

30 November 2021

Sime Darby Berhad

1QFY22 Below Expectations

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1QFY22 CNP of RM236m (-13% YoY, -37% QoQ) came in below our/consensus expectation at 16%/18% of full-year estimate due to lower-than-expected China industrials segment contribution. As such, we cut FY22E/FY23E CNP by 21%/22% with further discount to reflect the tax on foreign-sourced income which is expected to be introduced soon as well as cautious business condition with the emergence of a new COVID-19 strain. Maintain OP with a lower SoP-derived TP of RM2.40 (from RM2.60). The saving grace is a dividend yield of 5.0%.

1QFY22 below expectations. 1QFY22 CNP of RM236m (-13% YoY, -37% QoQ) came in below our/consensus expectation at 16%/18% of full-year estimate due to lower-than-expected China industrials contribution. No dividend was declared for the quarter as expected.

Results' highlights, 1QFY22 core CNP decreased more (-13% YoY, -37% QoQ) than revenue (-2% YoY, -6% QoQ) mainly due to unfavourable sales mix largely from lower Industrial sales and margin in China due to the slowdown in China's construction activities as the previous corresponding period benefited from fiscal stimulus measures. Note that, the higher QoQ drop in CNP was mainly due to recognition of dividend income from BMW Malaysia of RM113m in 4QFY21 versus none this quarter as the dividends are paid in the 4Q of each year. In term of segments, the weak CNP growth was largely due to weaker Industrials profit contribution (-19% YoY, -35% QoQ) due to slower China construction activities and lower spare parts margin from Australasia (despite uptick in Australia mining and construction sectors). Automotive division sales were affected by the lockdown in Malaysia, but its profit was higher as its delivered more higher-margin models. On the other hand, its Logistics segment continued to be affected by the decline in bulk cargo throughput mainly on stiff competition. Its healthcare joint-venture business' higher revenue and operating profit were offset by higher effective tax rate. Industrial segment's order-book is at RM3,305m (+46% YoY, +1% QoQ) which fluctuates based on completion of work-order.

Outlook. Management noted that most of the group's operations are in countries/territories that are not subjected to significant movement restrictions and the recovery in motor vehicle sales has generally been strong despite minor setback in global supply chain that could limit sales as there may not be sufficient inventories for sale for certain new models. Industrials segment is directly impacted by trade tensions with China on the mining sector in Australia which is likely to be manageable due to the robust coal demand from alternative markets in South Korea, Japan and elsewhere, while outlook for construction industry in New Zealand remains positive due to pent-up demand. China's fiscal stimulus to boost infrastructure investment is expected to be rolled out in the near term to counter the emerging economic challenges.

We cut FY22E/FY23E CNP by 21%/22% to take account of slower-than-expected China industrials segment contribution with further cut to reflect the tax on foreign-sourced income which is expected to be introduced soon as well as cautious business condition with the emergence of new variance of COVID-19 on overall business supply chain.

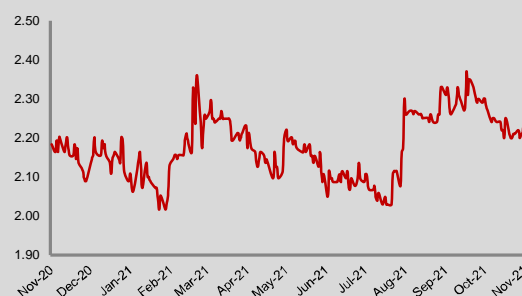
Maintain OUTPERFORM with a lower SoP-derived TP of RM2.40 (from RM2.60) which implied PER of 14.3x on FY22E EPS. The saving grace is a dividend yield of 5.0%.

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	1,510.57
YTD KLCI chg	-7.2%
YTD stock price chg	-2.7%

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)	2.47
52-week range (L)	2.07
3-mth avg daily vol:	5,369,543
Free Float	32%
Beta	0.8

Major Shareholders

Amanah Saham Nasional Bhd	44.8%
Employees Provident Fund	8.4%
KWAP	7.2%

Summary Earnings Table

FY June (RM m)	2021A	2022E	2023E
Turnover	44,483	46,527	48,844
EBIT	2,167	1,876	1,965
PBT	2,105	1,707	1,773
NP	1,425	1,139	1,184
CNP	1,248	1,139	1,184
Consensus (NP)	-	1,298	1,360
Earnings Revision	-	-21%	-22%
Core EPS (sen)	18.4	16.8	17.4
Core EPS (%)	20.0	-8.7	3.9
NDPS (sen)	15.0	11.0	10.0
BV/Share (RM)	2.39	2.44	2.51
Core PER (x)	12.0	13.1	12.6
Price/BV (x)	0.9	0.9	0.9
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Dvd Yield (%)	6.8	5.0	4.5



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Results Highlights

FY June (RM m)	1Q22	4Q21	QoQ %	1Q21	YoY %	1Q22	1Q21	YoY %
Revenue	10,673	11,342	-6%	10,877	-2%	10,673	10,877	-2%
Op Profit	372	494	-25%	426	-13%	372	426	-13%
PBT	374	409	-9%	426	-12%	374	426	-12%
Tax	-107	-178	-40%	-120	-11%	-107	-120	-11%
MI	-31	-20	55%	-25	24%	-31	-25	24%
Reported Net Profit	236	211	12%	281	-16%	236	281	-16%
Core Net Profit	236	375	-37%	272	-13%	236	272	-13%
Reported EPS (sen)	3.5	3.1	13%	4.1	-15%	3.5	4.1	-15%
Net DPS (sen)	0.0	9.0		0.0		0.0	0.0	
EBIT %	3.5%	4.4%		3.9%		3.5%	3.9%	
PBT%	3.5%	3.6%		3.9%		3.5%	3.9%	
Tax %	28.6%	43.5%		28.2%		28.6%	28.2%	

Source: Company, Kenanga Research

Segmental Breakdown

FY June (RM m)	1Q22	4Q21	QoQ %	1Q21	YoY %	1Q22	1Q21	YoY %
Segmental Revenue								
- Industrial	3,759	3,726	1%	3,726	1%	3,759	3,726	1%
- Motor Vehicles	6,862	7,096	-3%	7,096	-3%	6,862	7,096	-3%
- Logistics	38	44	-14%	44	-14%	38	44	-14%
- Healthcare (JV)	0	0	-	0	-	0	0	-
- Others	14	476	-97%	11	27%	14	11	27%
Total Revenue	10,673	11,342	-6%	10,877	-2%	10,673	10,877	-2%
Segmental Core PBT								
- Industrial	160	246	-35%	197	-19%	160	197	-19%
- Motor Vehicles	227	346	-34%	223	2%	227	223	2%
- Logistics	3	12	-75%	6	-50%	3	6	-50%
- Healthcare (JV)	13	-4	-425%	14	-7%	13	14	-7%
- Others	-9	3	-400%	-2	350%	-9	-2	350%
Total Core PBT	394	603	-35%	438	-10%	394	438	-10%
Core Net Profit	236	375	-37%	272	-13%	236	272	-13%

Source: Company, Kenanga Research

Sum-of-Parts Valuation

Segment	Valuation	Note	Fair Value (RM'm)	PER	Net Income(RM'm)
Motors	8x CY22E earnings	Average fwd PER for motor companies in China	9,172.1	8	1146.5
Industries	11x CY22E earnings	Caterpillar's Fwd. PER	7,146.7	11	649.7
Logistics	13x CY22E earnings	Average fwd PER for PORTs in China	345.3	13	26.6
Ramsay Sime Darby Health Care (RSDHC)	20x CY22E earnings	Ramsay Healthcare Ltd (Australia) fwd. PER	1,960.0	20	98.0
Land Assets at Malaysia Vision Valley, Labu		8,040 acres @RM0.368m/acres or 8.46/sq ft	2,958.7		
Less: Net (Debt) / cash			1,686		
Sum-Of-Parts (RM m)			23,269		
Holding Co. Discount (30%)			-6,981		
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	1.53	1,778.1	Y	04/2022	-8.0%	10.6%	-11.5%	12.3%	13.3	15.0	13.3	2.9	2.1	16.1%	3.9%	1.65	MP	
DRB-HICOM BHD	1.54	2,977.2	Y	12/2021	-14.3%	39.1%	-310.8%	-52.6%	N.A.	N.A.	15.4	0.3	0.3	-4.3%	1.3%	1.80	MP	
MBM RESOURCES BERHAD	3.13	1,223.5	Y	12/2021	-7.6%	10.1%	-17.6%	42.8%	7.4	9.0	6.3	0.6	0.6	6.3%	4.8%	3.50	OP	
SIME DARBY BERHAD	2.20	14,965.6	Y	06/2022	5.0%	5.0%	3.9%	3.9%	13.1	12.6	12.2	0.9	0.9	7.2%	5.0%	2.40	OP	
TAN CHONG MOTOR HOLDINGS BHD	1.12	730.4	Y	12/2021	-25.4%	31.9%	-133.5%	-72.8%	N.A.	N.A.	60.2	0.3	0.3	-1.6%	1.3%	1.00	UP	
UMW HOLDINGS BHD	3.08	3,598.3	Y	12/2021	-4.9%	19.5%	-66.9%	278.7%	15.6	47.3	12.5	0.6	0.5	1.1%	1.9%	3.20	MP	
Simple Average					-9.2%	19.4%	-89.4%	35.4%	12.4	21.0	20.0	0.9	0.8	4.1%	3.0%			

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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