

23 May 2024

Sime Darby Property

Shifting to a Higher Gear

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SIMEPROP's 1QFY24 results beat expectations. Its 1QFY24 core net profit more than doubled, driven by strong sales of residential and industrial products. We raise our FY24-25F earnings forecasts by 5% and 2%, respectively, lift our TP by 29% to RM1.08 (from RM0.84) and upgrade our call to MARKET PERFORM from UNDERPERFORM.

SIMEPROP's 1QFY24 core net profit of RM123.6m beat expectations, coming in at 31% and 29% of our full-year forecast and the full-year consensus estimates, respectively. The variance against our forecast came largely from stronger-than-anticipated sales of both residential and industrial products.

YoY, its 1QFY24 revenue rose 43%, primarily driven by robust sales in both industrial and residential sectors, coupled with enhanced on-site progress development. Its core net profit more than doubled on improved operating scale, particularly, in administrative and marketing.

QoQ, its 1QFY24 revenue declined 3% from a high base in the preceding quarter (due to a lumpy land sale). However, its core net profit grew 2% on a better product mix which more than offset sustained losses from its joint ventures.

Outlook. SIMEPROP's unbilled sales stand at RM3.6b and that should support its earnings visibility for the next three years. On signs of demand picking up, it is putting into the market luxury condominium project Ophera at KLGCC Resort and Elmina Lakeside Mall. Meanwhile, the outlook for its bread-and-butter residential and industrial products remains positive.

Forecast. We raise our FY24-25F earnings forecasts by 5% and 2%, respectively.

Valuations. Correspondingly, we lift our TP by 29% to RM1.08 (from RM0.84) as we lower our discount to RNAV to 55% (from 60%) to reflect the improved realisability of its GDV and recalibrate our NPV estimates. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

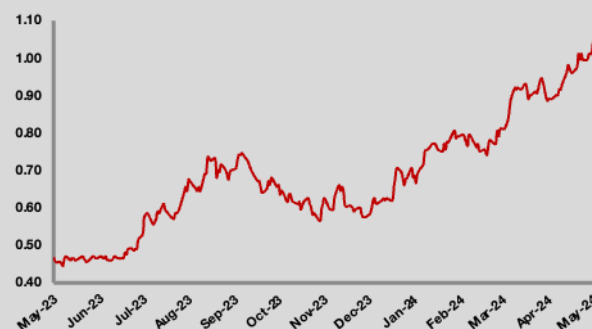
Investment case. We like SIMEPROP for: (i) its diversified portfolio in both landed residential and industrial products which reduce its dependency on residential high-rise products, (ii) strong foothold in matured townships, (iii) proactive initiatives to boost recurring income via strategic investments. That said, its valuations may have been fairly priced in reflection of stronger sentiment for property counters. Upgrade to **MARKET PERFORM** from **UNDERPERFORM**.

Risks to our call include: (i) elevated mortgage rates eroding affordability, (ii) consumers delaying purchases of big-ticket items including properties on weak spending confidence amidst sustained high inflation, (iii) construction cost inflation, and (iv) risks associated with overseas operations including forex.

MARKET PERFORM ↑

Price : **RM1.07**
Target Price : **RM1.08** ↑

Share Price Performance



KLCI	1,622.09
YTD KLCI chg	11.5%
YTD stock price chg	71.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SDPR MK Equity
Market Cap (RM m)	7,276.9
Shares Outstanding	6,800.8
52-week range (H)	1.07
52-week range (L)	0.45
3-mth avg. daily vol.	25,650,810
Free Float	26%
Beta	1.4

Major Shareholders

Amanah Saham Nasional	50.2%
Kumpulan Wang Persaraan	6.6%
Yayasan Pelaburan Bumiputra	5.5%

Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Turnover	3,436.9	3,774.8	3,856.9
Operating Profit	606.4	656.3	672.6
Profit Before Tax	610.3	621.6	645.4
Net Profit	407.9	426.4	442.8
Core Net Profit	398.2	426.4	442.8
Consensus (NP)	-	426.2	452.8
Earnings Revision	-	+5%	+2%
Core EPS (sen)	5.9	6.3	6.5
Core EPS Growth (%)	44.5	7.1	3.8
NDPS (sen)	2.5	3.0	3.5
BVPS (RM)	1.5	1.5	1.5
PER (x)	18.3	17.1	16.4
PBV (x)	0.7	0.7	0.7
Net Gearing (x)	0.3	0.3	0.2
Net Div. Yield (%)	2.3	2.8	3.3

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Results Highlight

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY24	FY23	Chg	FY23	Chg	FY24	FY23	Chg
Revenue	978.7	1,012.7	-3.4%	685.3	42.8%	978.7	685.3	42.8%
Cost of Sales	-675.1	-736.5	-8.3%	-482.3	40.0%	-675.1	-482.3	40.0%
Gross Profit	303.6	276.2	9.9%	203.0	49.6%	303.6	203.0	49.6%
Selling and marketing expenses	-38.1	-45.7	-16.7%	-29.3	29.8%	-38.1	-29.3	29.8%
Administrative Expenses	-70.0	-77.3	-9.4%	-60.1	16.6%	-70.0	-60.1	16.6%
Other income/(expenses)	1.1	-30.7	-103.5%	0.0	-2508.9%	1.1	0.0	-2508.9%
Operating Profit	196.6	122.5	60.5%	113.5	73.1%	196.6	113.5	73.1%
JV Contributions	-23.6	14.2	-266.2%	-27.6	-14.4%	-23.6	-27.6	-14.4%
Associate Contributions	0.2	0.4	-49.3%	0.2	-2.6%	0.2	0.2	-2.6%
Other Gains	-0.4	3.9	-110.3%	5.1	-107.8%	-0.4	5.1	-107.8%
Net Interest Income/(Expense)	8.0	18.8	-57.3%	6.6	21.0%	8.0	6.6	21.0%
Extraordinary items	0.0	9.7	-100.0%	0.0	N.M.	0.0	0.0	N.M.
Profit Before Tax	180.8	169.6	6.6%	97.9	84.6%	180.8	97.9	84.6%
Taxation	-53.5	-36.3	47.1%	-36.7	45.5%	-53.5	-36.7	45.5%
Minority Interest	-3.8	-2.0	91.7%	-0.5	618.5%	-3.8	-0.5	618.5%
Net Profit	123.6	131.3	-5.8%	60.7	103.7%	123.6	60.7	103.7%
Adjustments	0.0	-9.7	-100.0%	0.0	N.M.	0.0	0.0	N.M.
Core Net Profit	123.6	121.6	1.7%	60.7	103.7%	123.6	60.7	103.7%
Gross Profit Margin	31.0%	27.3%		29.6%		31.0%	29.6%	
Operating Margin	20.1%	12.1%		16.6%		20.1%	16.6%	
Pretax Margin	18.5%	16.7%		14.3%		18.5%	14.3%	
Net Margin	12.6%	12.0%		8.9%		12.6%	8.9%	
Effective Tax Rate	-29.6%	-21.4%		-37.5%		-29.6%	-37.5%	

Source: Company, Kenanga Research

Results Highlight

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY24	FY23	Chg	FY23	Chg	FY24	FY23	Chg
Revenue								
Property Development	925.6	956.4	-3.2%	636.8	45.4%	925.6	636.8	45.4%
Investment and Asset Management	29.1	29.2	-0.6%	26.2	10.7%	29.1	26.2	10.7%
Leisure	24.0	27.1	-11.4%	22.3	7.6%	24.0	22.3	7.6%
Total Revenue	978.7	1,012.7	-3.4%	685.3	42.8%	978.7	685.3	42.8%
Operating Profit								
Property Development	190.6	144.0	32.4%	107.1	77.9%	190.6	107.1	77.9%
Investment and Asset Management	7.7	-23.6	-132.5%	5.5	39.4%	7.7	5.5	39.4%
Leisure	-1.7	0.9	-299.4%	1.7	-202.4%	-1.7	1.7	-202.4%
Eliminations	0.0	1.2	-100.0%	-0.8	-100.0%	0.0	-0.8	-100.0%
Total Operating Profit	196.6	122.5	60.5%	113.5	73.1%	196.6	113.5	73.1%
Operating Margin								
Property Development	20.6%	15.1%		16.8%		20.6%	16.8%	
Investment and Asset Management	26.4%	-80.8%		21.0%		26.4%	21.0%	
Leisure	-7.2%	3.2%		7.6%		-7.2%	7.6%	
Total Operating Margin	20.1%	12.1%		16.6%		20.1%	16.6%	

Source: Company, Kenanga Research

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SIMEPROP's RNAV			
Project	Remaining Land Bank (acres)	Outstanding GDV (RM b)	Effective NPV of profit (RM m)
Guthrie Corridor	4,020.0	42.10	1,912.4
Klang	2,336.0	24.80	1,219.1
Negeri Sembilan	3,865.0	13.70	730.9
Serenia City	838.0	7.20	418.1
Other Klang Valley	343.0	21.60	1,254.3
Johor	2,184.0	6.40	388.2
Total	13,586.0	115.80	5,922.9
Unbilled Sales (as of FY23)		3,600.0	268.2
Shareholders Fund (FY23)			10,057.1
Total RNAV (RM m)			16,248.3
Number of shares (m)			6,800.8
RNAV/share (RM)			2.39
Discount to RNAV			55%
TP (RM)			1.08

Source: Company, 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.	1-Yr. Fwd.	1-Yr. Fwd.		
PROPERTY DEVELOPERS																					
ECO WORLD DEVELOPMENT GROUP	UP	1.56	1.27	-18.6%	4,593.2	Y	10/2024	9.7	10.0	5.2%	3.6%	16.1	15.5	0.9	5.9%	6.0	3.8%				
IOI PROPERTIES GROUP BHD	UP	2.50	1.75	-30.0%	13,765.4	N	06/2024	14.1	14.4	23.5%	2.0%	17.7	17.3	0.6	3.4%	4.5	1.8%				
MAH SING GROUP BHD	OP	1.44	1.60	11.1%	3,686.6	Y	12/2024	10.2	11.0	14.6%	8.5%	14.2	13.1	0.9	6.5%	4.0	2.8%				
MKH BERHAD	OP	1.37	2.11	54.0%	791.0	Y	09/2024	18.0	20.1	41.8%	11.2%	7.6	6.8	0.4	5.3%	6.0	4.4%				
S P SETIA BHD	UP	1.53	0.800	-47.7%	7,249.8	Y	12/2024	5.9	6.1	16.0%	2.7%	25.9	25.3	0.4	1.9%	5.5	3.6%				
SIME DARBY PROPERTY BHD	MP	1.07	1.08	0.9%	7,276.9	Y	12/2024	6.3	6.5	7.1%	3.8%	17.1	16.4	0.7	4.1%	3.0	2.8%				
SUNWAY BHD	UP	3.66	2.47	-32.5%	20,606.7	Y	12/2024	14.6	14.7	26.0%	1.2%	25.1	24.9	1.4	6.0%	6.0	1.6%				
UOA DEVELOPMENT BHD	MP	2.00	1.79	-10.5%	4,980.8	Y	12/2024	10.6	10.4	19.3%	-2.1%	18.8	19.3	0.8	4.5%	6.5	3.3%				
SECTOR AGGREGATE					62,950.5					18.8%	2.7%	19.6	19.1	0.8	4.7%		3.0%				

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	Product Quality & Safety	★	★	★		
	Effluent/Water Management	★	★	★	☆	
	Waste Management	★	★	★		
	Biodiversity & Conservation	★	★	★	☆	
	Green Building	★	★	★		
	Supply Chain Management	★	★	★		
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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