

THE EDGE Top Property
Developers Awards 2018

PATRICK GOH / THE EDGE

No.1 | S P Setia Bhd + Best in Quantitative Attributes + Best in Qualitative Attributes

| | 2018 | 2017 |
|--------------|------|------|
| Overall | 1 | 1 |
| Quantitative | 1 | 1 |
| Qualitative | 1 | 2 |

Weathering
the challengesBY WONG KING WAI
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SP Setia Bhd has once again made it to the top spot of *The Edge Malaysia* Top Property Developers Awards and has also been ranked first in both the quantitative and qualitative categories.

The group continues to go from strength to strength. Apart from doubling its land bank, thanks to its acquisition of I&P Group last year, it has launched shophouses at its new township development — Setia Fontaines — in Penang on Oct 25 and made inroads into Japan, among other things.

Although there have been hiccups along the way, both locally and internationally, president and CEO Datuk Khor Chap Jen is optimistic about the group's ability to weather the challenges that arise. To him, every challenge is an opportunity to grow the group.

As for June this year, the group has about 9,600 acres of undeveloped land in Malaysia with an estimated gross development value of RM155.94 billion, which, Khor says, will keep it busy for many years. However, it will add to its land bank if "there is a deal we cannot refuse".

Overall, the group has held steady despite the soft local market, the surprise additional buyer's stamp duty (ABSD) in Singapore and Brexit.

In FY2017 ended Dec 31, it posted a revenue of RM4.52 billion (-21% year on year) and pre-tax profit of RM1.271 billion (-11%). According to the group's annual report, this was due to the completion and handover of Parque Melbourne in Australia, several phases of KL Eco City in Jalan Bangsar and Eco Sanctuary in Singapore in FY2016. The decline was also attributed to a decision to delay launches in 2016 due to the soft market conditions at the time.

Khor believes the group is well positioned to take advantage of any improvement in market conditions. He shares his thoughts on what can be expected of S P Setia in this candid and insightful interview.

City & Country: How have the last 12 months been for S P Setia?

Datuk Khor Chap Jen: Our performance was reasonably good last year. At end-December, sales stood at RM4.9 billion — slightly more than our target. And our profit attributable to shareholders was RM933 million.

But the first nine months of this year were challenging. Locally, the market was soft. And pre-GE14, a lot of people adopted a wait-and-see stance. After GE14, there were some feel-good factors but they didn't translate into sales.

We also faced a lot of challenges overseas. Singapore came up with an ABSD [in July] and in London, there was talk of a soft and hard Brexit and now they are talking about a non-Brexit. The uncertainty didn't help. But Australia was a bright spot for us. We did reasonably well there.

Having said that, sales for the first eight months amounted to RM3 billion and this year, we are tar-



"The market needs incentives to turn around. If it is left on its own, I think it will still go sideways. This is where the government and the authorities come in." — Khor

getting sales of RM5 billion. It is tough but we are trying very hard to achieve our target.

In the last 12 months, the most significant things that happened were the aggressive purchase of land bank and the merger and acquisition of I&P Group, which was completed at end-2017. This doubled our land bank to about 9,600 acres.

Internationally, we are going into a new area — Japan. This is a new hunting ground for us. We successfully bid for a 4.9-acre site in Osaka, next to the Rinku Premium Outlets mall. We are submitting our plans and hopefully, all approvals can be obtained by the end of this year and we hope to launch the project next year. It will be a mixed-use development called Izumisano City Centre with a tentative GDV of RM1.88 billion. It will offer apartments, a hotel and some commercial components. It is our baby steps into Japan.

What is S P Setia's strategy to manage its growth in the prevailing market conditions?

The soft market has given us many opportunities. We have been able to slow down some of the projects, especially I&P's. When we acquired the company, our first task was to see how we could enhance the value of its projects. And we have managed to improve the GDV overall by 23% on average.

And the time is right to seek authorities' approval for the layout plans for a number of I&P projects. This means we will be ready when the market turns the corner.

We have also taken steps to enhance the value of the projects in terms of branding, how we do the marketing, how to improve the accessibility, landscaping of the area, and the community spaces. All these are in preparation for the upturn in the market.

In terms of launching projects, we are concentrating on landed homes as they are still very resilient. Malaysians still love landed homes but we have made them smaller. And we will do this in all our established townships, for example Setia Alam in Shah Alam, Setia EcoHill in Semenyih and Bukit Indah in Johor. The only new project that we are



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Housing and Local Government Deputy Minister Datuk Raja Kamarul Bahrin Shah (third from left), with (from left) The Edge Media Group chairman Datuk Tong Kooi Ong, Khor and The Edge Media Group publisher and CEO Ho Kay Tat

going to launch this year is shophouses in Setia Fontaines on Penang's mainland.

Internationally, we launched Daintree Residence in Singapore but unfortunately, the timing was bad, just after the ABSD, but we are waiting for things to settle down. So far, the new launch prices have been holding steady. And we think what we have is a product that has a good concept and location. And we think buyers will come back because Singaporeans, like Malaysians, do a lot of scouting around and compare prices.

Since the acquisition of I&P Group, how has the transition been and what are the plans for its existing projects?

The first thing we did when we acquired I&P was to put its projects and the Setia projects side by side. And we see how we have synergy between the projects and have greater efficiency. So, we reorganised some of the projects — some were merged under one team, some are still standalone — that is the first thing we did.

In terms of staff, there was a rationalisation — of remuneration, benefits, rankings — after that, what we did was to allocate staff using a three-pronged plan.

The first was in terms of support groups where

PICTURES BY S P SETIA



S P Setia Bhd

| FINANCIAL YEAR-END (RM MIL) | 2017 | 2016 | 2015* | 2014 | 2013 |
|-------------------------------------|--------|-------|-------|-------|-------|
| Revenue | 4,520 | 5,711 | 6,746 | 3,870 | 3,365 |
| Pre-tax profit | 1,271 | 1,425 | 1,426 | 760 | 855 |
| Paid-up capital | 6,694 | 2,140 | 1,971 | 1,904 | 1,844 |
| Shareholders' funds | 11,944 | 9,032 | 7,395 | 6,102 | 5,737 |
| Profit attributable to shareholders | 933 | 956 | 918 | 388 | 577 |
| Dividend payout ratio (%) | 70.1 | 70.5 | 65.8 | 63.3 | 45.2 |

* Based on 14-month results

COMPLETED PROJECTS

| PROJECT/LOCATION | TYPE | GDV (RM MIL) | LAUNCH DATE (MONTH/YEAR) |
|------------------------------------|------------------------------|--------------|--------------------------|
| Setia Sky 88 | Condominium | 938.7 | Oct 2012 |
| Ecohill Walk / Setia Ecohill | Mixed development | 267 | Dec 2016 |
| Setia Alam – Precinct 17 | 2-storey terraced house | 245.1 | 2016 |
| Setia Eco Glades – Isle of Kamares | Low-rise Island Villa Suites | 242 | Aug 2015 |
| Maison Carnegie, Australia | Residential development | AS32 | June 2016 |

ONGOING PROJECTS

| PROJECT/LOCATION | TYPE | GDV (RM MIL) | LAUNCH DATE (MONTH/YEAR) |
|--------------------------------------|-------------------------------|--------------|--------------------------|
| UNO, Melbourne | Mixed development | AS518 | Jan 2018 |
| Daintree Residences, Singapore | Condominium | SS485 | July 2018 |
| Setia Alam – Starter Home | 2-storey terraced house | 321.4 | 2018 |
| Setia Eco Glades – Jewel Of Grasmere | 2-storey link villas | 139 | Oct 2017 |
| Setia Eco Park – Emma Crest | 2-storey semi-detached houses | 84.1 | 2018 |

IN THE PIPELINE

| PROJECT/LOCATION | TYPE | GDV (RM BIL) | EXPECTED LAUNCH |
|------------------------------|-------------------|--------------|----------------------|
| Setia Fontaines, Penang | Township | 13.05 | Nov 2018 |
| Setia Alaman | Township | 3.9 | NA |
| Setia Alamsari | Township | 4.8 | Nov 2018 |
| Izumisano City Center, Osaka | Mixed development | 1.88 | Within July-Dec 2021 |
| Setia Mayuri | Township | 0.698 | 1Q2019 |

the people were assimilated into the HQ. Second, the people in those projects where we found efficiency were absorbed, integrated and made part of the Setia group. The third dealt with projects that had a strong I&P branding and following, for example, Kinrara and Alam Impian. Those projects are still manned by I&P's people but we reorganised them to follow how we [at Setia] run things, including the standard operating procedures.

There were a number of town hall meetings, and training and team-building activities to engage with everyone. So far, all that we planned is going well; we are happy with it. We have managed to place everybody and there were no layoffs. There were some who had to be redeployed but we made sure to retrain them. We are happy with how things are going so far.

What are your suggestions to improve the current soft property market?

The market needs incentives to turn around. If it is left on its own, I think it will still go sideways. This is where the government and the authorities come in.

Our first suggestion would be to provide incentives to clear the property overhang, for example organising a homeownership campaign like before, which helped clear a previous overhang. Second, introduce policies that will prevent this overhang from happening again, policies that tackle issues like the requirement for building affordable housing whether or not there is demand for such a product at a location. Most affordable housing is required in places where the owners can get to public transport easily so they can go to their place of work. This is important to prevent an overhang.

Another suggestion would be that certain states need to have an automatic release mechanism of certain quotas, which will also prevent an overhang. We also hope that the government will suggest that banks provide a certain amount of loans to the affordable housing segment. And let the banks do the risk assessment as they will know their customers better.

Finally, maybe the cooling measures implemented four or five years ago to curb speculators can be tweaked. You can hardly find any speculation now.

You need incentives to revitalise the market and these are just some of our suggestions.

Any updates on S P Setia's projects?

Locally, because of our lacklustre property market, what we have been concentrating on are the established townships, such as Setia Alam in Shah

Top: An artist's impression of Maison Carnegie in Australia.

Above: S P Setia's latest product, Setia Fontaines, in Penang will feature plenty of greenery

Right: UNO in Melbourne is a mixed-use development that was launched in January



Alam, Setia EcoHill in Semenyih and Bukit Indah in Johor. And we find landed homes are still in demand and what we have done is to build smaller homes. We find these starter homes are still in demand. They will still get 3+1 rooms with sizes like 20ft by 70ft or 20ft by 64ft with the possibility for extensions. The design allows it. Selling prices are between RM400,000 and RM600,000. These are the most saleable right now and this is our focus for this year – starter homes.

As for our international projects, at the Battersea Power Station in London, we are busy with the construction of Phases 2 and 3, plus selling the remaining Phase 3A units that are currently selling for £557,000 onwards for 389 sq ft. In Australia, we are looking for new projects in Melbourne and Sydney.

Is Setia looking to add an investment property component to the group?

Yes, we are. We are doing it slowly because we are looking within our own developments. In terms of acquisition of investment property, we are not discounting it but that would be quite expensive in terms of capital outlay.

So, we have started with Setia City Mall; the extension of Setia City Mall; we have KL Eco City Mall; Shangri-La Hotel in Melbourne; Amari Hotel in KL Eco City and SPICE in Penang; we have the Tenby International school and we are building a convention centre. These are all within our townships to provide support and, at the same time, we want to hold them for recurring income.

But the contribution of investment property is small. Even after five years, with all this coming in, we don't think it contributes 5% to revenue. But our long-term aim is to slowly build up the investment property portfolio.

You are currently in your 2016 to 2021 strategic plan block. What is the key plan you want the group to achieve?

I think the main one. We call it "18 by 21". In 2016, our market cap was only RM9 billion. And we said we want to double that to RM18 billion by 2021. From there, we have our overall strategy. It is very challenging. Right now, we are around RM10.5 billion and we have another three years to go to achieve our goal. **E**