

24 May 2024

Sime Darby

Solid Fundamentals, but Priced In

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SIME's 9MFY24 results met our expectation but disappointed the market. Its 9MFY24 core net profit jumped 38% YoY driven by its industrial and automotive segments and consolidation of UMW's earnings. We maintain our forecasts, TP of RM2.80 but downgrade our call to MARKET PERFORM from OUTPERFORM after the recent run-up in its share price.

Its 9MFY24 core net profit (excluding one-offs at RM276m) met our expectation at 75% of full-year forecast, but disappointed the market at only 65% of the full-year consensus estimate. No dividend was declared as SIME typically distributes half-yearly dividends.

YoY. SIME's 9MFY24 revenue rose 38% driven by strong industrials (+29%) and automotive (+20%) sales and maiden top-line contribution of RM5,287m (1Q and 17 days) from UMW. There was pent-up demand for maintenance works (due to supply-chain disruptions) while prices for parts were higher (translating to better margins) in Australasia. Also helping, were robust contributions from the newly-acquired Salmon Australia, Cavpower CAT dealership, and Onsite rental group. Meanwhile, its automotive division sold 107,187 units (+27%) across all markets as the global economy normalised. In terms of geographical regions, Malaysia was buoyed by strong order backlogs on new models, while in other markets such as Singapore, Thailand, China and Australasia, sales were driven up by electric vehicles (EV). Additionally, under UMW holdings, for CY23, UMW Toyota & Lexus sold 108k units (+7%), while Perodua sold 330k units (+17%), while in the 1QCY24, UMW Toyota & Lexus sold 23.4k units (-7%), while Perodua sold 85.9k units (+9%). Correspondingly, its 9MFY24 core net profit rose 36%.

QoQ. SIME's 3QFY24 revenue rose 21% buoyed by strong performance from industrials (+4%) and the first full-quarter contribution of RM4,342m (+359% vs 17 days in 2QFY24) from UMW, partially offset by weak automotive sales (-4%) due to stiff competition from local EV players. Its core net profit rose by a sharper 41% largely due to a lower effective tax rate.

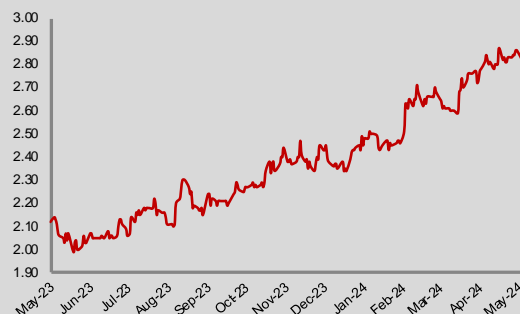
The key takeaways from its results briefing are as follows:

- SIME reiterated its guidance for mid-single-digit margins for the industrial division. SIME holds the view that coal prices will remain stable, driven by strong demand on economies reopening (healthy order book of RM4.3b). Additionally, metals used in the production of batteries for electric vehicles such as lithium, cobalt, nickel, graphite, manganese, copper and aluminium, could be poised for an extended up-cycle. This should drive after-sales and products support which fetch higher margins compared to equipment sales. We keep our industrial margin assumption at 7% for both FY24 and FY25.
- SIME shared that heavy price discounting in the automotive market in China will not go away anytime soon (China region fell into a pre-tax loss of RM18m vs pre-tax profit of RM87m in 9MFY23) especially as new local electric vehicle brands flood the market with models with low-entry price points. SIME continues to lobby to its BMW principal in China for better distribution margins. It is looking to roll out higher-margin all-new models of BMW i5 M60 (Australia), XPeng G6 (Hong Kong/Macau), Mini Cooper MINI Electric (China) and Volvo EX30 (Malaysia) to defend its margins.

MARKET PERFORM ↓

Price: RM2.89
Target Price: RM2.80 ↔

Share Price Performance



KLCI	1,629.18
YTD KLCI chg	12.0%
YTD stock price chg	23.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SIME MK EQUITY
Market Cap (RM m)	19,697.1
Shares Outstanding	6,815.6
52-week range (H)	2.91
52-week range (L)	1.98
3-mth avg. daily vol:	14,693,030
Free Float	32%
Beta	0.9

Major Shareholders

Amanah Saham Nasional Bhd	39.9%
Employees Provident Fund	14.3%
KWAP	7.5%

Summary Earnings Table

FY June (RM m)	2023A	2024F	2025F
Revenue	48,288	54,574	69,331
EBIT	2,020	2,048	2,143
PBT	1,878	1,813	1,717
Net Profit	1,340	1,205	1,315
Core Net Profit	1,154	1,205	1,315
Consensus (NP)	-	1,382	1,531
Earnings Revision	-	-	-
Core EPS (sen)	17.0	17.7	19.3
Core EPS (%)	-3.4	4.4	9.1
NDPS (sen)	13.0	12.0	12.0
BV/Share (RM)	2.41	2.47	2.53
Core PER (x)	17.0	16.3	14.9
Price/BV (x)	1.2	1.2	1.1
Net Gearing (x)	0.1	0.3	0.3
Net Dvd. Yield (%)	4.5	4.5	4.0

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3. SIME considers UMW as its third core business as it offers diversification with its presence in the mid-market segment (i.e. Toyota) and the affordable segment (i.e. Perodua), from SIME's predominantly premium offerings (i.e. BMW). UMW Toyota's CY24 unit sales target is 95k units (-12%) with backlog orders of over 20k units, while Perodua's CY24 unit sales target is 330k units (+0%) with backlog orders of over 100k units.

Forecasts. Maintained.

Valuations. We also maintain our SoP-derived TP of RM2.80 (see Page 3). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

Investment case. We like SIME for: (i) the robust growth in its businesses, post economies reopening, (ii) the strong brands under its stable such as BMW, Caterpillar, Toyota and Perodua, and (iii) its attractive dividend yield of >4%. However, the upside to its share price is limited after the recent run-up in its share price. Downgrade to **MARKET PERFORM** from **OUTPERFORM**.

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.

Results Highlights

FY June (RM m)	3Q24	2Q24	QoQ	3Q23	YoY	9MFY24	9MFY23	YoY
Revenue	18,835	15,548	21%	11,528	63%	48,363	35,002	38%
Op Profit	643	546	18%	397	62%	1,745	1,128	55%
Net Inc/Net (Expenses)	-157	-138	14%	-57	175%	-397	-159	150%
Share of Assc. and JVs' results	116	32	263%	8	1350%	158	37	327%
EI [^]	0	12		0		276	12	
PBT	602	452	33%	348	73%	1,782	1,018	75%
Tax	-151	-140	8%	-108	40%	-445	-308	44%
MI	-85	-48	77%	-13	554%	-142	-40	255%
Reported Net Profit	349	260	34%	227	54%	1,174	670	75%
Core Net Profit	349	248	41%	227	54%	898	658	36%
Reported EPS (sen)	5.1	3.8	34%	3.5	46%	17.5	10.1	73%
Net DPS (sen)	-	3.0		-		3.0	3.0	
EBIT %	3.4%	3.5%		3.4%		3.6%	3.2%	
PBT%	3.2%	2.9%		3.0%		3.7%	2.9%	
Tax %	25.1%	31.0%		31.0%		25.0%	30.3%	

Source: Company, Kenanga Research

[^] disposal gain on Malaysia Vision Valley land at RM276m.

Note: Under discontinued operation, there was a disposal gain on disposal of Ramsay Sime Darby Health at RM2b.

Segmental Breakdown

FY June (RM m)	3Q24	2Q24	QoQ	3Q23	YoY %	9MFY24	9MFY23	YoY
Segmental Revenue								
- Industrial	5,224	5,003	4%	3,671	42%	14,968	11,617	29%
- Motor Vehicles	9,222	9,582	-4%	7,838	18%	28,025	23,338	20%
- UMW Holdings	4,342	945	359%	0	N/A	5,287	0	N/A
- Others	23	18	28%	19	21%	59	47	26%
Total Revenue	18,811	15,548	21%	11,528	63%	48,339	35,002	38%
Segmental Core PBT								
- Industrial	359	351	2%	236	52%	1,068	676	58%
- Motor Vehicles	180	192	-6%	170	6%	575	497	16%
- UMW Holdings	262	46	470%	0	N/A	308	0	N/A!
- Others	-42	-11	282%	-8	425%	-76	-15	407%
Total Core PBT	759	578	31%	398	91%	1,875	1,158	62%
Core Net Profit	349	248	41%	227	54%	898	658	36%

Source: Company, Kenanga Research

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Sum-of-Parts Valuation		
Segment	Valuation (RM m)	Basis
Motors (excluding UMW)	5,498	6x PER
Industries	10,125	10x PER
UMW Holdings Bhd	5,842	13x PER
Land Assets at Malaysia Vision Valley, Labu	2,959	8,040 acres @RM0.368m/acres or RM8.46/sq ft
Subtotal	24,421	
Net cash / (debt)	-5,292	
Total	19,129	
No. of shares (m)	6,800	
TP (RM)	2.80	

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.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BERMAZ AUTO BHD	MP	2.44	2.30	-5.7%	2,832.8	Y	04/2024	26.1	22.7	-0.3%	-13.0%	9.4	10.8	3.4	37.9%	20.1	8.2%
DRB-HICOM BHD	MP	1.42	1.40	-1.4%	2,744.9	Y	12/2024	15.9	18.6	14.2%	17.0%	8.9	7.6	0.2	3.1%	2.0	1.4%
HIL INDUSTRIES BHD	MP	1.20	0.940	-21.7%	398.3	Y	12/2024	13.6	14.3	11.9%	4.6%	8.8	8.4	0.8	9.7%	2.0	1.7%
HONG LEONG INDUSTRIES BHD	OP	11.58	12.60	8.8%	3,797.1	Y	06/2024	98.3	105.3	10.9%	7.2%	11.8	11.0	1.9	16.0%	107.0	9.2%
MBM RESOURCES BHD	OP	5.00	5.80	16.0%	1,954.5	Y	12/2024	72.5	73.3	-7.2%	1.1%	6.9	6.8	0.9	12.9%	40.0	8.0%
SIME DARBY BHD	MP	2.89	2.80	-3.1%	19,654.9	Y	06/2024	17.7	19.3	4.4%	9.1%	16.3	14.9	1.2	7.4%	12.0	4.2%
TAN CHONG MOTOR HOLDINGS BHD	UP	0.850	0.720	-15.3%	571.2	Y	12/2024	(16.8)	(16.2)	-187.2%	-196.8%	N.A.	N.A.	0.2	-4.2%	1.0	1.2%
SECTOR AGGREGATE					31,953.7					5.3%	6.6%	13.6	12.7	0.9	6.6%		4.8%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Community Investment	★	★	★	★	
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★		
SPECIFIC	Electric & Hybrid Vehicles Availability	★	★	★		
	Supply Chain Management	★	★	★	★	
	Energy Efficiency	★	★	★		
	Effluent & Water Management	★	★	★	★	
	Training & Education	★	★	★	★	
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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