

26 February 2021

Sime Darby Berhad

1HFY21 Within Expectations

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1HFY21 CNP of RM633m (+13% YoY) came in within our/consensus expectation at 53%/56% of full-year estimate. Overall, Motor vehicles sales stayed on a strong recovery path despite minor setback in global supply chain, while Industrials segment inspired a better recovery ahead with higher order-book at RM2.7b (+18%). Upgrade to OP from MP with unchanged SoP-derived TP of RM2.40. The stock offers dividend yield of 6.4%.

1HFY21 within expectations. 1HFY21 CNP of RM633m (+13% YoY) came in within our/consensus expectation at 53%/56% of full-year estimate. Interim dividend of 2.0 sen, and special dividend of 4.0 sen was declared for the quarter, bringing YTD-DPS to 6.0 sen (1HFY20: 2.0 sen), above expectation. The special dividend was derived from the disposal gain of Tesco Malaysia (RM294m).

YoY, 1HFY21 core CNP excluding the one-off Tesco disposal gain of RM294m, grew stronger (+13%) than revenue (+12%) mainly due to: (i) lower finance costs from lower average borrowings (-28%), and (ii) lower effective tax rate at 22.1% (1HFY20: 27.3%) from reversal provision in investments. In term of segments, the strong CNP growth stemmed mainly from stronger Motor Vehicles profit contribution (+82%) where most of the profit came from the Greater China operation (+94%) attributable to strong luxury vehicle sales in China (+27%) coupled with higher profit contribution from the New Sydney Dealerships (+71%), and earnings turnaround for Singapore and Thailand regions. These were however netted off by lower contribution from: (i) Industrials profit contribution (-18%) due to lower equipment deliveries and parts sales in Australia following the fall in coal prices and peak sales period in 4QFY20, and (ii) Logistics profit contribution (-15%) due to decline in bulk cargo throughput mainly on stiff competition. Industrials order-book is at RM2,668m (+18%) which fluctuates based on work-order.

QoQ, 2QFY21 core CNP grew stronger (+33%) than revenue (+3%) mainly due to: (i) lower finance costs from lower average borrowings (-15%), and (ii) lower effective tax rate at 18.9% (1QFY21:28.2%) from reversal provision in investments. In term of segments, the strong CNP growth was mainly due to stronger Motor Vehicles profit contribution (+26%), and Industrials (+30%) with the recovery in order-book (+18%), netted off by lower Logistics profit contribution (-17%) due to decline in bulk cargo throughput mainly on stiff competition.

Outlook. Management noted that most of the group's operations are in countries/territories that are not subject to significant movement restrictions and the recovery in motor vehicle sales has generally been strong. Motor vehicles sales continued to be on strong recovery path despite minor setback in global supply chain that may limit sales as there may not be sufficient inventories for sale for certain new models which had been the case for the drop in units assembled (-35% YoY). Increased infrastructure spending from fiscal stimulus measures by various countries would support equipment sales for the Industrial division. Its Port operation continued to face competition from other ports especially with the Chinese government rationalizing ports operations to create a larger port entity.

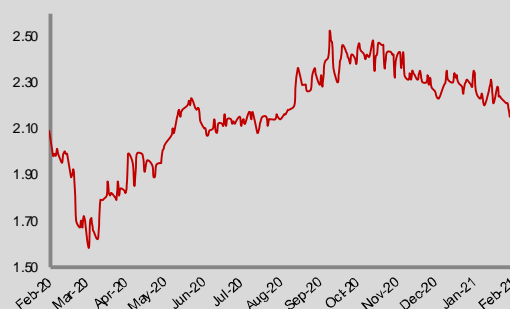
Upgrade to OP from MP with unchanged SoP-derived TP of RM2.40 which implied PER of 14x on FY21E EPS. The stock offers dividend yield of 6.4% as we upgrade FY21E DPS to 14.0 sen (from 10.0 sen).

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

OUTPERFORM ↑

Price: RM2.20
Target Price: RM2.40 ↔

Share Price Performance



KLCI	1,582.74
YTD KLCI chg	-2.8%
YTD stock price chg	-4.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SIME MK EQUITY
Market Cap (RM m)	14,965.6
Shares Outstanding	6,802.5
52-week range (H)	2.58
52-week range (L)	1.55
3-mth avg daily vol:	5,191,160
Free Float	30%
Beta	0.8

Major Shareholders

Amanah Saham Nasional	46.3%
Employees Provident Fund	10.4%
Yayasan Pelaburan Bumiputra	7.0%

Summary Earnings Table

FY June (RM m)	2020A	2021E	2022E
Turnover	36,934	39,129	41,421
EBIT	1,513	1,933	2,021
PBT	1,275	1,716	1,783
NP	820	1,196	1,217
CNP	1,040	1,196	1,217
Consensus (NP)	-	1,127	1,194
Earnings Revision	-	-	-
Core EPS (sen)	15.3	17.6	17.9
Core EPS (%)	9.5	15.0	1.7
NDPS (sen)	10.0	14.0	10.0
BV/Share (RM)	2.27	2.30	2.37
Core PER (x)	14.4	12.5	12.3
Price/BV (x)	1.0	1.0	0.9
Net Gearing (x)	0.0	0.0	0.0
Net Dvd Yield (%)	4.5	6.4	4.5



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Results Highlights

FY June (RM m)	2Q21	1Q21	QoQ %	2Q20	YoY %	6M21	6M20	YoY%
Revenue	11,243	10,877	3%	10,209	10%	22,120	19,685	12%
Op Profit	807	426	89%	432	87%	1,233	815	51%
PBT	824	426	93%	413	100%	1,250	765	63%
Tax	-156	-120	30%	-116	34%	-276	-209	32%
MI	-35	-25	40%	-15	133%	-60	-28	114%
Reported Net Profit	633	281	125%	282	124%	914	528	73%
Core Net Profit	361	272	33%	290	24%	633	560	13%
EPS (sen)	9.3	4.1	127%	4.1	127%	13.4	7.8	72%
Net DPS (sen)	6.0	0.0		2.0		6.0	2.0	
EBIT %	7.2%	3.9%		4.2%		5.6%	4.1%	
PBT%	7.3%	3.9%		4.0%		5.7%	3.9%	
Tax %	18.9%	28.2%		28.1%		22.1%	27.3%	

Source: Company, Kenanga Research

Segmental Breakdown

FY June (RM m)	2Q21	1Q21	QoQ %	2Q20	YoY %	6M21	6M20	YoY%
Segmental Revenue								
- Industrial	3,980	3,726	7%	3,975	0%	7,706	7,971	-3%
- Motor Vehicles	7,202	7,096	1%	6,161	17%	14,298	11,569	24%
- Logistics	44	44	0%	57	-23%	88	119	-26%
- Healthcare	0	0	-	0	-	0	0	-
- Others	17	11	55%	16	6%	28	26	8%
Total Revenue	11,243	10,877	3%	10,209	10%	22,120	19,685	12%
Segmental Core PBT								
- Industrial	257	197	30%	292	-12%	454	556	-18%
- Motor Vehicles	282	223	26%	143	97%	505	277	82%
- Logistics	5	6	-17%	7	-29%	11	13	-15%
- Healthcare	11	14	-21%	17	-35%	25	32	-22%
- Others	-7	-2	250%	-4	75%	-9	-19	-53%
Total Core PBT	548	438	25%	455	20%	986	859	15%
Core Net Profit	361	272	33%	290	24%	633	560	13%

Source: Company, Kenanga Research

Sum-of-Parts Valuation

Segment	Valuation	Note	Fair Value (RM'm)	PER	Net Income(RM'm)
Motors	9x CY21E earnings	Average fwd PER for motor companies in China	6,182.5	9	686.9
Industries	11x CY21E earnings	Caterpillar's Fwd. PER	12,724.3	11	1156.8
Logistics	14x CY21E earnings	Average fwd PER for PORTs in China	495.0	14	35.4
Ramsay Sime Darby Health Care (RSDHC)	22x CY21E earnings	Ramsay Healthcare Ltd (Australia) fwd. PER	2,156.0	22	98.0
Eastern & Oriental Bhd		Market Value @ 11.6% stake	63.8		
Land Assets at Malaysia Vision Valley, Labu		8,800 acres @ Market Value	2,500.0		
Less: Net (Debt) / cash			-537		
Sum-Of-Parts (RM m)			23,585		
Holding Co. Discount (30%)			-7,075		
No of shares (m)			6,800		
TP (RM)			2.40		

Source: Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliance	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.				
STOCKS UNDER COVERAGE																		
BERMAZ AUTO BHD	1.36	1,579.5	Y	04/2021	100.0%	-3.3%	21.5%	38.8%	15.7	12.9	9.3	3.0	2.4	20.8%	4.6%	1.70	OP	
DRB-HICOM BHD	1.81	3,499.2	Y	12/2021	7.0%	20.7%	68.4%	15.2%	N.A.	10.8	9.3	0.4	0.3	3.2%	1.7%	2.50	OP	
MBM RESOURCES BERHAD	3.35	1,309.5	Y	12/2021	8.9%	4.4%	21.0%	5.6%	7.9	6.5	6.2	0.6	0.6	9.2%	3.6%	4.60	OP	
SIME DARBY BERHAD	2.20	14,965.6	Y	06/2021	5.9%	5.9%	15.0%	1.8%	14.4	12.5	12.3	1.0	0.9	7.6%	6.4%	2.40	OP	
TAN CHONG MOTOR HOLDINGS BHD	1.12	730.4	N	12/2020	-28.9%	25.2%	-295.0%	-54.0%	17.3	N.A.	19.2	0.3	0.3	-2.9%	1.3%	1.30	MP	
UMW HOLDINGS BHD	2.88	3,364.7	Y	12/2021	13.3%	12.2%	28.7%	7.3%	14.6	11.4	10.6	0.5	0.4	4.3%	2.1%	4.00	OP	
Simple Average					17.7%	10.8%	-23.4%	2.5%	14.0	10.8	11.2	1.0	0.8	7.0%	3.3%			

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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