

18 August 2022

Sime Darby Berhad

Riding on Economic Recovery

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SIME recorded FY22 CNP of RM1,195m which came in within expectations. A slightly weaker YoY performance was due to Covid-19 movement restrictions in its key markets, particularly China. Moving forward, we expect the economic recovery to drive its motor division (which will also be lifted by exciting new BMW models, i.e. all-new BMW i3 and i5) and heavy equipment unit (which is also buoyed by the booming mining sector in Australasia). Maintain OP and SoP-derived TP of RM2.60. The stock offers dividend yield of >5%.

Within expectations. FY22 CNP of RM1,195m (-4% YoY) met both our forecast and consensus estimates. Similarly, a second interim DPS of 7.5sen was declared for the quarter (4QFY21: 9.0sen), bringing full-year FY22 DPS to 11.5 sen (FY21: 15.0 sen) which was also within our expectation.

Results' highlight, YoY. FY22 core CNP decreased 4% affected by: (i) weaker profit in Industrial segment (-21%) due to lower profit from the China market (-39%) as a result of significant contraction in equipment market volume, lacking funding from government amidst the China zero-Covid policy restriction while other markets were also affected by various Covid-19 restriction, and (ii) Automotive division recording weaker segmental profit (-4%) due to lower dividend income from BMW Malaysia (FY2022 of RM48m vs FY2021 of RM113m) as well as weaker China operation (-17%), both affected by inventory shortages and Covid-19 restrictions. On the other hand, its healthcare joint-venture continued to record higher profit (+200%) in concurrence with re-opening of economic activities.

Riding on economic recovery. The recovery in motor vehicle sales has generally been strong in recent months despite minor setback in global supply chain while the gradual easing of China zero-Covid policy should help to support the overall numbers (China market has back-logged bookings of 1.5 months while other markets' back-logged bookings run up to 3 months). Industrials segment is directly impacted by trade tensions affecting China through the mining sector in Australia, albeit likely to be manageable due to robust coal demand from alternative markets in South Korea, Japan and elsewhere. China's fiscal stimulus to boost infrastructure investment is seen to benefit its Industrial division. Industrial segment's order-book is currently at RM4,419m (+35% YoY) anchored by continued strong demand from the mining sector in Australasia.

Forecasts. Maintained.

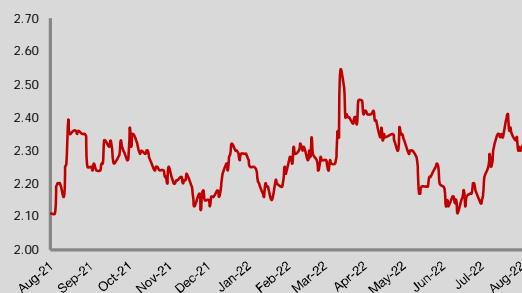
We like the stock for: (i) robust growth for its core business operation riding on economic recovery, and (ii) major brands under its stable ensuring sustainable profit growth (such as BMW, Caterpillar). The stock also offers an attractive dividend yield of >5%. Maintain **OUTPERFORM** with SoP-derived TP of RM2.60. There is no adjustment to our TP based on ESG for which it is given a 3-star rating as appraised by us (see Page 4).

Risks to our call include: (i) governments cutting back on infrastructure spending on austerity drive and/or a slowdown in the mining sector, hurting demand for heavy equipment; (ii) consumers cutting back on discretionary spending (particularly big-ticket items like new cars) amidst high inflation; and (iii) persistent disruptions (including chip shortages) in the global automotive supply chain.

OUTPERFORM ↔

Price: **RM2.32**
Target Price: **RM2.60** ↔

Share Price Performance



KLCI 1,518.16
YTD KLCI chg -3.1%
YTD stock price chg 0.0%

Stock Information

| | |
|----------------------|----------------|
| Shariah Compliant | Yes |
| Bloomberg Ticker | SIME MK EQUITY |
| Market Cap (RM m) | 15,799.0 |
| Shares Outstanding | 6,809.9 |
| 52-week range (H) | 2.54 |
| 52-week range (L) | 2.09 |
| 3-mth avg daily vol: | 6,683,166 |
| Free Float | 26% |
| Beta | 0.8 |

Major Shareholders

| | |
|---------------------------|-------|
| Amanah Saham Nasional Bhd | 49.5% |
| Employees Provident Fund | 9.7% |
| KWAP | 7.7% |

Summary Earnings Table

| FY June (RM m) | 2022A | 2023F | 2024F |
|-------------------|--------------|--------------|--------------|
| Turnover | 42,502 | 43,239 | 47,151 |
| EBIT | 1,750 | 1,826 | 1,981 |
| PBT | 1,732 | 1,706 | 1,874 |
| NP | 1,153 | 1,201 | 1,328 |
| CNP | 1,195 | 1,201 | 1,328 |
| Consensus (NP) | - | 1,192 | 1,272 |
| Earnings Revision | - | - | new |
| Core EPS (sen) | 17.6 | 17.7 | 19.5 |
| Core EPS (%) | -4.2 | 0.5 | 10.6 |
| NDPS (sen) | 11.5 | 12.0 | 14.0 |
| BV/Share (RM) | 2.41 | 2.46 | 2.51 |
| Core PER (x) | 13.2 | 13.1 | 11.9 |
| Price/BV (x) | 1.0 | 0.9 | 0.9 |
| Net Gearing (x) | 0.1 | 0.1 | 0.1 |
| Net Dvd Yield (%) | 5.0 | 5.2 | 6.0 |



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Results Highlights

| FY June (RM m) | 4Q22 | 3Q22 | QoQ | 4Q21 | YoY% | FY22 | FY21 | YoY |
|----------------------------|------------|------------|------------|------------|------------|--------------|--------------|-------------|
| Revenue | 10,851 | 10,572 | 3% | 11,342 | -4% | 42,502 | 44,302 | -4% |
| Op Profit | 534 | 387 | 38% | 494 | 8% | 1,750 | 2,163 | -19% |
| PBT | 519 | 387 | 34% | 409 | 27% | 1,732 | 2,159 | -20% |
| Tax | -138 | -123 | 12% | -178 | -22% | -474 | -573 | -17% |
| MI | -5 | -20 | -75% | -20 | -75% | -86 | -107 | -20% |
| Reported Net Profit | 278 | 244 | 14% | 211 | 32% | 1,103 | 1,425 | -23% |
| Core Net Profit | 379 | 235 | 61% | 375 | 1% | 1,195 | 1,248 | -4% |
| Reported EPS (sen) | 5.5 | 3.6 | 53% | 3.1 | 77% | 17.2 | 21.7 | -21% |
| Net DPS (sen) | 7.5 | - | | 9.0 | | 11.5 | 15.0 | |
| EBIT % | 4.9% | 3.7% | | 4.4% | | 4.1% | 4.9% | |
| PBT% | 4.8% | 3.7% | | 3.6% | | 4.1% | 4.9% | |
| Tax % | 26.6% | 31.8% | | 43.5% | | 27.4% | 26.5% | |

Source: Company, Kenanga Research

Segmental Breakdown

| FY June (RM m) | 4Q22 | 3Q22 | QoQ | 4Q21 | YoY | FY22 | FY21 | YoY |
|---------------------------|---------------|---------------|--------------|---------------|--------------|---------------|---------------|-------------|
| Segmental Revenue | | | | | | | | |
| - Industrial | 3,852 | 3,759 | 2% | 3,726 | 3% | 15,099 | 16,004 | -6% |
| - Motor Vehicles | 6,864 | 6,862 | 0% | 7,096 | -3% | 27,337 | 28,235 | -3% |
| - Others | 135 | -49 | >100% | 520 | -74% | 66 | 63 | 5% |
| Total Revenue | 10,851 | 10,572 | 3% | 11,342 | -4% | 42,502 | 44,302 | -4% |
| Segmental Core PBT | 4Q22 | 3Q22 | QoQ % | 4Q21 | YoY % | FY22 | FY21 | YoY% |
| - Industrial | 280 | 150 | 87% | 246 | 14% | 803 | 911 | -12% |
| - Motor Vehicles | 272 | 237 | 15% | 346 | -21% | 1,020 | 1,062 | -4% |
| - Healthcare (JV) | 8 | 13 | -38% | -4 | -300% | 45 | 15 | 200% |
| - Others | -12 | -17 | -29% | -21 | -43% | -45 | -43 | 5% |
| Total Core PBT | 548 | 383 | 43% | 567 | -3% | 1,823 | 1,945 | -6% |
| Core Net Profit | 379 | 235 | 61% | 375 | 1% | 1,195 | 1,248 | -4% |

Source: Company, Kenanga Research

Sum-of-Parts Valuation

| Segment | Valuation | Note | Fair Value (RM m) | PER | Net Income (RM m) |
|---|--------------------|---|-------------------|-----|-------------------|
| Motors | 10x CY23E earnings | Average Fwd. PER for motor companies in China | 11,432.6 | 10x | 1143.3 |
| Industries | 11x CY23E earnings | Caterpillar's Fwd. PER | 7,282.9 | 11x | 662.1 |
| Ramsay Sime Darby Health Care (RSDHC) | 20x CY23E earnings | Ramsay Healthcare Ltd (Australia) Fwd. PER | 1,960.0 | 20x | 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) | | | 1,359 | | |
| Sum-Of-Parts (RM m) | | | 22,275 | | |
| Holding Co. Discount (20%) | | | -4,455 | | |
| No of shares (m) | | | 6,800 | | |
| TP (RM) | | | 2.60 | | |

Source: Kenanga Research

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Peer Table Comparison

| Name | Rating | Last Price (RM) | Target Price (RM) | Upside (%) | Market Cap (RM'm) | Shariah Compliant | Current FYE | Core EPS (sen) | | Core EPS Growth | | PER (x) - Core Earnings | | PBV (x) | ROE(%) | Net. Div. (sen) | Net Div Yld (%) |
|------------------------------|--------|--------------------|----------------------|---------------|----------------------|----------------------|----------------|----------------|---------------|-----------------|---------------|----------------------------|---------------|---------|--------|-----------------------|-----------------------|
| | | | | | | | | 1-Yr. Fwd. | 2-Yr. Fwd. | 1-Yr. Fwd. | 2-Yr. Fwd. | 1-Yr. Fwd. | 2-Yr. Fwd. | | | | |
| Stocks Under Coverage | | | | | | | | | | | | | | | | | |
| BERMAZ AUTO BHD | OP | 1.82 | 2.30 | 26.37% | 2,113.0 | Y | 04/2023 | 14.1 | 16.1 | 5.1% | 14.4% | 12.9 | 11.3 | 3.0 | 24.4% | 8.5 | 4.7% |
| DRB-HICOM BHD | OP | 1.28 | 1.80 | 40.63% | 2,474.2 | Y | 12/2022 | 10.1 | 13.6 | -7.5% | 35.4% | 12.7 | 9.4 | 0.3 | 2.1% | 2.0 | 1.6% |
| MBM RESOURCES BHD | OP | 3.22 | 4.10 | 27.33% | 1,258.7 | Y | 12/2022 | 50.0 | 58.3 | 16.5% | 16.6% | 6.4 | 5.5 | 0.5 | 8.7% | 20.0 | 6.2% |
| SIME DARBY BHD | OP | 2.32 | 2.60 | 12.07% | 15,778.3 | Y | 06/2022 | 17.7 | 19.5 | 0.5% | 10.6% | 13.1 | 11.9 | 1.0 | 7.4% | 12.0 | 5.2% |
| TAN CHONG MOTOR HOLDINGS BHD | UP | 1.18 | 1.00 | -15.25% | 793.0 | Y | 12/2022 | 1.9 | 2.9 | -31.3% | 54.4% | 63.4 | 41.1 | 0.3 | 0.5% | - | - |
| UMW HOLDINGS BHD | OP | 3.02 | 4.40 | 45.70% | 3,528.3 | Y | 12/2022 | 30.7 | 33.7 | 60.5% | 9.9% | 9.8 | 9.0 | 0.4 | 4.9% | 6.0 | 2.0% |
| Simple Average | | | | | | | | 20.7 | 24.0 | 7.3% | 23.5% | 19.7 | 14.7 | 0.9 | 8.0% | | 3.3% |

Source: Kenanga Research

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Stock ESG Ratings:

| | Criterion | Rating | | | | |
|-----------------|---------------------------------------|--------|---|---|---|--|
| GENERAL | Earnings Sustainability & Quality | ★ | ★ | ★ | | |
| | Corporate Social Responsibility | ★ | ★ | ★ | | |
| | Management/Workforce Diversity | ★ | ★ | ★ | | |
| | Accessibility & Transparency | ★ | ★ | ★ | | |
| | Corruption-Free Pledge | ★ | ★ | ★ | | |
| | Carbon-Neutral Initiatives | ★ | ★ | ★ | | |
| SPECIFIC | Electric Vehicles Initiatives | ★ | ★ | ★ | | |
| | Energy Efficient Vehicles Initiatives | ★ | ★ | ★ | | |
| | Renewable Energy | ★ | ★ | ☆ | | |
| | Occupational Health and Safety | ★ | ★ | ★ | ★ | |
| | Waste Management /Recycling | ★ | ★ | ★ | | |
| OVERALL | | ★ | ★ | ★ | | |

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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Published and printed by:

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