

Sime Darby

Disposing Off More MVV Land

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SIME is disposing off another huge tract of land in Malaysia Vision Valley (MVV), Negeri Sembilan to LEAP market-listed UNIWALL for RM445m cash. The disposal will result in a one-off gain of RM399m. Interest savings from the proceeds will boost FY24F earnings by 2%. The proceeds will also shave SIME's net gearing from 0.23x to 0.22x. We maintain our forecasts pending the completion of the deal. Maintain OUTPERFORM with a SoP-derived TP of RM2.60.

Disposing off Malaysia Vision Valley land for RM445m cash. SIME is selling another tract of land in Malaysian Vision Valley measuring 1,281.8 acres in Labu, Negeri Sembilan to LEAP market-listed Uni Wall APS Holdings Bhd (UNIWALL) via a Negeri Sembilan state-owned company, NS Corporation, for RM445m cash. The land plot was part of an 8,796-acre land parcel (5,372 acres unsold) of which SIMEPROP has been granted by SIME a call option to acquire pursuant to the demerger exercise between SIME, SIMEPLT and SIMEPROP in 2017.

Fair price. The transaction valued the land at about RM13psf. In comparison, SIME recently sold a parcel of MVV land to MATRIX at the same price of RM13psf while other agricultural land parcels in proximity are listed ranging from RM9.5psf to RM14.9psf. The land is currently gazetted as agricultural land with development potential which has been planned to be part of Malaysia Vision Valley 2.0. UNIWALL plans to build a high-tech industry hub called NS International Tech Park focusing mainly on aerospace, food and beverage (F&B), pharmaceutical and cosmetic industries, as well as a new central business district (CBD) for residential, commercial, regional office centres and a medical centre.

Impact on earnings and gearing. SIME will book in a one-off gain of RM399m. The exercise would be earnings accretive - interest savings from the proceeds will boost its FY24F earnings by 2% while the proceeds will also reduce SIME's net gearing from 0.23x to 0.22x. We maintain our forecasts pending the completion of the deal.

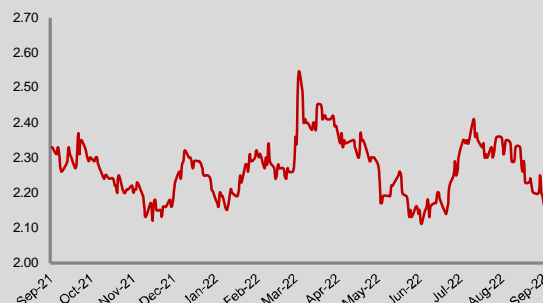
We continue to like SIME for: (i) being a good proxy to the reopening of economies globally given its presence in both the industrial (heavy equipment) and consumer (automobile distribution) space, (ii) its long-standing distributorships with reputable global principals such as BMW and Caterpillar, and (iii) its decent dividend yield of >5%. Maintain **OUTPERFORM** with SoP-derived TP of RM2.60. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

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 : **RM2.16**
Target Price : **RM2.60** ↔

Share Price Performance



KLCI 1,424.98
YTD KLCI chg -9.1%
YTD stock price chg -6.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SIME MK EQUITY
Market Cap (RM m)	14,709.4
Shares outstanding	6,809.9
52-week range (H)	2.54
52-week range (L)	2.09
3-mth avg daily vol:	7,197,870
Free Float	27%
Beta	0.8

Major Shareholders

Amanah Saham Nasional	48.7%
Employees Provident Fund	9.7%
KWAP	7.8%

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)	-	1,212	1,286
Earnings Revision	-	-	-
Core EPS (sen)	17.6	17.7	19.5
Core EPS growth (%)	-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)	12.3	12.2	11.1
Price/BV (x)	0.9	0.9	0.9
Net Gearing (x)	0.1	0.1	0.1
Net Dvd. Yield (%)	5.3	5.6	6.5

26 September 2022

Sum-of-Parts Valuation

Segment	Valuation	Note	Fair Value (RM m)	PER	Net Income (RM m)
Motors	10x CY23F earnings	Average Fwd. PER for motor companies in China	11,432.6	10x	1143.3
Industries	11x CY23F earnings	Caterpillar's Fwd. PER	7,282.9	11x	662.1
Ramsay Sime Darby Health Care (RSDHC)	20x CY23F 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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26 September 2022

Income Statement					Financial Data & Ratios				
FY Jun (RM m)	2021A	2022A	2023F	2024F	FY Jun	2021A	2022A	2023F	2024F
Revenue	44,483	42,502	43,239	47,151	Growth				
EBITDA	1,012	637	741	787	Revenue				
Depreciation	(1,155)	(1,113)	(1,085)	(1,193)	EBITDA	20%	-4%	2%	9%
Operating Profit	2,167	1,750	1,826	1,981	Op. Profit	120%	-37%	16%	6%
Total Financial Costs	(76)	(109)	(120)	(142)	PBT	43%	-19%	4%	8%
Associate	14	91	(0)	35	CNP	65%	-18%	-2%	10%
PBT	2,105	1,732	1,706	1,874	Profitability				
Taxation	(575)	(474)	(537)	(581)	EBITDA Margin	2%	1%	2%	2%
PATAMI	1,425	1,153	1,201	1,328	Op. Margin	5%	4%	4%	4%
Core PATAMI	1,248	1,195	1,201	1,328	PBT Margin	65%	-18%	-2%	10%
					CNP Margin	3%	3%	3%	3%
					Tax Rate	27%	27%	32%	31%
					ROE	9%	7%	7%	8%
					ROA	5%	4%	4%	4%
Balance Sheet									
FY Jun (RM m)	2021A	2022A	2023F	2024F	Leverage				
Fixed Assets	5,070	4,627	4,116	3,554	Debt/Asset (x)	0.1	0.1	0.1	0.1
Intangibles	1,629	1,552	1,552	1,552	Debt/Equity (x)	0.1	0.2	0.2	0.3
Other FA	5,854	5,505	5,505	5,505	Net Cash/(Debt)	(646.0)	1,211.0	1,367.4	1,392.5
Inventories	8,316	9,159	9,318	10,161	N.Debt/Equity(x)	(0.04)	0.07	0.08	0.08
Receivables	4,388	4,685	4,766	5,197	Valuations				
Other CA	725	2,929	2,929	2,929	EPS (sen)	18.4	17.6	17.7	19.5
Cash	2,473	1,772	2,267	3,057	Core EPS (sen)	18.4	17.6	17.7	19.5
Total Assets	28,455	30,229	30,453	31,955	NDPS (sen)	15.00	11.50	12.00	14.00
Payables	5,253	5,494	4,712	5,059	BVPS (RM)	2.39	2.41	2.46	2.51
ST Borrowings	1,454	2,607	3,259	4,073	PER (x)	10.3	12.7	12.2	11.1
Other ST Liability	3,030	3,101	3,101	3,101	Core PER (x)	11.8	12.3	12.2	11.1
LT Borrowings	373	376	376	376	N.Div. Yield	6.9%	5.3%	5.6%	6.5%
Other LT Liability	2,085	2,280	2,280	2,280	P/BV (x)	0.9	0.9	0.9	0.9
Min Interest& Sukuk	377	361	332	303					
Net Assets	15,883	16,010	16,395	16,771					
Share Capital	9,302	9,318	9,318	9,318					
Reserves	6,581	6,692	7,077	7,453					
Equity	15,883	16,010	16,395	16,771					
Cashflow Statement									
FY Jun (RM m)	2021A	2022A	2023F	2024F					
Operating CF	2,784	810	1,353	1,700					
Investing CF	83	(883)	(574)	(631)					
Financing CF	(2,127)	(716)	(284)	(279)					
Change In Cash	740	(789)	495	790					
Free CF	2,867	(73)	779	1,069					

Source: Kenanga Research

26 September 2022

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. Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BERMAZ AUTO BHD	OP	1.89	2.30	21.69%	2,207.0	Y	04/2023	14.1	16.1	5.1%	14.4%	13.4	11.7	3.1	24.4%	9.9	5.2%
DRB-HICOM BHD	MP	1.40	1.55	10.71%	3,151.2	Y	12/2022	4.8	8.3	-55.8%	73.1%	29.1	16.8	0.3	1.0%	2.0	1.4%
MBM RESOURCES BHD	OP	3.25	4.30	32.31%	1,317.3	Y	12/2022	54.5	61.3	26.9%	12.4%	6.0	5.3	0.5	9.5%	22.0	6.8%
SIME DARBY BHD	OP	2.16	2.60	20.37%	14,981.8	Y	06/2023	17.7	19.5	0.5%	10.6%	12.2	11.1	0.9	7.4%	12.0	5.6%
TAN CHONG MOTOR HOLDINGS BHD	UP	1.15	0.850	-26.09%	736.9	Y	12/2022	(3.6)	(1.0)	-232.4%	-128.2%	N.A.	N.A.	0.3	-0.9%	1.5	1.3%
UMW HOLDINGS BHD	OP	3.09	4.65	50.49%	3,738.5	Y	12/2022	34.2	35.7	78.9%	4.5%	9.0	8.7	0.5	5.4%	6.0	1.9%
Simple Average								20.3	23.3	-29.5%	-2.2%	14.0	10.7	0.9	7.8%		3.7%

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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