

Sime Darby Property

Healthy Sales Despite Soft Market

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SIMEPROP's 1QFY23 net profit and sales met expectations. Being bullish on industrial properties, it will capitalise on this segment with more new product launches. Its current record unbilled sales of RM3.6b will underpin its earnings for the next three years. We maintain our forecasts, TP of RM0.55 and OUTPERFORM call.

Within expectations. 1QFY23 core net profit of RM61m came in within expectations at 22% and 19% of our full-year forecast and the full-year consensus estimate, respectively.

1QFY23 revenue surged 43% as labour shortage eased. However, its core net profit only grew 27% due to widened losses at 40%-owned Battersea, partially mitigated by higher interest income from rising cash holdings.

Key takeaways from its 1QFY23 post results briefing are as below:

- 1QFY23 sales of RM685m (backed by RM1.0b of new launches) were within our expectation at 25% of our full-year assumption of RM2.8b but ahead of its internal full-year target of RM2.3b. However, SIMEPROP is not raising its target given macro headwinds particularly sustained high inflation and interest rates. Given market uncertainties, it leaves its option open with regards to up to RM2b worth of new launches for the rest of the year. However, it is bullish on industrial properties and will capitalise on this segment with more new product launches. Its current record unbilled sales of RM3.6b will underpin its earnings for the next three years.
- Its Battersea JV incurred substantially larger losses this quarter, largely due to the sale of two completed large apartment units (from Phase 2) where the selling prices were below book value. Given that the JV Co. has seven remaining such large units, it is currently evaluating if impairments are necessary. On the brighter side, Battersea continues to repatriate cash back to its shareholders and targets to repatriate c.GBP100m for the rest of the year.
- Its LOGOS JV industrial development fund has secured J&T as its first tenant at Metrohub2 whereby J&T will be occupying 21% out of the total 800k sf area (with option to add another 23% of space). It guides that yields are within its 6.5% -7.0% target.

We maintain our earnings forecasts and TP of RM0.55 based on an unchanged 65% discount to RNAV – in line with peers' discount range of 60%-65%. There is no adjustment to TP based on ESG given a 3-star rating as appraised by us (see Page 4).

We continue to like SIMEPROP for: (i) its wide products range enabling it to capitalise on landed residential and industrial products while the high-rise segment is weighed down by oversupply, (ii) its mature township projects that provide recurring sales, and (iii) its seemingly effective digital marketing through social media platforms, in addition to the conventional sales channels. Maintain **OUTPERFORM**

Risks to our call include: (i) a prolonged downturn in the local property market, (ii) rising mortgage rates further hurting affordability, (iii) rising construction cost, and (iv) risks associated with overseas operations.

OUTPERFORM ↔

Price : **RM0.465**
Target Price : **RM0.550** ↔

Share Price Performance



KLCI 1,402.48
YTD KLCI chg -6.2%
YTD stock price chg 3.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SDPR MK Equity
Market Cap (RM m)	3,162.4
Shares Outstanding	6,800.8
52-week range (H)	0.56
52-week range (L)	0.40
3-mth avg daily vol:	3,395,079
Free Float	26%
Beta	1.0

Major Shareholders

Amanah Saham Nasional	51.8%
Employees Provident Fund	8.6%
Kumpulan Wang Persaraan	6.4%

Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Turnover	2742.1	2824.4	2880.9
EBITDA	450.2	412.6	456.6
PBT	458.9	387.6	431.6
Net Profit	316.1	280.5	312.2
Core Net Profit	335.9	280.5	312.2
Consensus	n.a.	317.0	343.7
Earnings Revision	n.a.	0%	0%
Core EPS (sen)	4.94	4.12	4.59
Core EPS growth	140%	-17%	11%
NDPS (sen)	2.0	2.0	2.0
BV/Share (RM)	1.37	1.39	1.42
Core PER (x)	9.7	11.6	10.5
Price/BV (x)	0.35	0.35	0.34
Net Gearing (x)	0.27	0.24	0.21
Net Div Yield (%)	4.2%	4.2%	4.2%



26 May 2023

Result Highlight

	1Q23	4Q22	QoQ	1Q22	YoY	1Q23	1Q22	YoY
FYE Dec (RM m)								
Revenue	685.3	956.9	-28%	480.3	43%	685.3	480.3	43%
COGS	-482.3	-662.3	-27%	-347.1	39%	-482.3	-347.1	39%
GP	203.0	294.6	-31%	133.2	52%	203.0	133.2	52%
Other income	0.0	4.3	-101%	4.8	-101%	0.0	4.8	-101%
Selling and marketing	-29.3	-42.9	-32%	-11.9	146%	-29.3	-11.9	146%
Admin	-60.1	-79.3	-24%	-50.8	18%	-60.1	-50.8	18%
OP	113.5	176.7	-36%	75.3	51%	113.5	75.3	51%
JV	-27.6	8.5	-426%	0.5	-5253%	-27.6	0.5	-5253%
Associate	0.2	0.5	-58%	0.9	-74%	0.2	0.9	-74%
Other (losses)/gains	5.1	-57.3	n.a.	7.0	-27%	5.1	7.0	-27%
EBIT	91.3	128.4	-29%	83.7	9%	91.3	83.7	9%
Finance income	28.1	29.6	-5%	24.2	16%	28.1	24.2	16%
Finance costs	-21.4	-22.2	-4%	-24.7	-13%	-21.4	-24.7	-13%
PBT	97.9	135.7	-28%	83.2	18%	97.9	83.2	18%
Taxation	-36.7	-39.8	-8%	-27.0	36%	-36.7	-27.0	36%
MI	0.5	-7.2	n.a.	4.3	-88%	0.5	4.3	-88%
Net Profit	60.7	103.2	-41%	51.8	17%	60.7	51.8	17%
Exceptional	0.0	-58.4	n.a.	4.2	-100%	0.0	4.2	-100%
Core Net Profit (CNP)	60.7	161.5	-62%	47.7	27%	60.7	47.7	27%
DPS	0.0	1.0		0.0		0.0	0.0	
Net Gearing	0.20	0.22		0.31		0.20	0.31	
GP margin	30%	31%		28%		30%	28%	
OP margin	17%	18%		16%		17%	16%	
EBIT margin	13%	13%		17%		13%	17%	
PBT margin	14%	14%		17%		14%	17%	
Net Profit margins	9%	11%		11%		9%	11%	
CNP margin	9%	17%		10%		9%	10%	
Effective tax	-38%	-29%		-32%		-38%	-32%	

Source: Company, Kenanga Research

Segmental Highlights

	1Q23	4Q22	QoQ	1Q22	YoY	1Q23	1Q22	YoY
Revenue								
Property Development	636.8	906.4	-30%	435.7	46%	636.8	435.7	46%
Investment and Asset Management	26.2	28.6	-8%	25.2	4%	26.2	25.2	4%
Leisure	22.3	21.9	2%	19.3	15%	22.3	19.3	15%
Total	685.3	956.9	-28%	480.3	43%	685.3	480.3	43%
Operating Profit								
Property Development	107.1	164.5	-35%	66.8	60%	107.1	66.8	60%
Investment and Asset Management	5.5	9.0	-39%	9.3	-41%	5.5	9.3	-41%
Leisure	1.7	0.5	232%	-0.8	n.a.	1.7	-0.8	n.a.
Elimination	-0.8	2.7	-130%	0.0	n.a.	-0.8	0.0	n.a.
Total	113.5	176.7	-36%	75.3	51%	113.5	75.3	51%
EBIT								
Property Development	96.3	183.5	-48%	65.9	46%	96.3	65.9	46%
Investment and Asset Management	-3.0	-48.8	-94%	9.5	-131%	-3.0	9.5	-131%
Leisure	1.7	0.5	230%	8.2	-79%	1.7	8.2	-79%
Elimination	-3.7	-6.8	-46%	0.0	n.a.	-3.7	0.0	n.a.
Total	91.3	128.4	-29%	83.7	9%	91.3	83.7	9%
EBIT Margins								
Property Development	15%	20%		15%		15%	15%	
Construction	-11%	-170%		38%		-11%	38%	
Others	8%	2%		43%		8%	43%	
Total	13%	13%		17%		13%	17%	

Source: Company, Kenanga Research

26 May 2023

SIMEPROP's RNAV			
Project	Remaining Land Bank (acres)	Outstanding GDV (RM m)	NPV of profits (effective) (RM m)
Guthrie Corridor	4,221	36,300	594
Klang	1,787	15,100	247
Negeri Sembilan	3,403	11,800	193
Serenia City	967	7,400	314
Other Klang Valley	346	23,600	1,001
Johor	2,230	9,700	411
Total	12,954	103,900	1,033
Unbilled Sales (as of FY22)		3,600	240
Shareholders Fund (FY21)			9,241.5
Total RNAV (RM m)			10,437.6
Number of shares (m)			6,801
RNAV/share (RM)			1.53
Discount to RNAV			65%
TP (RM)			0.55
BV/share (1 yr Fwd)			1.36
EPS (1yr Fwd)			0.03
ROE			2.55%
Implied PBV (x)			0.40

Source: Company, Kenanga Research

26 May 2023

Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core Earnings 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.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
ECO WORLD DEVELOPMENT GROUP	OP	0.740	0.830	12.16%	2,178.8	Y	10/2023	8.3	8.4	2.1%	1.5%	9.3	8.2	0.5	5.0%	5.0	6.8%
IOI PROPERTIES GROUP BHD	OP	1.10	1.60	45.45%	6,056.8	N	06/2023	13.5	14.3	4.2%	5.9%	8.1	7.7	0.3	4.0%	3.0	2.7%
MAH SING GROUP BHD	OP	0.580	0.700	20.69%	1,408.1	Y	12/2023	6.6	7.0	1.9%	6.9%	8.8	8.3	0.4	4.6%	4.0	6.9%
MALAYSIAN RESOURCES CORP BHD	MP	0.305	0.340	11.48%	1,362.6	Y	12/2023	0.7	1.3	-32.7%	84.1%	43.0	23.1	0.3	0.7%	1.0	3.3%
SIME DARBY PROPERTY BHD	OP	0.465	0.550	18.28%	3,162.4	Y	12/2023	4.1	4.6	-16.5%	11.3%	11.3	10.1	0.3	3.0%	2.0	2.8%
SP SETIA BHD	UP	0.525	0.380	-27.62%	2,142.1	Y	12/2023	2.9	2.0	15.5%	-31.9%	18.1	26.3	0.2	1.8%	1.5	7.2%
UOA DEVELOPMENT BHD	MP	1.74	1.75	0.57%	4,189.0	Y	12/2023	10.6	11.7	-2.7%	10.2%	12.4	11.6	0.7	4.5%	10.0	7.5%
Simple Average					28,179.4					-1.2%	5.6%	15.7	14.9	0.4	3.7%		4.9%

Source: Kenanga Research

26 May 2023

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Corporate Social Responsibility	★	★	★	★	
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★	★	☆	
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★		
SPECIFIC	Digital Transformation	★	★	★	☆	
	Adoption of Green Financing	★	★	★	★	
	Waste Management	★	★	★		
	Flora and Fauna Preservation	★	★	★		
	Green Building Planning	★	★	★	★	
	Supply Chain Auditing	★	★	★		
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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