

Sime Darby Property Bhd

Sailing Smoothly

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We came away from SIMEPROP's results conference call yesterday feeling neutral and assured on its future earnings trajectory as the Group is working hard to maintain its sales target of RM2.30b, vs. our slightly more conservative target of RM2.14b. Inventories are also declining steadily for completed projects (-7%), while additional non-core disposals would be a positive to earnings. Maintain FY19-20E CNP of RM395-462m for now. Downgrade to MP (from OP) on an unchanged TP of RM1.10.

Strong 1Q19 was expected due to a chunky asset disposal. To recap, SIMEPROP's 1Q19 CNP of RM264.5m was deemed broadly within our expectation (67%) largely due to a hefty gain on non-core asset disposal (RM204m) which was recognized in 1Q19, as expected. Going forward, for FY19E CNP, we built in a total of RM280m pretax gains on disposals from non-core assets with upcoming disposals (e.g. 300 ac of Kedah land by 1H19). The Group also highlighted plans to dispose land at U-Thanth, Kuala Lumpur and Chemara West, Negeri Sembilan, both with a combined size of 20 ac, but no details on sale values or land sizes were given. Besides, time frames to complete these potential transactions are also uncertain. As such, we have not included these anticipations in our estimates. Recall that, management has guided RM2b in disposal gains over the next 4-6 years (post completing Darby Park disposal for RM204m, leaving RM1.8b remaining).

Management maintains its sales target of RM2.30b in FY19. 1Q19 sales of RM403m was driven by township projects in the Greater Klang Valley (55%), Guthrie Corridor (25%) and Klang (15%) mainly from projects such as "Elsa" (Bandar Bukit Raja), "Elmina Valley Five" (Elmina West) and "The Ridge" (KL East). Management maintains its FY19 sales target of RM2.30b while we remain slightly more conservative at RM2.14b. SIMEPROP remains persistent in its marketing efforts to capture domestic sales through campaigns such as Primetime 8 Campaign (Mar-April 2019), and will be rolling out its Raya 2019 campaign from (May-June 2019) which offers a host of promotions and rebates. Additionally, SIMEPROP is further engaging its customers through its co-creation and crowd sourcing platform called 'dto' that allows potential customers to vote for their preferred development concept, design and amenities. As most of the campaigns are ongoing in 1H19, we believe sales will pick up in 2H19 and should be able to meet our and management's target.

Inventory clearing progressing steadily. Completed inventories declined by 7% to RM813m on higher sales from projects such as Serini (Taman Melawati), Bandar Ainsdale and East Residence (KLGCC Resort). Completed projects represent 22% of total inventory units but 40% of total value, and are mostly landed development projects in the Klang Valley. The bulk of inventory value is in Taman Melawati projects of which the group is actively working on improving take-up rates. **Maintain FY19-20E CNP of RM395-462m.** FY19-20E dividend provides 2.2-2.6% yield.

Downgrade to MARKET PERFORM (from OP) on an unchanged TP of RM1.10. Our TP is based on an implied 66% discount to its FD SoP of RM3.24. Our discount is in line with peer SPSETIA, with its valuation pegged closer to the -2.0SD level, given expected thin ROE of 4-5% in FY19-20. We are comfortable with our call as its share price has increased by 9.3% since our OP call in our report dated 24th May 2019, "Delays at Battersea?", while we believe we have accounted for most foreseeable earnings risk as well as upsides. Additionally, note that our FY21E earnings which accounts for potentially more conservative take-up rates at Battersea Phase 2 and 3a, implies a target PER of 15x on FY21E EPS, close to its peer - SPSETIA's - implied FY21E PER of 14x (-1.0SD level to our Fwd. 7-year average PER).

MARKET PERFORM

Price : RM1.06
Target Price : RM1.10

Share Price Performance



KLCI	1,636.50
YTD KLCI chg	-3.2%
YTD stock price chg	6.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SDPR MK Equity
Market Cap (RM m)	7,208.9
Shares Outstanding	6,800.8
52-week range (H)	1.47
52-week range (L)	0.91
3-mth avg daily vol:	3,935,827
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
Net Profit (NP)	-319	395	462
Core Net Profit	7	395	462
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	1031.4	18.2	15.6
Price/BV (x)	0.8	0.8	0.7
Net Gearing (x)	0.3	0.3	0.2
Net Dvd Yield (%)	0.9%	2.2%	2.6%



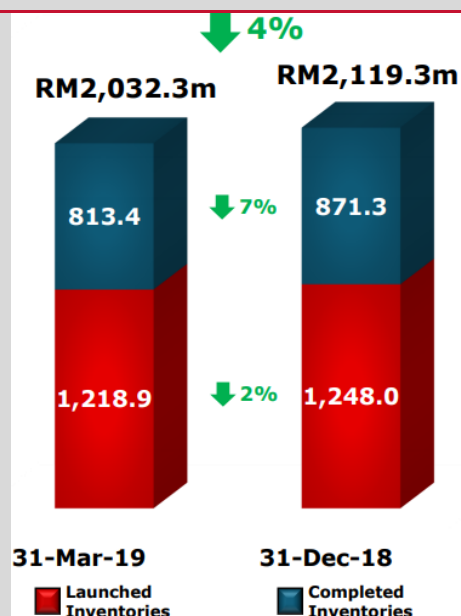
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OTHER POINTS

Outlook. FY19 will see RM2.0-2.5b launches, while 1Q19 launches were worth RM363m from projects such as Elmina West (Elmina Valley 5), Serenia City (Adiva 2), Bandar Universiti Pagoh (Harmoni Permai) and Putra Heights (Irama Square). Going forward, upcoming launches will be mostly of residential projects located in the GCE, Klang and within the Greater Klang Valley and mostly priced below RM750k/unit. We maintain our sales target of RM2.14-2.10b in FY19-20 which is slightly more conservative than management's FY19 sales target of RM2.3b. Unbilled sales of RM2.1b provide around one-year's visibility.

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

Inventories



Source: Company

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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
Niche/Integrated							
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
Township							
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
Overseas							
Serenity Cove	Gold Coast, Australia	60%	5	1,950	164	9%	127
Battersea	London, UK	40%	8	36,427	2,558	9%	1,511
Future Development							
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
Property DCF							12,296
							Surplus/ (Deficit) ***
Investment, Hospitality, Concessions, Others							0.0
Shareholder's Funds @ 4Q18							9734.6
SOP							22,030
SOP per share (RM)							MYR 3.24
No. of shares ('m)							6,801
Dilution Impact							0
FD SOP/share (RM)							MYR 3.24
FD No. of shs ('m)							6,801
TP (RM)							
*** Effective							
Property Discount						-65%	-13,505
SOP Discount						-66%	MYR 1.10

Source: Kenanga Research

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Income Statement

	6M				
FY Dec (RM'm)*	FY18A	FPE18A	FY19E	FY20E	FY21E
Revenue	2,353	1,269	2,673	3,007	2,791
EBITDA	640	44	580	639	665
Depreciation	-47	-22	-47	-54	-59
EBIT	593	21	534	585	606
N.Interest Exp	46	14	27	34	40
Associates/JV	90	-47	35	65	74
Ex.Items	-273	326	0	0	0
PBT	728	-38	596	684	720
Taxation	-44	-273	-135	-149	-161
MI & Perp. Sukuk	-44	-8	-66	-73	-63
Net Profit	640	-319	395	462	495
Core Net Profit	367	7	395	462	495

Balance Sheet

	6M				
FY Dec (RM'm)*	FY18A	FPE18A	FY19E	FY20E	FY21E
Fixed Assets	3,822	4,047	3,922	3,897	3,868
Intangibles	4	3	3	3	3
Other FA	3,778	4,124	4,159	4,224	4,298
Inventories	4,882	4,625	5,127	5,298	4,743
Receivables	743	737	842	824	765
Other CA	594	932	932	932	932
Cash	749	649	312	435	893
Total Assets	14,573	15,117	15,297	15,613	15,501
Payables	1,459	1,435	1,611	1,812	1,682
ST Borrowings	496	1,348	696	696	696
Other ST Liabilities	177	536	529	566	588
LT Borrowings	2,047	1,925	2,347	2,147	1,847
Other LT Liabilities	430	426	431	431	431
MI & Perp. Sukuk	231	237	237	237	237
Net Assets	9,735	9,210	9,447	9,724	10,021
Share Capital	6,801	6,801	6,801	6,801	6,801
Reserves	2,934	2,409	2,646	2,923	3,220
Shareholders Equity	9,735	9,210	9,447	9,724	10,021

Cashflow Statement

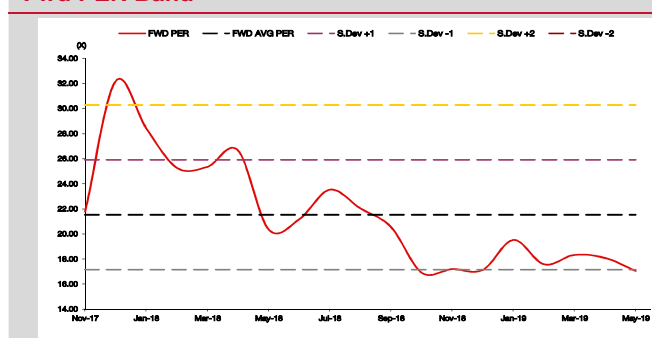
	6M				
FY Dec (RM'm)*	FY18A	FPE18A	FY19E	FY20E	FY21E
Operating CF	-288	-396	-17	532	998
Investing CF	-3,353	-421	214	-58	-82
Financing CF	3,261	-187	569	-551	-458
Net Change in Cash	-782	-419	251	-30	-30
Free Cash Flow	90	-78	-53	4	9

Source: Kenanga Research

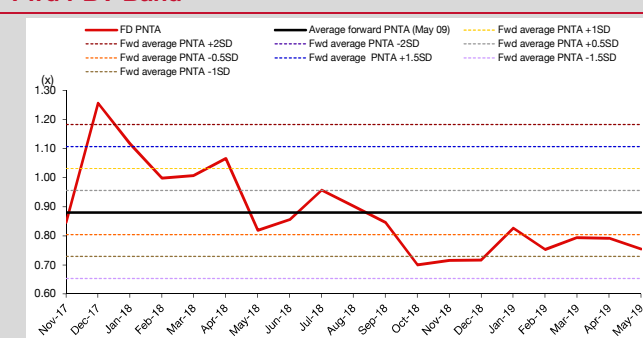
Financial Data & Ratios

	6M				
FY Dec (RM'm)*	FY18A	FPE18A	FY19E	FY20E	FY21E
Growth (%)					
Revenue	-10%	-46%	n.m.	12%	-7%
EBITDA	14%	-93%	n.m.	10%	4%
EBIT	17%	-96%	n.m.	10%	4%
Pre-tax Income	-18%	-105%	n.m.	15%	5%
Net Income	3%	-150%	n.m.	17%	7%
Core Net Income	-28%	-98%	n.m.	17%	7%
Profitability (%)					
EBITDA Margin	27%	3%	22%	21%	24%
EBIT Margin	25%	2%	20%	19%	22%
PBT Margin	31%	-3%	22%	23%	26%
Net Margin	27%	-25%	15%	15%	18%
Core Net Margin	16%	1%	15%	15%	18%
Effective Tax Rate	6%	-716%	23%	22%	22%
ROE	7%	-3%	4%	5%	5%
ROA	4%	-2%	3%	3%	3%
DuPont Analysis					
Net margin (%)	27%	-25%	15%	15%	18%
Assets Turnover (x)	0.2	0.1	0.2	0.2	0.2
Leverage Factor (x)	1.5	1.6	1.6	1.6	1.5
ROE (%)	7%	-3%	4%	5%	5%
Leverage					
Debt/Asset (x)	0.2	0.2	0.2	0.2	0.2
Debt/Equity (x)	0.3	0.4	0.3	0.3	0.3
Net Debt/(Cash)	1,793	2,624	2,730	2,407	1,650
Net Debt/Equity (x)	0.2	0.3	0.3	0.2	0.2
Valuations					
EPS (sen)	9.4	-4.7	5.8	6.8	7.3
Core EPS (sen)	5.4	0.1	5.8	6.8	7.3
NDPS (sen)	5.0	1.0	2.3	2.7	2.9
BV/share (RM)	1.43	1.35	1.39	1.43	1.47
PER (x)	11.3	-22.6	18.2	15.6	14.6
Core PER (x)	19.6	1031.4	18.2	15.6	14.6
Net Div. Yield (%)	4.7	0.9	2.2	2.6	2.7
PBV (x)	0.7	0.8	0.8	0.7	0.7
EV/EBITDA (x)	14.1	225.3	17.1	15.0	13.3

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, 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.	1-Yr. Fwd.	Price (RM)	
PROPERTY DEVELOPERS UNDER COVERAGE																	
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	0.860	2,532.2	Y	10/2019	-4.4%	-18.3%	23.4%	23.9%	15.3	12.4	10.0	0.7	0.6	4.5%	1.2%	1.15	OP
HUA YANG BHD	0.305	107.4	Y	03/2020	-11.0%	-1.2%	153.2%	-11.8%	N.A.	13.1	14.8	0.2	0.2	1.4%	0.0%	0.335	MP
IOI PROPERTIES GROUP BHD	1.29	7,102.9	Y	06/2019	-15.0%	-6.0%	5.3%	0.7%	10.7	10.2	10.1	0.4	0.4	3.8%	3.9%	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	0.905	2,197.1	Y	12/2019	4.5%	7.0%	-2.5%	1.0%	13.4	13.7	13.6	0.6	0.6	5.2%	4.4%	1.05	OP
MALAYSIAN RESOURCES CORP BHD	0.930	4,091.9	Y	12/2019	-37.3%	58.2%	3.8%	46.1%	54.1	52.1	35.7	0.8	0.8	1.6%	1.5%	0.750	UP
SIME DARBY PROPERTY BHD	1.06	7,208.9	Y	12/2019	13.6%	12.5%	7.8%	16.9%	19.6	18.2	15.6	0.8	0.8	4.1%	2.2%	1.10	MP
SP SETIA BHD	2.11	8,508.6	Y	12/2019	7.8%	29.7%	71.3%	50.5%	38.8	22.6	15.0	0.6	0.6	2.5%	3.3%	2.45	OP
SUNSURIA BHD	0.660	587.3	Y	09/2019	-18.5%	7.4%	-14.7%	9.7%	4.4	5.2	4.7	0.6	0.6	12.9%	0.0%	0.760	OP
SUNWAY BHD	1.69	8,252.0	Y	12/2019	-2.7%	12.5%	-8.5%	22.5%	14.1	15.4	12.6	1.0	1.0	6.3%	3.5%	1.60	MP
UEM SUNRISE BHD	0.860	3,902.2	Y	12/2019	37.0%	-14.3%	9.0%	-11.7%	12.0	11.0	12.4	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
Simple Average					3.2%	7.3%	702.8%	35.6%	18.4	100.2	33.5	0.7	0.6	4.5%	2.2%		
*SIMEPROP change of FY-end from 30-Jun to 31-Dec. Our historical numbers are based on FY18A while 1-Yr and 2-Yr Fwd are based on FY19E and FY20E figures																	
CONSENSUS NUMBERS																	
GLOMAC BHD	0.350	273.1	Y	04/2019	-37.9%	22.4%	-81.8%	179.8%	8.7	47.9	17.1	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	2.10	910.0	Y	12/2019	-1.4%	8.4%	2.4%	5.3%	9.9	9.7	9.2	0.8	N.A.	7.2%	4.3%	2.56	BUY
TAMBUN INDAH LAND BHD	0.755	327.3	Y	12/2019	-14.3%	10.6%	-22.4%	10.1%	5.9	7.6	6.9	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	0.335	179.0	Y	06/2019	28.1%	108.6%	-168.0%	66.5%	11.5	N.A.	11.3	0.4	0.5	-4.5%	0.0%	0.343	NEUTRAL

Source: Bloomberg, Kenanga Research

31 May 2019

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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