

30 May 2019

# Sime Darby Property Bhd

## Broadly Within

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**1Q19 CNP of RM264.5m is broadly within ours (67%) and consensus (56%) expectations as a large chunk of projected non-core asset disposals was recognised this quarter. 1Q19 sales of RM403m is also deemed broadly within our target (19%) of RM2.14b and management's target of RM2.30b (18%) as we expect sales to catch up in coming quarters. Maintain FY19-20E CNP of RM395-462m. Reiterate OP on an unchanged TP of RM1.10.**

**Results broadly within.** 1Q19 CNP of RM264.5m came in broadly within ours (67%) and consensus (56%) expectations. We deem this as broadly within as a large portion of the gain on non-core asset disposal of RM204m was recognized in 1Q19, as expected. Note that we accounted for gain on disposals as part of our core earnings as it is part of management's active plan to rationalize its non-core assets. 1Q19 sales of RM403m (19%) is also broadly within our expectation of RM2.14b and management's target of RM2.30b (18%) as we expect sales to play catch-up in coming quarters. 1Q19 sales were driven by projects at Bandar Bukit Raja and Elmina West. No dividends, as expected.

**Result highlights.** YoY, top-line was up (+3%) driven by the property segment (+2%) on higher recognitions and property investment segment (+39%) on higher rental at Melawati Mall and contribution from facility management services. Positively, bottom-line jumped by 818% mainly due to: (i) lower operating cost (-4%) from better cost management, (ii) higher gains on disposal of RM204m driven by the sale of Darby Park, Singapore, (iii) higher net interest income (+304%), (iv) positive contributions from JV project (RM3.8m) namely PJ Midtown alongside lower share of losses from Battersea and Sime Darby Sunrise, and (v) low tax rate of 9% as the gain on disposal was not subjected to Singapore tax. QoQ, top-line was down by 27% due to lower recognitions from the property development segment. However, EBIT returned to the black on better margin of 12.2% (vs. LBIT of RM21m) as the previous quarter experienced thin margin inventories and inventory impairments. Additionally, the positive gains on disposals and positive contributions from JV due to reasons mentioned above elevated CNP back into the black to RM264.5m (vs. RM16m losses).

**Outlook.** FY19 will see c.RM1.5-2.5b launches of mostly landed residential located in the Greater Klang Valley and GCE, and priced below RM750k/unit. The Group's latest unbilled sales of RM2.1b provide around one-year's visibility. For FY19, we expect a total of RM280m pretax gains on disposals from non-core assets with upcoming disposals (e.g. Kedah land). However, we will seek further clarity during today's briefing on whether the company expects more disposals this year; recall that management guided for RM2b in disposal gains over the next 4-6 years; this may prompt us to review our earnings estimates.

**Maintain FY19-20E CNP of RM395-462m.** We maintain our sales target of RM2.14-2.10b in FY19-20E which is slightly more conservative than managements FY19 sales target of RM2.3b.

**Maintain OUTPERFORM with an unchanged TP of RM1.10.** Our current recommendation is based on an implied 66% discount to its FD SoP of RM3.24. Our discount is in line with peer SPSETIA with its valuations pegged closer to the -2.0SD levels, given expected thin ROE's of 4-5% in FY19-20. However, we believe our call is warranted as our valuations have accounted for possible earnings risk while we also acknowledged the fact that sales momentum remains healthy, which is commendable given the challenging environment. Note that we have also recently lowered FY21E earnings to account for potentially lower forward earnings on conservative take-up rates at Battersea Phase 2 and 3a, but even so, our TP implies a 15x FY21E PER which is close to its peer SPSETIA's implied FY21E PER of 14x (-1.0SD levels to our Fwd 7-year average PER).

## OUTPERFORM ↔

Price : **RM1.02**  
Target Price : **RM1.10** ↔

### Share Price Performance



KLCI	1,623.67
YTD KLCI chg	-4.0%
YTD stock price chg	2.5%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SDPR MK Equity
Market Cap (RM m)	6,936.9
Shares Outstanding	6,800.8
52-week range (H)	1.47
52-week range (L)	0.91
3-mth avg daily vol:	3,918,540
Free Float	40%
Beta	1.4

### Major Shareholders

Skim Amanah Saham Bumiputera	43.9%
Employees Provident Fund Board	11.1%
Yayasan Pelaburan Bumiputra	5.2%

### Summary Earnings Table

FY Dec (RMm)	6MFPE18A	2019E	2020E
Turnover	1269	2673	3007
EBITDA	21	534	585
PBT	-38	596	684
<b>Net Profit (NP)</b>	<b>-319</b>	<b>395</b>	<b>462</b>
<b>Core Net Profit</b>	<b>7</b>	<b>395</b>	<b>462</b>
Consensus(NP)	n.a.	471	484
Earnings Revision	n.a.	n.a.	n.a.
Core EPS (sen)	0.1	5.8	6.8
Core EPS growth (%)	-98%	n.m.	17%
NDPS (sen)	1.0	2.3	2.7
BV/Share (RM)	1.35	1.39	1.43
Core PER	992.5	17.5	15.0
Price/BV (x)	0.8	0.7	0.7
Net Gearing (x)	0.3	0.3	0.2
Net Dvd Yield (%)	1.0%	2.3%	2.7%

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## OTHER POINTS

**Risks include:** (i) weaker-than-expected property sales, (ii) weaker margins, (iii) changes in real estate policies, and (iv) changes in lending environment.

## Result Highlight

FYE: 31st Dec (RMm)	1Q19	2QFP18	QoQ	3Q18	YoY
Revenue	575.1	788.8	-27%	559.5	3%
Op costs w/o deprn/amort	-493.0	-807.5	-39%	-515.8	-4%
Other Op Income	1.9	8.0	-77%	11.1	-83%
<b>EBITDA</b>	<b>84.0</b>	<b>-10.7</b>	<b>n.m.</b>	<b>54.8</b>	<b>53%</b>
Deprn/Amort	-13.9	-10.6	32%	-12.0	16%
<b>EBIT</b>	<b>70.1</b>	<b>-21.3</b>	<b>n.m.</b>	<b>42.7</b>	<b>64%</b>
Other operating expenses /gains	204.4	-26.1	n.m.	11.5	1672%
Net interest (exp)/inc	23.5	-0.4	n.m.	5.8	304%
Associate + JCE	3.5	-43.4	-108%	-17.1	n.m.
Fair Value Adj /One-Off	-0.6	331.7	n.m.	-4.9	-88%
<b>Pretax profit</b>	<b>300.9</b>	<b>240.6</b>	<b>25%</b>	<b>38.1</b>	<b>689%</b>
Taxation	-27.2	-255.9	-89%	-14.3	90%
Minority Interests & disc. ops	-9.2	-0.4	2050%	5.0	n.m.
<b>Net profit</b>	<b>265.1</b>	<b>-347.5</b>	<b>n.m.</b>	<b>33.7</b>	<b>687%</b>
<b>Core net profit</b>	<b>264.5</b>	<b>-15.8</b>	<b>n.m.</b>	<b>28.8</b>	<b>818%</b>
EPS (sen)	3.9	-5.1	n.m.	0.5	687%
DPS (sen)	0.0	1.0		0.0	
NTA/share (RM)	1.39	1.35		1.40	
BV/share (RM)	1.39	1.35		1.40	
Net gearing/(cash) (x)	0.26	0.28		0.08	
EBIT margin	12.2%	-2.7%		7.6%	
Pretax margin (ex FV/one-offs)	52.4%	-11.6%		7.7%	
Effective tax rate	9.0%	-280.8%		33.2%	

Source: Company, Kenanga Research

\*YoY results are compared against the period of Jan-March 2018 which was the Groups 3QFY18. Note that SIMEPROP has since changed its financial year end to Dec, from June

## Segment Results

FYE: 31st Dec (RMm)	1Q19	2QFP18	QoQ	3Q18	YoY
<b>Revenue</b>					
Property Development	534.8	729.9	-27%	522.0	2%
Property investment	18.3	6.2	196%	13.2	39%
Leisure & hospitality	22.0	23.6	-7%	24.3	-9%
Concession Arrangement	0.0	29.0	-100%	0.0	n.a.
Other operations	0.0	0.0	n.a.	0.0	n.a.
<b>Total</b>	<b>575.1</b>	<b>788.8</b>	<b>-27%</b>	<b>559.5</b>	<b>3%</b>
<b>PBIT</b>					
Property Development	72.8	-28.4	n.m.	34.6	110%
Property investment	6.6	-23.0	n.m.	6.5	1%
Leisure & hospitality	198.6	-2.0	n.m.	-3.9	n.m.
Concession Arrangement	0.0	9.3	n.m.	0.0	n.a.
Other operations	0.0	0.0	n.a.	0.0	n.a.
<b>Total</b>	<b>278.0</b>	<b>-44.2</b>	<b>n.m.</b>	<b>37.2</b>	<b>648%</b>
<b>PBIT Margin</b>			<b>ppt</b>		<b>ppt</b>
Property Development	13.6%	-3.9%	n.m.	6.6%	7.0%
Property investment	35.9%	-371.2%	n.m.	49.4%	-13.5%
Leisure & hospitality	902.6%	-8.6%	n.m.	-16.2%	918.9%
Concession Arrangement	n.a.	32.1%	n.a.	n.a.	n.a.
Other operations	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Total</b>	<b>48.3%</b>	<b>-5.6%</b>	<b>n.m.</b>	<b>6.6%</b>	<b>41.7%</b>

Source: Company, Kenanga Research

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FD SOP							
Projects	Location	Stake	Assumed Duration (Yrs)	Remaining GDV (RM'm)	Remaining Net Profit *** (RM'm)	WAC C (%)	DCF Value (RM m)***
Unbilled Sales		100%	3	1,766	120	9%	101
Launched but not yet sold		100%	3	1,600	109	9%	92
<b>Niche/Integrated</b>							
ALYA	Kuala Lumpur	100%	8	7,200	490	9%	337
- Senada Residences	Kuala Lumpur	60%	5	0	0	9%	0
Chemara Hills	Seremban	100%	5	40	3	9%	2
USJ Heights	Subang Jaya	100%	5	200	14	9%	10
SJ7	Subang Jaya	100%	5	5,250	358	9%	253
SJCC	Subang Jaya	100%	5	3,600	126	9%	98
KL East	Setapak	100%	5	2,200	224	9%	159
<b>Township</b>							
City of Elmina: Elmina West	Shah Alam	100%	20	15,350	3,773	9%	1,698
City of Elmina: Elmina East	Shah Alam	100%	15	2,500	614	9%	326
City of Elmina: Denai Alam & Bukit Subang	Shah Alam	100%	8	1,000	351	9%	241
Bandar Bukit Raja 2 & 3	Klang	100%	20	11,450	3,216	9%	1,214
Bandar Bukit Raja 1	Klang	100%	10	1,200	337	9%	214
Serenia City	Dengkil, Sepang	100%	15	8,750	2,458	9%	1,195
Putra Heights	Subang Jaya	100%	8	3,400	239	9%	164
Ara Damansara	Petaling Jaya	100%	8	6,700	706	9%	485
- Oasis Corporate Park	Petaling Jaya	60%	5	0	0	9%	0
Bukit Jelutong	Shah Alam	50%	5	1,200	105	9%	75
Saujana Impian	Kajang	100%	5	30	4	9%	3
Taman Melawati	Ulu Klang	100%	5	600	84	9%	60
Nilai Impian 2	Nilai	100%	12	3,100	653	9%	353
Nilai Impian 1	Nilai	100%	10	1,000	211	9%	123
Bandar Ainsdale	Seremban	100%	12	1,200	84	9%	50
Planters' Haven	Nilai	100%	5	100	14	9%	10
Bandar Universiti Pagoh	Muar	100%	15	5,450	1,148	9%	610
Taman Pasir Putih	Pasir Gudang	100%	5	200	63	9%	45
<b>Overseas</b>							
Serenity Cove	Gold Coast, Australia	60%	5	1,950	164	9%	127
Battersea	London, UK	40%	8	36,427	2,558	9%	1,511
<b>Future Development</b>							
Kota Elmina	Shah Alam	100%	20	11,643	2,453	9%	711
Lagong	Gombak	100%	20	11,175	2,354	9%	682
MVV	Negeri Sembilan	100%	20	9,716	2,047	9%	772
Jerai Estate	Kedah	100%	15	4,767	1,004	9%	447
Mostyn Estate	Sabah	100%	10	438	92	9%	49
Remaining area		100%	15	1,307	275	9%	79
<b>Property DCF</b>							<b>12,296</b>
							<b>Surplus/ (Deficit) ***</b>
Investment, Hospitality, Concessions, Others							0.0
Shareholder's Funds @ 4Q18							9734.6
<b>SOP</b>							<b>22,030</b>
<b>SOP per share (RM)</b>							<b>MYR 3.24</b>
No. of shares ('m)							6,801
Dilution Impact							0
<b>FD SOP/share (RM)</b>							<b>MYR 3.24</b>
FD No. of shs ('m)							6,801
<b>TP (RM)</b>							
*** Effective							
Property Discount						-65%	-13,505
SOP Discount						-66%	<b>MYR 1.10</b>

Source: Kenanga Research

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## Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div.Yld. (%)	Target	Rating
	(RM)				Cap (RM'm)	Compliant	FYE	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>PROPERTY DEVELOPERS UNDER COVERAGE</b>																		
AMVERTON BHD	1.08	394.3	Y	12/2019	-0.7%	3.4%	-58.8%	7.3%	16.5	40.0	37.3	0.6	0.5	1.4%	0.0%	1.00	UP	
ECO WORLD DEVELOPMENT GROUP	0.865	2,546.9	Y	10/2019	-4.4%	-18.3%	23.4%	23.9%	15.4	12.5	10.1	0.7	0.7	4.5%	1.2%	1.15	OP	
HUA YANG BHD	0.330	116.2	Y	03/2020	-11.0%	-1.2%	153.2%	-11.8%	N.A.	14.1	16.0	0.2	0.2	1.4%	0.0%	0.335	MP	
IOI PROPERTIES GROUP BHD	1.32	7,268.1	Y	06/2019	-15.0%	-6.0%	5.3%	0.7%	11.0	10.4	10.4	0.4	0.4	3.8%	3.8%	1.65	OP	
LBS BINA GROUP BHD	0.515	802.9	Y	12/2019	31.3%	0.9%	7.9%	3.4%	9.4	8.7	8.5	0.6	0.5	6.6%	3.4%	0.675	MP	
MAGNA PRIMA BHD	0.880	292.7	Y	12/2019	40.0%	11.1%	9637.5%	338.9%	N.A.	1,168.2	266.2	0.8	0.8	0.1%	0.0%	0.740	UP	
MAH SING GROUP BHD	0.910	2,209.2	Y	12/2019	4.5%	7.0%	-2.5%	1.0%	13.5	13.8	13.7	0.6	0.6	5.2%	4.4%	1.05	OP	
MALYSIAN RESOURCES CORP BHD	0.920	4,047.9	Y	12/2019	5.0%	5.0%	26.9%	19.5%	53.5	42.2	35.3	0.8	0.8	2.0%	1.9%	0.750	UP	
SIME DARBY PROPERTY BHD	1.02	6,936.9	Y	12/2019	13.6%	12.5%	7.8%	16.9%	18.9	17.5	15.0	0.7	0.7	4.1%	2.3%	1.10	OP	
SP SETIA BHD	2.13	8,589.2	Y	12/2019	7.8%	29.7%	71.3%	50.5%	39.1	22.8	15.2	0.6	0.6	2.5%	3.3%	2.45	OP	
SUNSURIA BHD	0.650	578.4	Y	09/2019	-36.0%	25.2%	-31.8%	26.6%	4.2	6.3	4.9	0.6	0.6	10.4%	0.0%	0.760	OP	
SUNWAY BHD	1.70	8,302.8	Y	12/2019	-2.7%	12.5%	-8.5%	22.5%	14.2	15.5	12.6	1.0	1.0	6.3%	3.5%	1.60	MP	
UEM SUNRISE BHD	0.865	3,924.9	Y	12/2019	37.0%	-14.3%	9.0%	-11.7%	12.0	11.0	12.5	0.6	0.6	4.9%	1.2%	0.850	MP	
UOA DEVELOPMENT BHD	2.30	4,240.6	Y	12/2019	0.6%	-0.4%	4.6%	0.9%	12.7	12.2	12.1	0.9	0.9	7.4%	6.1%	2.15	MP	
<b>Simple Average</b>					<b>5.0%</b>	<b>4.8%</b>	<b>703.2%</b>	<b>34.9%</b>	<b>18.4</b>	<b>99.7</b>	<b>33.5</b>	<b>0.6</b>	<b>0.6</b>	<b>4.3%</b>	<b>2.2%</b>			
*SIMEPROP change of FY-end from 30-Jun to 31-Dec. Out historical numbers are based on FY18A while 1-Yr and 2-Yr Fwd are based on FY19E and FY20E figures																		
<b>CONSENSUS NUMBERS</b>																		
GLOMAC BHD	0.360	280.9	Y	04/2019	-37.9%	22.4%	-81.8%	179.8%	9.0	49.3	17.6	0.3	N.A.	0.6%	1.1%	0.390	SELL	
MATRIX CONCEPTS HOLDINGS BHD	1.93	1,518.5	Y	03/2019	25.1%	12.1%	-2.3%	11.5%	7.1	7.3	6.5	1.1	1.1	16.2%	6.2%	2.33	BUY	
PARAMOUNT CORP BHD	2.09	905.7	Y	12/2019	-1.4%	8.4%	2.4%	5.3%	9.9	9.6	9.1	0.8	N.A.	7.2%	4.3%	2.56	BUY	
TAMBUN INDAH LAND BHD	0.760	329.4	Y	12/2019	-14.3%	10.6%	-22.4%	10.1%	5.9	7.7	7.0	0.5	N.A.	7.1%	5.7%	0.897	BUY	
TITIJAYA LAND BHD	0.295	375.6	Y	06/2019	-14.3%	13.9%	-28.4%	17.1%	5.2	7.2	6.2	0.3	0.3	3.9%	1.7%	0.360	BUY	
YONG TAI BHD	0.330	176.3	Y	06/2019	28.1%	108.6%	-168.0%	66.5%	11.4	N.A.	11.1	0.4	0.5	-4.5%	0.0%	0.343	NEUTRAL	

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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