Sime Darby

Industrials-Focus Strategy

OUTPERFORM ↑

Price :	**RM2.32**
Target Price :	**RM2.70 ↑**

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SIME recently organised a corporate day sharing that it is emphasising more on Industrials' longer-term resilient demand over short-term headwinds, especially for Australia highest grade commodities (iron ore, coal & copper), and data centres (critical minerals & genset). No change to our forecasts (near-term headwinds), but we applied a higher PER of 13x from 8x to SIME's industrials segment (at 50% discount to Caterpillar US' FY27F PER of 26x, also more conservative than Westrac via SGH at 19x, and Komatsu Japan at 18x) reflecting significant investments by its clients for the next five years (i.e. BHP, RioTinto, and recent US-Australia investment). Thus, we raised our SoP-derived TP by 42% to RM2.70 from RM1.90, and our call to OUTPERFORM from MARKET PERFORM. It also offers an attractive dividend yield of 6%.

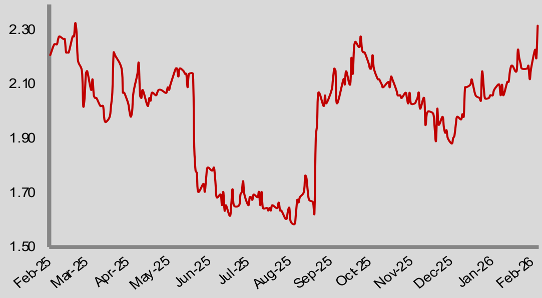
Shifting toward high-margin industrials business. SIME are shifting its business focus toward high-margin industrials business (which offer c.7% margin vs. automotive margin of c.1%) given strong demand for commodities and critical minerals amidst various tariff restriction, compared to intensifying competition in the automotive market. Such competition, experienced both in Chinese and Malaysian automotive markets have impacted SIME's profitability (automotive margin narrowed to 1% vs. 2% in previous year), requiring several years to regain market share and profitability. However, we believe that the challenging situation is already priced into the valuation, with China anti-involution policy coming into effect starting 2026, while Malaysia EV imported incentives will be discontinued starting 2026.

SIME's industrials segment has been driving earnings for the group at 50% of the group pre-tax profit despite only at 27% share of the group revenue, riding on the booming commodity demand in Australia's mining sector dominating northern (Hasting Deering) and southern (Cavpower) part of Australia (Australasia makes up 74% of SIME industrials revenue). Given the recent increase in parts price by Caterpillar in July 2025 with high-margin after-sales taking 52% of industrials products mix (remaining 38% from equipment sales and 10% for rental), we believe SIME is in a better position to tap into the growing demand from the Australia critical minerals mining sector.

Australia has a leading critical minerals mining sector, with large deposits of lithium, rare earth elements, cobalt, and zircon, among others. The government is actively developing the industry through strategic partnerships, such as the recent US–Australia Framework, and creating a Critical Minerals Strategic Reserve policy. Challenges include the high cost of processing and environmental concerns, particularly with rare earth elements, but Australia's rich geology and processing capabilities position it as a key global supplier for the energy, technology, and defense sectors (see exhibit 4 for some of Australia's critical minerals and their uses).

Huge investments in the SIME's exclusive Caterpillar region include: (i) BHP expanding copper operations in South Australia, targeting to triple production to 1MT annually by the mid-2030 (developing the new Oak Dam mine and boost existing mine sites), (ii) RioTinto opened it's AUD2b Western Range iron ore mine in the Pilbara, adding up to 25 MT p.a. and sustaining the Paraburdoo hub for up to 20 years, with longer plans to invest over AUD13b in the Pilbara between 2025 and 2027, (iii) BHP investing over AUD840m at Olympic Dam, to strengthen the foundations of underground mining productivity,

Share Price Performance



KLCI	1,756.39
YTD KLCI chg	4.5%
YTD stock price chg	7.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SIME MK EQUITY
Market Cap (RM m)	15,812.2
Shares outstanding	6,815.6
52-week range (H)	2.36
52-week range (L)	1.56
3-mth avg. daily vol.	9,382,054
Free Float	56%
Beta	0.9

Major Shareholders

Amanah Saham Nasional Bhd	38.7%
Employees Provident Fund	17.2%
KWAP	6.9%

Summary Earnings Table

FY June (RM m)	2025A	2026F	2027F
Revenue	70,061	74,787	78,709
EBIT	3,079	2,347	2,446
PBT	3,051	1,869	1,999
Net Profit	**1,167**	**1,263**	**1,359**
Core Net Profit	**1,167**	**1,263**	**1,359**
Consensus (NP)	-	1314	1383
Earnings Revision	-	-	-
Core EPS (sen)	17.2	18.6	20.0
Core EPS (%)	2.9	8.2	7.6
NDPS (sen)	14.0	16.0	16.0
BV/Share (RM)	3.43	3.45	3.48
Core PER (x)	13.5	12.5	11.6
Price/BV (x)	0.7	0.7	0.7
Net Gearing (x)	0.2	0.1	0.1
Net Dvd Yield (%)	6.1	5.7	5.6

and (iv) recently under the USD8.5b of US–Australia framework, in the Northern Territory, Arafura's Nolans project will produce about 5% of global rare earths.

SIME exclusive Caterpillar region. Hastings Deering's primary focus markets are the mining and construction industries, an exclusive Caterpillar dealer for Queensland and the Northern Territory in Australia, Papua New Guinea, the Solomon Islands, and New Caledonia. Meanwhile, Cavpower Caterpillar's primary focus markets are the mining, construction, and energy and transportation sectors in South Australia (South Australia has 70% of Australia's copper deposits) and Broken Hill (refer to exhibit 1 and 2 on the next page). Moreover, Onsite Rental Group Limited (contributing about 10% of Industrials segment profit) provide support in the Australia region as the second largest business-to-business (B2B) equipment rental service providers in Australia (8.4% in market share), with an extensive presence in the Western Australia and Queensland.

US–Australia Framework to unlock USD8.5b critical minerals pipeline. The new framework includes a USD1b investment from both nations over the next six months to help accelerate and unlock an USD8.5b pipeline of critical mineral projects, with a joint commitment to fast-track approvals. Two strategically significant projects have been prioritised under the framework. In Western Australia, the Alcoa–Sojitz Gallium Recovery project will deliver around 10% of the world's gallium supply, a critical input for semiconductors and advanced defence technologies. In the Northern Territory, Arafura's Nolans project will produce about 5% of global rare earths, strengthening energy security and defence supply chains for Australia and its allies.

Australia mining sector to reach 155MT met coal demand by 2050 (from 40 MT currently) and USD1t investment on critical metals mining by 2035. In response to reduced Chinese demand amidst various tariff restriction, Australia has strategically expanded its met coal exports to other countries such as India, Japan, South Korea and Taiwan over the years. Globally, demand for met coal is expected to increase to 155 MT by 2050 (from c.40 MT currently) primarily driven by India. Moreover, sustainable energy transition has boosted Australia mining sector revenue as it offers critical metals for sustainability (copper, aluminium, nickel, cobalt and lithium) which requires USD1t investment by 2035. Iron Ore exports to reach over 900 MT in 2025 and copper exports to increase by 27% by 2030.

Forecasts. Maintained (due to near-term headwinds still persisting).

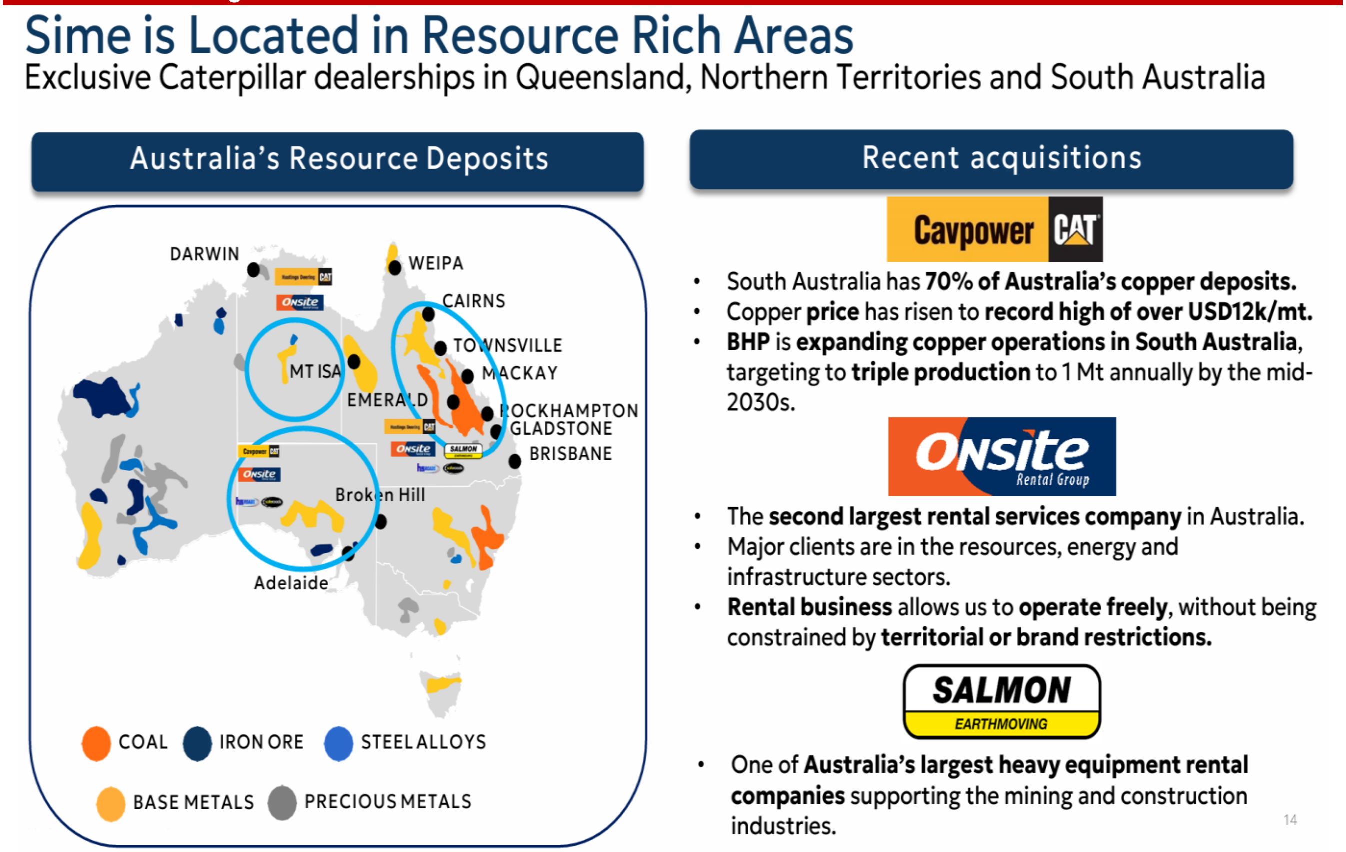
Valuations. We have sufficiently factored in the recent development into our forecasts (which includes the recent hike in industrials parts price, AUD/MYR devaluation and auto price discounting). On the longer horizon of up to five years, we believe that SIME's industrials business should be valued based on a higher PER valuation of 13x from currently 8x (as we narrowed the discounts to 50% from 70% to Caterpillar US's FY27F PER of 26x) to reflect the significant investments by its clients (refer to Heavy investment in the SIME exclusive caterpillar region para as above). Our ascribed PER of 13x also more conservative than Westrac (via SGH Australia)'s FY27F PER of 19x and Komatsu Ltd (Japan) at FY27 PER of 18x. Caterpillar (US) at FY27 PER of 26x is considered as mid-cycle growth (stabilised after a record year) compared to the FY26F PER of 33x which is considered as the high-cycle growth (peak record demand year).

Consequently, we raised our **SoP-derived TP by 42% to RM2.70 from RM1.90** (see Page 5). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 7).

Investment case. We like SIME for: (i) its unique position as being the automotive leader in Malaysia (60% market share) and EV leader in Singapore, Thailand and the Philippines while balancing out cyclical demand in other regions, and (ii) the strong sales and margin at its industrials segment acting as a proxy to the Australian mining sector (for its rare high-quality met coal and other high-demand sustainable-related metals). It also offers an attractive dividend yield of 6%. With the significant investment by its industrial's clients for the next five years translating into a potential industrials segment double-digit growth for both sales and margin, we upgrade the stock to **OUTPERFORM** from **MARKET PERFORM** call.

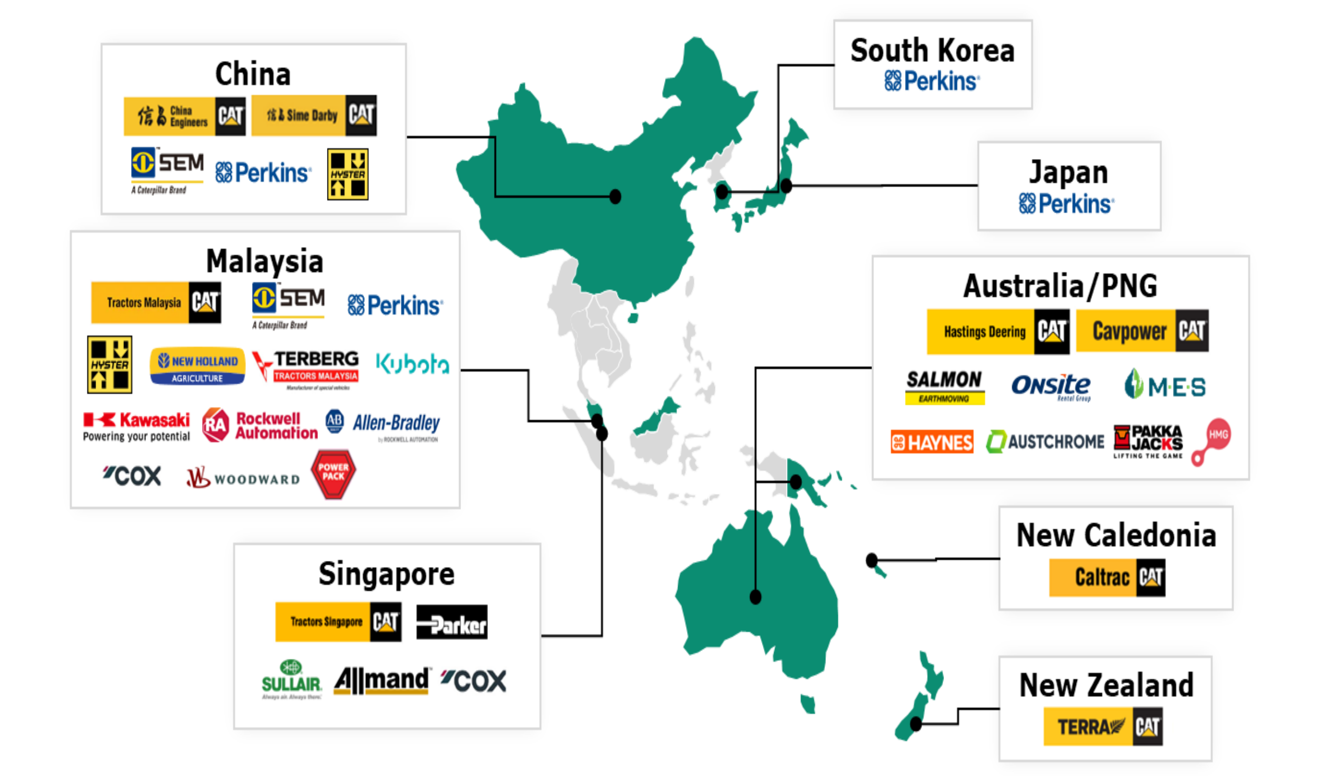
Risks to our call include: (i) governments cutting back on infrastructure spending on austerity drive and/or a slowdown in the mining sector, hurting demand for heavy equipment, (ii) consumers cutting back on discretionary spending (particularly big-ticket items like new cars) amidst high inflation,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

Exhibit 1: SIME largest customers in Australia



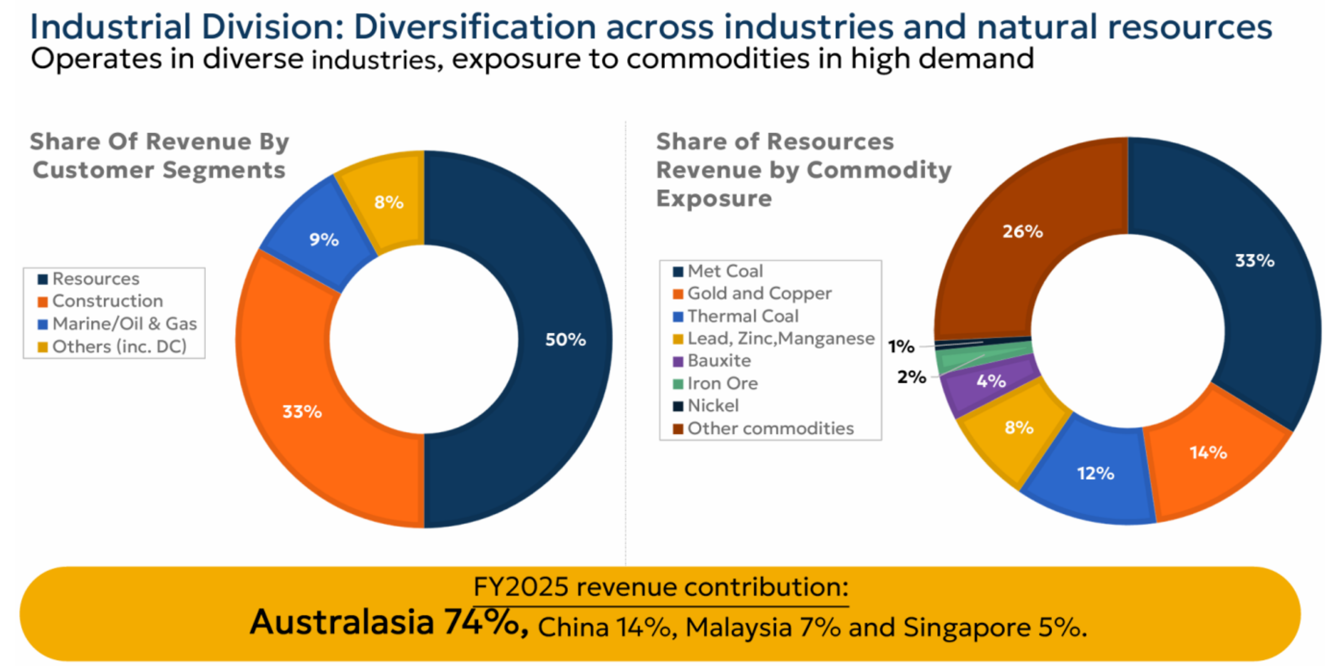
Source: Company, Kenanga Research

Exhibit 2: SIME Industrials geographical location



Source: Company, Kenanga Research

Exhibit 3: SIME Industrials Exposure



Source: Company, Kenanga Research

Exhibit 4: Some of Australia's critical minerals and their uses

Critical Mineral	Traditional and Defence Uses	Clean Energy Applications
Antimony	Alloys	Solar PV panels
Cobalt	Superalloys Device batteries	EV batteries
Graphite	Foundry applications High-temp lubricants Composite materials	Lithium battery anodes
Lithium		EV batteries Battery energy storage
Magnesium	Lightweight alloys Steelmaking purposes	-
Manganese	Alloys	EV batteries
Nickel	Stainless steel	EV batteries
Rare earth elements	Glass, lights Magnets	Wind turbines EV motors
Silicon	Computing chips	Solar PV panels
Titanium and mineral sands	Specialised alloys Pigments	Specialised alloys Pigments
Tungsten	Alloys Cutting tools	Permanent magnets in EVs/wind turbines
Vanadium	Steel alloys Sulphuric acid production	Vanadium flow batteries

Source: Company, Kenanga Research

Sum-of-Parts Valuation

Segment	Valuation (RM m)	Basis
Motors (excluding UMW)	3,468	5x PER
Industries	14,169	13x PER
UMW Holdings Bhd	2,566	7x PER
Land Assets at Malaysia Vision Valley, Labu	1,546	4,200 acres @RM0.368m/acres or RM8.46/sq ft
Subtotal	**21,748**	
Net cash / (debt)	-3,465	
Total	**18,283**	
No. of shares (m)	6,800	
TP (RM)	**2.70**	

Source: Kenanga Research

Income Statement

FY Jun (RM m)	2024A	2025A	2026F	2027F
Revenue	67,132	70,061	74,787	78,709
EBITDA	480	953	(428)	(606)
Depreciation	(2,018)	(2,126)	(2,775)	(3,052)
Operating Profit	2,498	3,079	2,347	2,446
Total Financial Costs	(577)	(541)	(677)	(648)
Associate	260	513	200	201
PBT	2,181	3,051	1,869	1,999
Taxation	(698)	(663)	(430)	(460)
Net Profit	**1,134**	**1,167**	**1,263**	**1,359**
Core Net Profit	**1,134**	**1,167**	**1,263**	**1,359**

Balance Sheet

FY Jun (RM m)	2024A	2025A	2026F	2027F
Fixed Assets	10,502	9,886	8,312	6,581
Intangibles	3,387	2,966	2,966	2,966
Other FA	10,667	10,204	10,204	10,204
Inventories	14,741	12,106	12,923	13,600
Receivables	8,301	7,538	8,046	8,468
Other CA	1,631	1,678	1,678	1,678
Cash	2,677	3,039	3,518	4,026
Total Assets	51,906	47,417	47,648	47,524
Payables	9,980	10,134	10,391	10,209
ST Borrowings	5,738	2,231	2,343	2,460
Other ST Liability	4,098	3,117	3,117	3,117
LT Borrowings	4,702	4,891	4,641	4,391
Other LT Liability	4,030	3,699	3,699	3,699
Min Interest& Sukuk	3,992	4,141	4,112	4,083
Net Assets	**19,366**	**19,204**	**19,346**	**19,565**
Share Capital	9,330	9,330	9,330	9,330
Reserves	10,036	9,874	10,016	10,235
Equity	**19,366**	**19,204**	**19,346**	**19,565**

Cashflow Statement

FY Jun (RM m)	2024A	2025A	2026F	2027F
Operating CF	478	5,393	8,382	5,489
Investing CF	937	(215)	(1,201)	(1,320)
Financing CF	(1,578)	(4,970)	(6,702)	(3,661)
Change In Cash	(163)	208	479	508
Free CF	1,415	5,178	7,181	4,169

Financial Data & Ratios

FY Jun	2024A	2025A	2026F	2027F
Growth				
Revenue	39%	4%	7%	5%
EBITDA	-36%	99%	-145%	42%
Op. Profit	24%	23%	-24%	4%
PBT	16%	40%	-39%	7%
CNP	3%	3%	8%	8%
Profitability				
EBITDA Margin	1%	1%	-1%	-1%
Op. Margin	4%	4%	3%	3%
PBT Margin	16%	40%	-39%	7%
CNP Margin	2%	2%	2%	2%
Tax Rate	32%	22%	23%	23%
ROE	5%	5%	5%	6%
ROA	2%	4%	2%	2%
Leverage				
Debt/Asset (x)	0.2	0.2	0.1	0.1
Debt/Equity (x)	0.4	0.3	0.3	0.3
Net (Cash)/Debt	7,763.0	4,083.0	3,465.1	2,824.6
N.Debt/Equity(x)	0.33	0.17	0.15	0.12
Valuations				
EPS (sen)	16.7	17.2	18.6	20.0
Core EPS (sen)	16.7	17.2	18.6	20.0
NDPS (sen)	13.00	14.00	16.00	16.00
BVPS (RM)	3.44	3.43	3.45	3.48
PER (x)	12.7	7.7	15.3	14.3
Core PER (x)	13.9	13.5	12.5	11.6
N.Div. Yield (%)	5.6	6.0	5.6	5.6
P/BV (x)	0.7	0.7	0.7	0.7

Source: Kenanga Research

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	OP	0.825	0.800	-3.0%	782.7	Y	04/2026	5.7	9.8	-57.2%	70.2%	14.4	8.4	1.4	10.0%	4.6	5.6%
DRB-HICOM BHD	UP	1.13	0.700	-38.1%	1,913.9	Y	12/2025	6.2	8.1	101.5%	31.1%	18.2	13.9	0.2	1.2%	3.0	2.7%
HIL INDUSTRIES BHD	MP	0.730	0.740	1.4%	249.0	Y	12/2025	9.4	9.5	-26.1%	0.5%	7.8	7.7	0.5	6.4%	2.0	2.7%
HONG LEONG INDUSTRIES BHD	OP	18.20	18.90	3.8%	4,472.6	Y	06/2026	157.4	160.6	2.7%	2.0%	11.6	11.3	2.4	21.4%	110.0	6.0%
MBM RESOURCES BHD	MP	5.27	5.25	-0.4%	2,040.4	Y	12/2025	86.8	88.2	1.9%	1.6%	6.1	6.0	0.9	14.6%	39.0	7.4%
SIME DARBY BHD	OP	2.32	2.70	16.4%	14,789.8	Y	06/2026	18.6	20.0	8.3%	7.8%	12.5	11.6	0.8	6.5%	14.0	6.0%
TAN CHONG MOTOR HOLDINGS BHD	UP	0.635	0.300	-52.8%	381.2	Y	12/2025	(27.6)	(24.4)	-179.8%	-188.6%	N.A.	N.A.	0.2	-7.7%	1.0	1.6%
SECTOR AGGREGATE					**24,629.6**					**6.1%**	**10.2%**	**11.4**	**10.4**	**0.6**	**5.6%**		**4.6%**

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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