

30 May 2019

# Sime Darby Berhad

## 9M19 Above Our Expectation

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**9M19 CNP of RM647m (+26%) came in above our expectation at 81%, but appear to be in line with consensus at 73%, of full-year estimates. The positive variance was due to higher-than-expected Industrials contribution, albeit, the Motors segment continued to be impacted by strong competition. As such, we increased our FY19-20E CNPs by 6-4%, but we keep our TP at RM2.35 as we revised our SoP, to reflect the weaker market condition for its China Motors division. Maintain MP.**

**9M19 above our expectation.** 9M19 CNP of RM647m (+26%) came in above our expectation at 81%, but appear to be in line with the consensus at 73%, of full-year estimates. Our positive variance was due to higher-than-expected Industrials' contribution, albeit, the Motors segment continued to be impacted by strong competition, as well as affected by US-China trade war sentiment. No dividend was declared for the quarter as the group typically pay dividends in 2Q and 4Q.

**YoY**, 9M19 core CNP surged 26% mainly from higher Industrials' core PBT (+102%), with the higher total order-book of RM2.6b (+10%), supported by higher equipment deliveries and product support sales to the construction and mining sectors in Australia. These more than offset: (i) lower Motors Vehicles' core PBT (-18%) from heavy discounting activities to sustain sales momentum (total global vehicles sales at 60,796 units (+8%), and (ii) lower Logistics core PBT (-39%) from the seasonally weaker general cargo throughput (-7% to 24.1m MT) and cessation of Weifang Port contribution.

**QoQ**, 3Q19 core CNP surged 49% mainly contributed by the stronger Industrials' core PBT contribution (+24%) from higher equipment deliveries and product support sales to the construction and mining sectors in Australia. This was despite the lower contribution from Motor Vehicles' PBT (-22%) from seasonally weaker 3Q compared to 2Q, especially from lower sales from BMW and Ford operations in Singapore and lower profits from BMW operation in Australia. Logistics segment also recorded lower segment PBT (-27%), due to cessation of Weifang Port contribution.

**Outlook.** The Industrial division's product support operations in Australia has continued to show growth as a result of the mining business recovery, whilst the China operation is benefiting from strong demand in the construction industry. Nevertheless, the Motors operation will continue to be impacted by strong competition and cautious consumer sentiment, whereas its Port operation will be facing competition from other ports as well as environmental controls implemented by local authorities limiting the operating time of the ports. SIME will continue to rationalize its logistics operations (with remaining 4 ports) which could see value unlocking of RM1.2b of its net book value (RM0.18/share). SIME had divested its previously 100%-owned Weifang Sime Darby Water Management for USD68m or c.MYR275m (at 1.3x PBV) through competitive bidding.

**FY19-20E CNPs increased by 6-4%.** We increased our FY19E and FY20E CNP by 6% and 4%, respectively, to account for the stronger Industrial contribution.

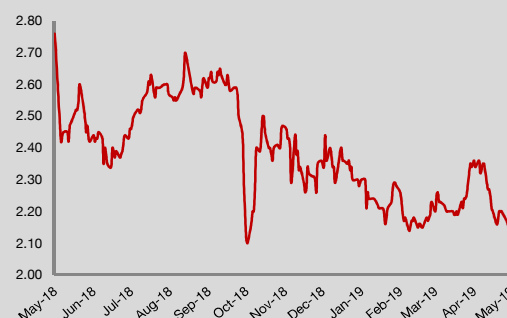
**Maintain MARKET PERFORM with a higher target price of RM2.35**, despite raising our earnings forecasts as we revised our Sum-of-Parts (SoP) composition, to reflect the weaker market condition for its China Motors division, which comprises 50% of SIME's volume sales (ascribing lower targeted PER of 7x CY19 EPS, from 10x CY19 EPS. Our TP implied PERs of 20x of FY19E EPS and 19.4x of FY20E EPS.

**Risks to our call include:** (i) lower-than-expected car sales volume, and (ii) unfavourable forex.

## MARKET PERFORM ↔

**Price:** RM2.29  
**Target Price:** RM2.35 ↔

### Share Price Performance



KLCI 1,623.67  
YTD KLCI chg -4.0%  
YTD stock price chg -4.6%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SIME MK EQUITY
Market Cap (RM m)	15,573.9
Shares Outstanding	6,800.8
52-week range (H)	2.73
52-week range (L)	2.04
3-mth avg daily vol:	8,094,510
Free Float	42%
Beta	1.6

### Major Shareholders

Skim Amanah Saham Bumiputera	41.4%
Employees Provident Fund	10.3%
KWAP	6.3%

### Summary Earnings Table

FY June (RM m)	2018A	2019E	2020E
Turnover	33,828	34,792	35,842
EBIT	1,102	1,347	1,386
PBT	1,065	1,305	1,374
<b>NP</b>	<b>618</b>	<b>844</b>	<b>860</b>
<b>CNP</b>	<b>857</b>	<b>844</b>	<b>860</b>
Consensus (NP)	-	886	956
Earnings Revision	-	+6%	+4%
Core EPS (sen)	12.6	12.4	12.7
Core EPS (%)	1.1	-1.5	1.9
NDPS (sen)	8.0	7.5	7.5
BV/Share (RM)	2.17	2.22	2.26
Core PER	18.2	18.4	18.1
Price/BV (x)	1.1	1.0	1.0
Net Gearing (x)	8.2	2.2	2.3
Net Dvd Yield (%)	3.5	3.3	3.3

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## Results Highlights

## (Continued Operation)

FY June	3Q19	2Q19	QoQ %	3Q18	YoY %	9M19	9M18	YoY%
Revenue	8,565	9,423	-9%	8,294	3%	26,833	25,253	6%
Op Profit	351	338	4%	192	83%	1,048	673	56%
PBT	308	308	0%	177	74%	990	677	46%
Tax	(75)	29	-359%	(62)	21%	(139)	(216)	-36%
MI	(11)	(20)	-45%	(13)	-15%	(44)	(53)	-17%
<b>Reported Net Profit</b>	<b>222</b>	<b>317</b>	<b>-30%</b>	<b>102</b>	<b>118%</b>	<b>807</b>	<b>408</b>	<b>98%</b>
<b>Core Net Profit</b>	<b>251</b>	<b>168</b>	<b>49%</b>	<b>181</b>	<b>39%</b>	<b>647</b>	<b>515</b>	<b>26%</b>
EPS (sen)	4.7	4.7	0%	2.0	135%	8.0	23.8	-66%
Net DPS (sen)	0.0	2.0		0.0		2.0	2.0	
EBIT %	4.1%	3.6%		2.3%		3.9%	2.7%	
PBT%	3.6%	3.3%		2.1%		3.7%	2.7%	
Tax %	24.4%	-9.4%		35.0%		14.0%	31.9%	

Source: Company, Kenanga Research

## Segmental Breakdown

FY June	3Q19	2Q19	QoQ %	3Q18	YoY %	9M19	9M18	YoY%
<b>Segmental Revenue</b>								
- Industrial	3,516	3,617	-3%	3,318	6%	10,349	9,549	8%
- Motor Vehicles	4,947	5,680	-13%	4,864	2%	16,143	15,433	5%
- Logistics	64	70	-9%	77	-17%	214	250	-14%
- Others	38	56	-32%	35	9%	127	21	505%
<b>Total Revenue</b>	<b>8,565</b>	<b>9,423</b>	<b>-9%</b>	<b>8,294</b>	<b>3%</b>	<b>26,833</b>	<b>25,253</b>	<b>6%</b>
<b>Segmental Core PBT</b>								
- Industrial	209	169	24%	77	171%	616	305	102%
- Motor Vehicles	111	120	-8%	142	-22%	336	411	-18%
- Logistics	11	15	-27%	18	-39%	37	61	-39%
- Others	19	20	-5%	26	-27%	59	43	37%
<b>Total Core PBT</b>	<b>350</b>	<b>324</b>	<b>8%</b>	<b>263</b>	<b>33%</b>	<b>1,048</b>	<b>820</b>	<b>28%</b>
<b>Core Net Profit</b>	<b>251</b>	<b>168</b>	<b>49%</b>	<b>181</b>	<b>39%</b>	<b>647</b>	<b>515</b>	<b>26%</b>

Source: Company, Kenanga Research

## Sum-of-Parts Valuation

Segment	Valuation	Note	Fair Value (RM'm)	PER	Net Income(RM'm)
Motors	7x CY19E earnings	Average fwd PER for motor companies in China	2,845.0	7	406.4
Industries	11x CY19E earnings	Caterpillar's Fwd. PER	8,996.0	11	817.8
Logistics	14x CY19E earnings	Average fwd PER for PORTs in China	621.5	14	44.4
Ramsay Sime Darby Health Care (RSDHC)	20x CY19E earnings	Ramsay Healthcare Ltd (Australia) fwd. PER	1,960.0	20	98.0
Eastern & Oriental Bhd		Market Value @ 11.6% stake	135.4		
Land Assets at Malaysia Vision Valley, Labu		8,800 acres @ Market Value	2,500.0		
Weifang Sime Darby Water Management		Disposal Value	275.0		
<b>Sum-Of-Parts (RM m)</b>			<b>16,116</b>		
<b>Less: Net (Debt) / cash</b>			<b>(1,217)</b>		
No of shares (m)			6,800		
<b>TP (RM)</b>			<b>2.35</b>		

Source: Kenanga Research

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## Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
<b>STOCKS UNDER COVERAGE</b>																	
BERMAZ AUTO BHD	2.30	2,667.6	Y	04/2019	20.5%	3.6%	78.5%	3.2%	19.1	10.7	10.4	5.1	4.1	42.5%	7.5%	2.85	OP
DRB-HICOM BHD	1.97	3,808.5	Y	03/2019	3.3%	2.1%	12.3%	5.1%	12.2	10.8	10.3	0.6	0.5	5.1%	1.5%	1.90	MP
MBM RESOURCES BERHAD	2.90	1,133.6	Y	12/2019	0.3%	1.0%	1.7%	2.1%	6.8	6.7	6.6	0.6	0.6	8.9%	2.1%	3.45	OP
SIME DARBY BERHAD	2.29	15,573.9	Y	06/2019	2.8%	3.0%	-1.5%	1.9%	18.2	18.5	18.1	1.1	1.1	5.8%	3.3%	2.35	MP
TAN CHONG MOTOR HOLDINGS BHD	1.54	1,005.1	Y	12/2019	0.3%	1.8%	-3.8%	4.7%	9.6	9.9	9.5	0.4	0.4	3.6%	2.6%	2.15	OP
UMW HOLDINGS BHD	5.29	6,180.3	Y	12/2019	2.9%	6.1%	5.0%	18.7%	16.3	15.5	13.1	1.9	1.7	11.5%	1.4%	5.80	MP
<b>Simple Average</b>					<b>5.5%</b>	<b>2.3%</b>	<b>17.5%</b>	<b>3.4%</b>	<b>13.2</b>	<b>11.3</b>	<b>11.0</b>	<b>1.5</b>	<b>1.3</b>	<b>13.2%</b>	<b>3.4%</b>		
<b>CONSENSUS NUMBERS</b>																	
APM AUTOMOTIVE HOLDINGS BHD	2.85	557.3	Y	12/2019	-0.8%	3.8%	-1.0%	4.5%	14.5	14.6	14.0	0.4	0.5	3.2	0.1	2.65	SELL
PECCA GROUP BHD	1.05	192.5	Y	06/2019	13.2%	5.5%	78.0%	5.4%	18.8	10.6	10.0	1.1	1.2	10.7	0.1	1.40	BUY

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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