) : post-placement					**4.54**
Target price (MYR/share) (15% discount to RNAV)					**4.01**
Target price (MYR/share) (15% discount to RNAV) : post-placement					**3.86**

Source: Company, Maybank-IB

FINANCIALS: Sime Darby

INCOME STATEMENT (MYR m)

FY Jun	2012A	2013F	2014F	2015F
Revenue	47,602.3	49,416.9	51,108.4	53,192.4
EBITDA	6,868.7	7,086.4	7,107.1	7,130.4
Depreciation & Amortisation	(1,055.8)	(1,058.6)	(1,066.8)	(1,067.3)
Operating Profit (EBIT)	**5,812.9**	**6,027.8**	**6,040.3**	**6,063.0**
Interest (Exp)/Inc	(206.7)	(370.0)	(340.0)	(316.8)
Associates	114.6	158.5	160.5	162.5
One-offs	0.0	0.0	0.0	0.0
Pre-Tax Profit	**5,720.8**	**5,816.3**	**5,860.8**	**5,908.8**
Tax	(1,308.2)	(1,527.6)	(1,539.1)	(1,551.5)
Minority Interest	(196.2)	(200.1)	(204.1)	(208.2)
Net Profit	**4,216.4**	**4,088.6**	**4,117.6**	**4,149.1**
Recurring Net Profit	**4,216.4**	**4,088.6**	**4,117.6**	**4,149.1**
Revenue Growth %	13.7%	3.8%	3.4%	4.1%
EBITDA Growth (%)	4.9%	3.2%	0.3%	0.3%
EBIT Growth (%)	6.0%	3.7%	0.2%	0.4%
Net Profit Growth (%)	15.1%	(3.0)%	0.7%	0.8%
Recurring Net Profit Growth (%)	15.1%	(3.0)%	0.7%	0.8%
Tax Rate %	22.9%	26.3%	26.3%	26.3%

BALANCE SHEET (MYR m)

FY Jun	2012A	2013F	2014F	2015F
Fixed Assets	18,713.8	19,569.2	20,461.4	21,370.8
Other LT Assets	4,075.5	4,163.4	4,253.3	4,345.2
Cash/ST Investments	5,105.6	6,031.1	6,750.3	7,378.2
Other Current Assets	20,281.0	20,965.3	21,908.7	23,030.9
Total Assets	**48,175.9**	**50,729.0**	**53,373.7**	**56,125.1**
ST Debt	5,872.6	5,872.6	5,872.6	5,872.6
Other Current Liabilities	10,512.6	10,821.3	11,203.1	11,671.8
LT Debt	3,930.8	3,930.8	3,930.8	3,930.8
Other LT Liabilities	970.4	970.4	970.4	970.4
Minority Interest	875.3	1,075.4	1,279.6	1,487.8
Shareholders' Equity	26,014.2	28,058.5	30,117.3	32,191.8
Total Liabilities-Capital	**48,175.9**	**50,729.0**	**53,373.7**	**56,125.1**
Share Capital (m)	6,009.4	6,009.4	6,009.4	6,009.4
Gross Debt/(Cash)	9,803.4	9,803.4	9,803.4	9,803.4
Net Debt/(Cash)	4,697.8	3,772.3	3,053.1	2,425.2
Working Capital	9,001.4	10,302.6	11,583.3	12,864.8

CASH FLOW (MYR m)

FY Jun	2012A	2013F	2014F	2015F
Profit before taxation	5,720.8	5,816.3	5,860.8	5,908.8
Depreciation	1,055.8	1,058.6	1,066.8	1,067.3
Net interest receipts/(payments)	206.7	370.0	340.0	316.8
Working capital change	0.0	0.0	3.0	6.0
Cash tax paid	(1,698.5)	(1,527.6)	(1,539.1)	(1,551.5)
Others (incl'd exceptional items)	(2,465.7)	(463.5)	(654.5)	(751.4)
Cash flow from operations	**2,819.1**	**5,253.8**	**5,077.0**	**4,996.0**
Capex	(3,031.9)	(1,914.0)	(1,959.0)	(1,976.7)
Disposal/(purchase)	293.2	0.0	0.0	0.0
Others	(797.0)	0.0	0.0	0.0
Cash flow from investing	**(3,535.7)**	**(1,914.0)**	**(1,959.0)**	**(1,976.7)**
Debt raised/(repaid)	2,555.9	0.0	0.0	0.0
Equity raised/(repaid)	0.0	0.0	0.0	0.0
Dividends (paid)	(1,998.2)	(2,044.3)	(2,058.8)	(2,074.5)
Interest payments	(185.7)	(370.0)	(340.0)	(316.8)
Others	0.0	0.0	0.0	0.0
Cash flow from financing	**372.0**	**(2,414.3)**	**(2,398.8)**	**(2,391.3)**
Change in cash	(344.6)	925.5	719.2	627.9

RATES & RATIOS

FY Jun	2012A	2013F	2014F	2015F
EBITDA Margin %	14.4%	14.3%	13.9%	13.4%
Op. Profit Margin %	12.2%	12.2%	11.8%	11.4%
Net Profit Margin %	8.9%	8.3%	8.1%	7.8%
ROE %	16.2%	14.6%	13.7%	12.9%
ROA %	8.8%	8.1%	7.7%	7.4%
Net Margin Ex. EI %	8.9%	8.3%	8.1%	7.8%
Dividend Cover (x)	2.0	2.0	2.0	2.0
Interest Cover (x)	28.1	16.3	17.8	19.1
Asset Turnover (x)	1.0	1.0	1.0	0.9
Asset/Debt (x)	4.9	5.2	5.4	5.7
Debtors Turn (days)	64.8	64.8	65.8	66.8
Creditors Turn (days)	83.5	83.0	83.0	83.0
Inventory Turn (days)	82.5	82.5	83.5	84.5
Net Gearing %	18.1	13.4	10.1	7.5
Debt/ EBITDA (x)	1.4	1.4	1.4	1.4
Debt/ Market Cap (x)	0.2	0.2	0.2	0.2

Source: Company, Maybank KE

FINANCIALS: SP Setia

INCOME STATEMENT (RM m)

FY Oct	2011A	2012F	2013F	2014F
Revenue	2,232.5	2,631.5	3,498.3	4,987.2
EBITDA	454.4	555.6	719.9	1,031.7
Depreciation & Amortisation	12.3	18.5	22.9	27.1
Operating Profit (EBIT)	442.0	537.1	696.9	1,004.5
Interest (Exp)/Inc	(11.5)	(8.5)	(11.2)	(10.9)
Associates	0.0	0.0	0.0	0.0
One-offs	33.3	0.0	0.0	0.0
Pre-Tax Profit	**430.6**	**528.7**	**685.7**	**993.6**
Tax	(108.2)	(132.2)	(171.4)	(258.3)
Minority Interest	5.5	(31.1)	(49.2)	(63.2)
Net Profit	**328.0**	**365.4**	**465.1**	**672.1**
Recurring Net Profit	**294.6**	**365.4**	**465.1**	**672.1**
Revenue Growth %	27.9	17.9	32.9	42.6
EBITDA Growth (%)	72.4	22.3	29.6	43.3
EBIT Growth (%)	78.1	21.5	29.8	44.1
Net Profit Growth (%)	30.2	11.4	27.3	44.5
Recurring Net Profit Growth (%)	56.9	24.0	27.3	44.5
Tax Rate %	25.0	25.0	25.0	26.0

BALANCE SHEET (RM m)

FY Oct	2011A	2012F	2013F	2014F
Fixed Assets	336.7	418.3	495.3	568.2
Other LT Assets	1,916.6	1,782.5	1,648.3	1,514.2
Cash/ST Investments	1,436.4	1,013.9	465.5	519.7
Other Current Assets	1,895.9	2,257.5	3,208.6	3,769.5
Total Assets	**5,585.7**	**5,472.1**	**5,817.8**	**6,371.7**
ST Debt	236.2	236.2	236.2	236.2
Other Current Liabilities	791.9	527.3	687.0	972.0
LT Debt	1,117.1	1,117.1	1,117.1	1,117.1
Other LT Liabilities	1.0	1.0	1.0	1.0
Minority Interest	(7.0)	(7.0)	(7.0)	(7.0)
Shareholders' Equity	3,446.4	3,597.4	3,783.5	4,052.3
Total Liabilities-Capital	**5,585.7**	**5,472.1**	**5,817.8**	**6,371.7**
Share Capital (m)	1,832.7	1,920.4	1,920.4	1,920.4
Gross Debt/(Cash)	1,353.3	1,353.3	1,353.3	1,353.3
Net Debt/(Cash)	(91.4)	339.4	887.8	833.6
Working Capital	2,304.3	2,507.9	2,751.0	3,081.0
Gross gearing %	39.3	37.6	35.8	33.4

CASH FLOW (RM m)

FY Oct	2011A	2012F	2013F	2014F
Profit before taxation	430.6	528.7	685.7	993.6
Depreciation	11.7	18.4	22.9	27.1
Net interest receipts/(payments)	(20.3)	(8.5)	(11.2)	(10.9)
Working capital change	383.9	224.9	16.7	28.7
Cash tax paid	(116.6)	(132.2)	(171.4)	(258.3)
Others (incl'd exceptional items)	(16.8)	(16.8)	(16.8)	(16.8)
Cash flow from operations	**642.5**	**584.5**	**495.8**	**733.3**
Capex	(839.6)	(400.0)	(400.0)	(400.0)
Disposal/(purchase)	107.4	0.0	0.0	0.0
Others	(122.8)	(425.0)	(425.0)	0.0
Cash flow from investing	**(855.1)**	**(825.0)**	**(825.0)**	**(400.0)**
Debt raised/(repaid)	0.0	0.0	0.0	0.0
Equity raised/(repaid)	1,060.0	0.0	0.0	0.0
Dividends (paid)	(173.8)	(190.4)	(219.2)	(279.1)
Interest payments	(2.4)	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Cash flow from financing	**883.9**	**(190.4)**	**(219.2)**	**(279.1)**
Change in cash	671.3	(430.8)	(548.4)	54.2

RATES & RATIOS

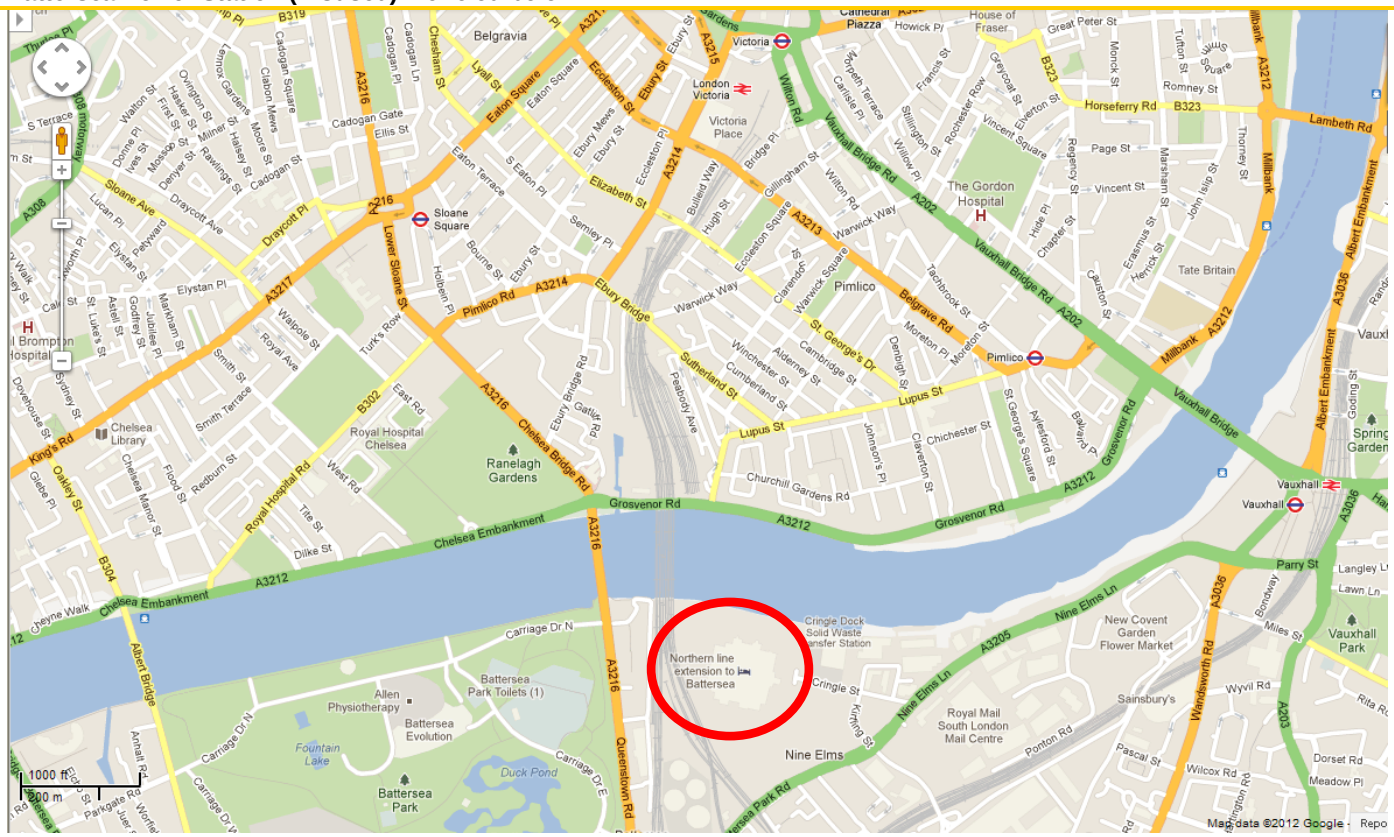
FY Oct	2011A	2012F	2013F	2014F
EBITDA Margin %	20.4	21.1	20.6	20.7
Pretax margin (%)	19.3	20.1	19.6	19.9
Net Profit Margin %	14.7	13.9	13.3	13.5
ROE %	9.5	10.2	12.3	16.6
ROA %	5.9	6.7	8.0	10.5
Net Margin Ex. EI %	13.2	13.9	13.3	13.5
Dividend Cover (x)	1.7	1.7	1.7	1.7
Interest Cover (x)	38.6	63.5	62.2	91.9
Asset Turnover (x)	0.4	0.5	0.6	0.8
Asset/Debt (x)	4.1	4.0	4.3	4.7
Net Gearing %	(2.7)	9.4	23.5	20.6
Debt/ EBITDA (x)	3.0	2.4	1.9	1.3
Debt/ Market Cap (x)	0.2	0.2	0.2	0.2

Appendix 1: Background of the BPS project

Battersea Power Station (disused) is a landmark power station measuring 39 acres in the heart of London, located on the south bank of the River Thames. Dormant since the early 1980s, this historic building was featured on the cover of the 1977 Pink Floyd album "Animals" and is Europe's largest brick building (see picture below).

Strategic location. The land is located on the banks of the River Thames between Chelsea Bridge to the west and Vauxhall Bridge a little further to the east. The land benefits from 400 meters of river frontage and forms part of the Nine Elms regeneration area.

Battersea Power Station (Disused) – circled below



Source: Google Map

Crucial outline planning permission granted to previous owner. According to the Wandsworth newsletter, the masterplan for the redevelopment of this iconic building, designed by Rafael Viñoly, was approved by Wandsworth Council and the Mayor of London in 2010 and the Secretary of State in Feb 2011. The 39-acre site will accommodate 10m sq ft (based on gross external area) of accommodation including homes, shops, restaurants, offices, cafes, bars, hotels, community facilities, cultural space and a 6-acre park overlooking the River Thames. The total net internal area of the BPS is approximately 6.3m sq ft, of which ~57% is residential. The planning permission permits a maximum of 3,266 private residential units excluding the BPS site, where a further 175 units have been planned. Planning permission was granted to Real Estate Opportunities Plc, controlled by Irish developer Treasury Holdings Ltd., in 2011.

No short of interest. Hit by the global financial crisis in 2008/2009, the BPS building and site were put on sale in Feb 2012 by the administrators who are trying to recoup more than GBP330m in debt for Lloyds Banking Group and Ireland's National Asset Management Agency after the power station was placed under administration last year. A bid from developer Godfrey Bradman crumbled last month amidst doubts over its ability to raise the intended funding (according to a UK daily). Meanwhile, plans by Chelsea Football Club (another bidder for the site) to turn the site into a football stadium were reportedly not favoured, on top of Chelsea's relatively weak financial standing.

BPSDC emerged the winner; GBP8b GDV development planned. It is learnt that the BPSDC's offer of GBP400m for the land and its plans to work within the planning consent granted to the previous owner made the Malaysian consortium a clear favourite, as the Londoners were keen to see this project take off after 27 years of inactivity. The outline planning permission granted to the previous owner effectively saves BPSDC ~5 years in seeking new approvals, given the sensitivity of this English heritage site. The BPS project will derive an estimated Gross Development Value (GDV) of approximately GBP8b (MYR39.4b) for a development period of approximately 15 years.

Artist impression of Battersea's redevelopment (by previous owner)

Source: Guardian UK / Real Estate Opportunities Annual Report 2011

Appendix 2: The bigger picture – Vauxhall Nine Elms Battersea Opportunity Area

Regeneration in the heart of London. The Battersea Power Station redevelopment is part of a 195-hectare of rejuvenation drive for the Vauxhall Nine Elms Battersea (VNEB) Opportunity Area (OA) identified under the London Plan prepared by the Greater London Authority (GLA) in partnership with the London Boroughs of Lambeth and Wandsworth, the London Development Agency, Transport for London (TfL), and English Heritage. VNEB is the most centrally located regeneration opportunity in London, situated approximately two miles upstream from the Houses of Parliament on the south bank of the River Thames.

The vision of VNEB. According to the VNEB OA Planning Framework published in Mar 2012 by the Greater London Authority, by 2030, the 195-hectare site of the VNEB OA will become an exemplar and distinctive quarter of central London. Nine Elms will be a prestigious destination for international investment anchored by the rejuvenated BPS and the new US embassy. The New Covent Garden food and flower market will be reconfigured to provide better facilities for its businesses and a public interface that will include new restaurants. This will provide the setting for a bustling 24/7 food quarter. Vauxhall Cross, which already benefits from an existing train station, will be transformed into an attractive, walkable neighbourhood, with a mix of uses and public spaces with streets that are not dominated by traffic. A bold new linear park from BPS through to Vauxhall will be a major feature in the sustainable development of the area, together with improved green open spaces.

195-hectare Vauxhall Nine Elms Battersea redevelopment "Opportunity Area" located in central London

Source: Greater London Authority
** Opportunity Area highlighted in red*

Key redevelopment schemes for Vauxhall Nine Elms Battersea Opportunity Area

Battersea Power Station (BPS) – previously under REO/Treasury Holdings. The masterplan for this iconic building, designed by Rafael Viñoly, was approved by Wandsworth Council and the Mayor of London in 2010 and the Secretary of State in Feb 2011. The 39-acre site will accommodate 10m sq ft of accommodation including homes, shops, restaurants, offices, cafes, bars, hotels, community facilities, cultural space and 6-acre park overlooking the river Thames.

Tideway Wharf – St James Group. A detailed planning application was approved in Feb 2011 for this scheme designed by Rogers Stirk Harbour and Partners. It includes 752 apartments, a hotel, a creche, bars and restaurants as well as a residents' gym and concierge facilities.

The Garden at New Covent Garden Market – Covent Garden Market Authority (CGMA). Plans include around 2,300 homes and new commercial spaces alongside a rebuilt wholesale market and a new centre for food in London. CGMA has begun the process of procuring a private development partner to help deliver the project.

Sainsbury's Nine Elms - Sainsbury's. The emerging proposals include an enlarged supermarket, 800 new homes, complementary shopping and commercial floorspace with an enhanced public realm.

Nine Elms Parkside - Royal Mail Group. A public consultation was held in 2010 on outline plans to create 2,000 new homes on their 13-acre site on Nine Elms Lane. The scheme would include space for new homes, shops, and community facilities as well as postal services.

Embassy Quarter – Ballymore. This scheme will create between 1,500 and 2,000 residential units, an office building, as well as retail space including a supermarket, restaurants and leisure outlets.

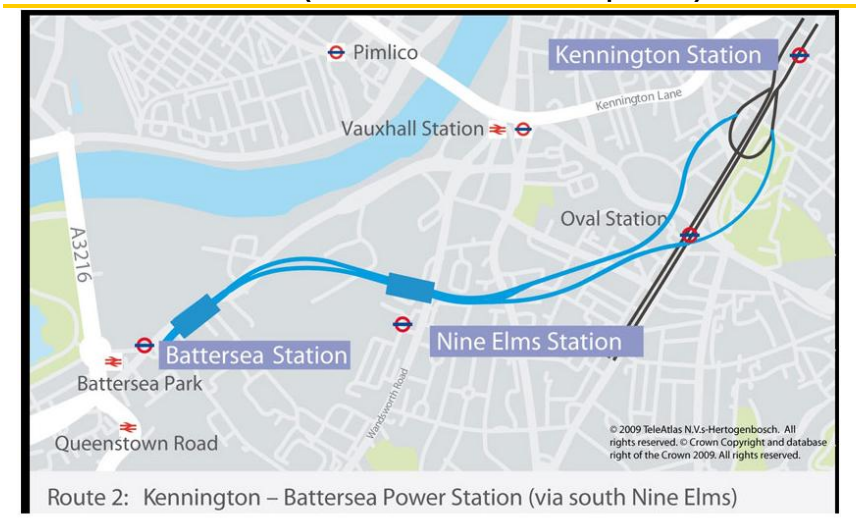
The Pestana Chelsea Bridge Hotel and Spa – Pestana Hotels. This prestigious new hotel development is one of three hotels now open in the area.

Source: Wandsworth

Connectivity to improve further. There are two railway stations within a five-minute walk of the project land which feed into the Victoria and Waterloo mainline stations. Running along the river is a river bus service; a new stop to service the project is being planned. Adding to the project's attractiveness is the proposed two-station extension of the London underground network, linking the NLE to the Battersea land. Other transport initiatives currently under consideration include improvements to bus services, and high-quality pedestrian and cycle networks. An estimated GBP1b of new infrastructure will support the VNEB OA's growth and improve connectivity to this area.

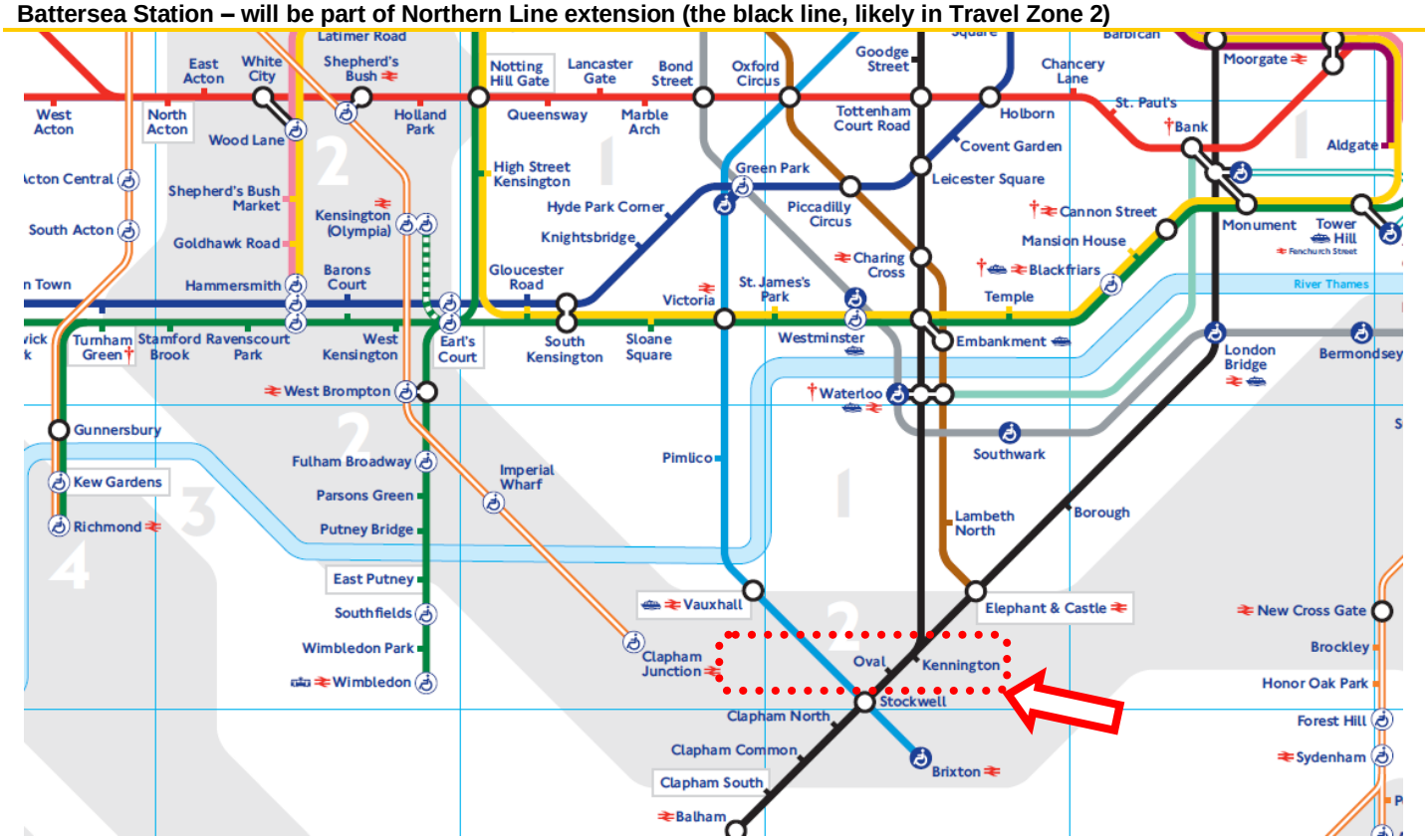
Northern Line Extension to be ready by 2020. At the completion event last week, the Mayor of London who is also chairman of Transport for London, gave his commitment and assurance that the NLE will take off and commence construction by 2014 and be ready for public use by 2020.

Northern Line Extension (see also London Tube map below)



Source: Transport for London

Battersea Station – will be part of Northern Line extension (the black line, likely in Travel Zone 2)



Source: Google Map

Public-private partnership. The Northern Line extension will be partly funded by the BPSDC (see table below for list of contributors comprising landowners/developers). The Greater London Authority planning study confirms that development tariffs can partly fund a two-station extension of the Northern Line, while Transport for London has agreed to co-sponsor the scheme. As BPS has the largest piece of land among the developers in Nine Elms, it provides the lion's share of contributions to the NLE. The development tariffs are determined by the number of residential units and commercial developments approved for the land.

Agreed contributions to the Northern Line Extension

Scheme	Contribution
US Embassy	GBP6,335,000
Lambeth (Various sites)	GBP5,300,000
Battersea Power Station	GBP213,249,711*
Tideway	GBP35,013,050
Marco Polo House	GBP12,081,250
Embassy Gardens	Up to GBP55,756,002
Nine Elms Parkside	Up to GBP50,900,000
Total	**Up to GBP378,635,013**

*Source: Greater London Authority; * note that the BPSDC guided a marginally lower figure of GBP212m (likely due to minor tweak in final outline planning permission granted)*

Northern Line Extension to be ready by 2020. We understand from the project consultants that the contributions for the NLE payable by the BPS owner, amounting to GBP202m, will be paid in stages subject to certain milestones being achieved. While the specifics of the milestones were not made known to us due to their sensitivity, they are largely tied to the timing and completion of properties launched.

Post-development job opportunities of 17,000. The development of the whole area is expected to provide 16,000 new homes and an estimated 25,000 new jobs. Once the development is complete and operational, the opportunities for on-site inward investment through offices, retail, food and beverage, cultural and arts businesses will provide an overall uplift to the OA area. These new businesses should create new employment for some 17,000 people in a diverse range of sectors, including services, catering and public services, with opportunities in sport, arts and cultural facilities, all of which add to the appeal of the development.

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Capex = Capital Expenditure
CY = Calendar Year
DCF = Discounted Cashflow
DPS = Dividend Per Share
EBIT = Earnings Before Interest And Tax
EBITDA = EBIT, Depreciation And Amortisation
EPS = Earnings Per Share
EV = Enterprise Value
FCF = Free Cashflow
FV = Fair Value
FY = Financial Year
FYE = Financial Year End
MoM = Month-On-Month
NAV = Net Asset Value
NTA = Net Tangible Asset
P = Price
P.A. = Per Annum
PAT = Profit After Tax
PBT = Profit Before Tax
PE = Price Earnings
PEG = PE Ratio To Growth
PER = PE Ratio
QoQ = Quarter-On-Quarter
ROA = Return On Asset
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