

28 November 2019

Sime Darby Property Bhd

Above Expectations

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9MFY19 CNP of RM577m came above our and consensus expectations at 104% and 113%, respectively, on lower-than-expected tax rates and weaker-than-expected minority interest contributions. 9MFY19 sales of RM2.25b is also above at 105% and 98% of our and management's targets on on-going promotions and inventory clearing efforts. We increase FY19-20E CNP by 23-20% on higher sales targets and lower tax rate for FY19. Maintain OP but lower TP to RM1.00 (from RM1.10) post switching to P/BV valuations.

Above expectations. 9MFY19 CNP of RM577m came in above our and consensus expectations at 104% and 113%, respectively. Top-line came in within at 79% but the deviation from our estimates was due to lower-than-expected tax rates (7% vs. ours of 18%) which we had expected to normalize in 3Q and 4Q, and weaker-than-expected minority interest contributions. No dividends, as expected. 9MFY19 sales of RM2.3b also exceeded our target of RM2.14b (105%) and management's target of RM2.25b (98%) from ongoing marketing campaigns (i.e. Primetime 8, Pop Raya and Spotlight 8) and sales of completed projects.

Results' highlights. YoY, 9MFY19 top-line was up (38%) driven mainly by the property segment (+48%) on higher recognitions from Denai Alam, Bandar Bukit Raja (BBR), Serenia City, Nilai Utama and City of Elmina. All in, CNP was up by 651% on: (i) higher net interest income (+56%) due to lower financing cost as some items were capitalised, (ii) higher other operating gains mainly from the sale of Darby Park, Singapore and Bukit Selarong land (+1387%), and (iii) lower minority interest contribution which bumped up bottom-line. QoQ, top-line declined marginally by 2% on slightly lower recognitions. However, CNP declined by 67% on: (i) higher marketing (+12%) and administrative expense (+48%), (ii) higher losses from joint venture as marketing efforts intensified as well, and (iii) higher effective tax rate of 62.5% due to certain expenses being not tax deductible.

Outlook. FY19 will ultimately see RM2.0-2.5b worth of launches 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 residential projects located in the GCE, Klang and within the Greater Klang Valley and mostly priced below RM750k/unit. Unbilled sales of RM1.6b provide <1-year visibility.

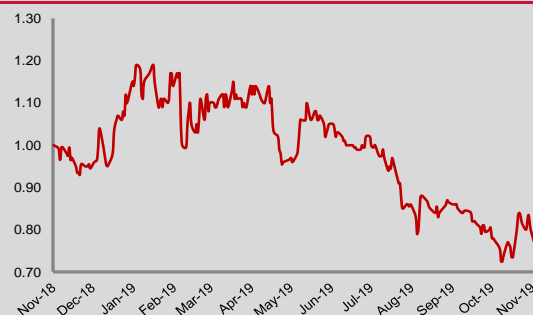
We increase FY19-20E CNP by 23-20% to RM686-656m. We increase our sales targets to RM2.46-2.53b (from RM2.14-2.10b) for FY19-20. Additionally, our earnings are increased on lower effective tax rate in FY19 of 12% (from 18%) due to lower tax rates in 9M19, while FY20 tax rates remain unchanged at 24%.

Maintain OUTPERFORM on a lower TP of RM1.00 (from RM1.10). We are switching to a P/BV valuation method (from RNAV), adopting a more conservative approach to ascertain the trough valuations of property stocks amid the prevailing market down-cycle. Our TP is based on P/BV of 0.75x (@ -0.5SD of its 3-year historical band) on an adjusted BV/share of RM1.36 (after imputing a 40% discount to its latest available inventory level of completed properties). We believe SIMEPROP remains an OP on the back of strong upsides to earnings and healthy sales growth unlike most developers under our coverage while share price has declined 14% YTD. Our TP represents a 69% discount to our FD SoP RNAV of RM3.24.

OUTPERFORM ↔

Price : RM0.815
Target Price : RM1.00 ↓

Share Price Performance



KLCI 1,587.18
YTD KLCI chg -6.1%
YTD stock price chg -18.1%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker SDPR MK EQUITY
Market Cap (RM m) 5,542.7
Shares Outstanding 6,800.8
52-week range (H) 1.21
52-week range (L) 0.71
3-mth avg daily vol: 12,774,870
Free Float 33%
Beta 1.7

Major Shareholders

Skim Amanah Saham Bumiputera 44.0%
Employees Provident Fund Board 10.7%
Kumpulan Wang Persaraan Diperbadankan 5.5%

Summary Earnings Table

FY Dec (RMm)	6MFPE18A	2019E	2020E
Turnover	1269	2909	3229
EBITDA	21	713	758
PBT	-38	776	829
Net Profit (NP)	-319	686	656
Core Net Profit	7	686	656
Consensus(NP)	N.A.	469.7	421.3
Earnings Revision	N.A.	+23%	+20%
Core EPS (sen)	0.1	10.1	9.6
Core EPS growth	-98%	n.m.	-4%
NDPS (sen)	1.0	4.0	3.9
BV/Share (RM)	1.35	1.41	1.47
Core PER	793.0	8.1	8.5
Price/BV (x)	0.6	0.6	0.6
Net Gearing (x)	0.3	0.3	0.2
Net Dvd Yield	1.2%	4.9%	4.7%

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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 (RM m)	3Q19	2Q19	QoQ	1QFP18	YoY	9M19	9MFPE18	YoY
Revenue	850.0	865.9	-2%	480.3	77%	2,291.1	1,657.2	38%
Op costs w/o depn/amort	(770.9)	(663.6)	16%	(431.7)	79%	(1,927.4)	(1,504.7)	28%
Other Op Income	4.0	3.1	29%	5.7	-28%	9.1	21.3	-57%
EBITDA	83.2	205.5	-60%	54.3	53%	372.7	173.8	114%
Depn/Amort	(14.7)	(15.9)	-8%	(11.6)	26%	(44.5)	(36.4)	22%
EBIT	68.5	189.6	-64%	42.7	60%	328.2	137.4	139%
Other operating expenses /gains	(27.5)	(24.1)	14%	0.2	-13522%	152.8	10.3	1387%
Net interest (exp)/inc	23.0	28.8	-20%	14.0	64%	75.3	48.2	56%
Associate + JCE	(22.9)	(14.9)	54%	(4.0)	480%	(34.3)	(26.0)	32%
Pretax profit	41.1	179.5	-77%	53.0	-22%	522.0	169.8	207%
Taxation	(25.7)	12.5	-305%	(17.1)	50%	(40.3)	(13.6)	196%
Minority Interests & disc. ops	9.8	13.3	-26%	(7.1)	-239%	13.9	(47.1)	-129%
Net profit	25.2	205.3	-88%	28.8	-12%	495.6	109.0	354%
Core net profit	77.4	235.4	-67%	27.4	183%	577.2	76.9	651%
EPS (sen)	0.4	3.0		0.4		7.3	1.6	
DPS (sen)	0.0	1.0		0.0		1.0	3.0	
NTA/share (RM)	1.40	1.41		1.42		1.40	1.42	
BV/share (RM)	1.40	1.41		1.42		1.40	1.42	
Net gearing/(cash) (x)	0.27	0.26		0.21		0.27	0.21	
EBIT margin	8.1%	21.9%		8.9%		14.3%	8.3%	
Pretax margin	4.8%	20.7%		11.0%		22.8%	10.2%	
Effective tax rate	62.5%	-7.0%		32.3%		7.7%	8.0%	

Source: Company, Kenanga Research

*YoY-Ytd results are compared against the period of Jan-Sept 2018 which was the Groups 3QFY18, 4QFY18 and 1QFP18. Note that SIMEPROP has since changed its financial year end to Dec, from June

Segment Results

FYE: 31st Dec (RMm)	3Q19	2Q19	QoQ	1QFP18	YoY	9M19	9MFPE18	YoY
Revenue								
Property Development	810.4	822.9	-2%	435.3	86%	2,168.1	1,460.9	48%
Property investment	17.5	18.0	-3%	11.5	53%	53.9	23.8	127%
Leisure & hospitality	22.1	25.0	-11%	23.7	-7%	69.1	72.4	-5%
Concession Arrangement	0.0	0.0	n.a.	9.9	-100%	0.0	100.1	-100%
Other operations	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Total	850.0	865.9	-2%	480.3	77%	2,291.1	1,657.2	38%
PBIT								
Property Development	74.3	187.9	-60%	36.5	104%	335.0	89.2	275%
Property investment	(26.9)	(27.4)	-2%	10.4	-359%	(47.8)	18.3	-361%
Leisure & hospitality	(6.4)	1.6	-510%	(9.8)	-35%	193.8	(21.7)	-994%
Concession Arrangement	0.0	0.0	n.a.	1.9	-100%	0.0	35.7	-100%
Other operations	0.0	0.0	n.a.	0.0	n.a.	0.0	(3.1)	-100%
Total	41.0	162.0	-75%	39.0	5%	481.0	118.4	306%
PBIT Margin			ppt		ppt			ppt
Property Development	9.2%	22.8%	-13.7%	8.4%	0.8%	15.5%	6.1%	9.3%
Property investment	-153.7%	-152.1%	-1.6%	90.7%	-244.4%	-88.6%	77.0%	-165.6%
Leisure & hospitality	-28.9%	6.2%	-35.2%	-41.6%	12.6%	280.6%	-30.0%	310.5%
Concession Arrangement	n.a.	n.a.	n.a.	19.0%	n.a.	n.a.	35.7%	n.a.
Other operations	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Source: Company, 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 Price (RM)	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.		
PROPERTY DEVELOPERS UNDER COVERAGE																		
AMVERTON BHD	1.08	394.3	Y	12/2019	-34.7%	1.3%	-83.6%	30.5%	16.5	100.6	77.1	0.6	0.5	0.5%	0.0%	1.00	UP	
ECO WORLD DEVELOPMENT GROUP	0.660	1,943.3	Y	10/2019	-1.7%	-16.9%	3.6%	21.5%	11.7	11.2	9.3	0.5	0.5	4.6%	1.4%	0.750	OP	
HUA YANG BHD	0.365	128.5	Y	03/2020	-11.0%	-1.2%	153.2%	-11.8%	N.A.	15.6	17.7	0.2	0.2	1.4%	0.0%	0.335	UP	
IOI PROPERTIES GROUP BHD	1.18	6,497.3	Y	06/2020	1.4%	2.6%	-3.0%	8.2%	9.9	10.2	9.4	0.4	0.3	3.5%	4.2%	1.55	OP	
LBS BINA GROUP BHD	0.500	773.8	Y	12/2019	34.1%	1.5%	-18.1%	10.6%	9.2	11.2	10.1	0.5	0.5	5.1%	2.0%	0.520	MP	
MAGNA PRIMA BHD	0.910	302.7	Y	12/2019	-19.6%	13.0%	-162.4%	-105.9%	N.A.	N.A.	N.A.	0.9	0.9	-5.2%	0.0%	0.695	UP	
MAH SING GROUP BHD	0.690	1,675.1	Y	12/2019	-17.5%	6.5%	-36.9%	7.0%	10.2	16.2	15.1	0.5	0.5	3.4%	5.8%	0.750	MP	
MALAYSIAN RESOURCES CORP BHD	0.745	3,287.0	Y	12/2019	-41.9%	70.5%	-95.3%	2791.2%	43.3	925.7	32.0	0.7	0.7	1.2%	0.0%	0.700	UP	
SIME DARBY PROPERTY BHD	0.815	5,542.7	Y	12/2019	129.2%	11.0%	9700.0%	-4.4%	793.0	8.1	8.5	0.6	0.6	7.3%	4.9%	1.00	OP	
SP SETIA BHD	1.32	5,336.1	Y	12/2019	5.5%	24.3%	15.6%	57.6%	25.6	22.1	14.0	0.4	0.4	1.7%	3.2%	1.80	OP	
SUNSURIA BHD	0.620	555.5	Y	09/2019	-2.7%	7.3%	-4.0%	4.8%	4.3	4.1	4.0	0.6	0.5	14.5%	0.0%	0.585	MP	
SUNWAY BHD	1.78	8,736.3	Y	12/2019	-2.7%	12.5%	-8.5%	10.6%	14.8	16.2	14.7	1.0	1.0	6.3%	3.3%	1.60	MP	
UEM SUNRISE BHD	0.720	3,267.0	Y	12/2019	37.0%	-14.3%	5.9%	-18.1%	10.0	9.5	11.5	0.5	0.5	4.8%	2.2%	0.850	OP	
UOA DEVELOPMENT BHD	1.94	3,814.1	Y	12/2019	-0.5%	-6.4%	9.2%	-8.7%	10.7	9.8	10.8	0.8	0.7	7.7%	7.2%	2.15	MP	
Simple Average					5.3%	8.0%	676.8%	199.5%	81.8	89.3	18.0	0.6	0.6	4.1%	2.4%			
*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																		
CONSENSUS NUMBERS																		
GLOMAC BHD	0.370	288.1	Y	04/2020	11.9%	40.2%	22.6%	87.3%	19.6	16.0	8.5	0.3	N.A.	1.7%	2.4%	0.385	N.A	
MATRIX CONCEPTS HOLDINGS BHD	1.89	1,555.1	Y	03/2020	4.4%	18.2%	6.1%	8.5%	7.1	6.7	6.2	1.0	1.0	16.1%	6.7%	2.28	BUY	
PARAMOUNT CORP BHD	1.26	764.4	Y	12/2019	N.A.	N.A.	N.A.	N.A.	8.3	N.A.	N.A.	0.7	N.A.	N.A.	N.A.	N.A.	BUY	
TAMBUN INDAH LAND BHD	0.760	329.4	Y	12/2019	-11.3%	4.0%	-21.2%	-0.1%	5.9	7.5	7.6	0.5	0.5	6.6%	5.3%	0.840	N.A	
TITIJAYA LAND BHD	0.290	366.3	Y	06/2020	8.4%	20.9%	28.3%	21.5%	11.0	8.6	7.1	0.4	0.3	2.9%	43.4%	0.280	N.A	
YONG TAI BHD	0.215	154.6	Y	06/2020	132.7%	8.3%	-3768.9%	-134.2%	N.A.	N.A.	N.A.	0.4	0.3	-1.9%	0.0%	0.230	N.A	

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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