

28 October 2024

Property | Real Estate

Sime Darby Property (SDPR MK)

Buy (Maintained)

It Begins With a Great Location; BUY

Target Price (Return): MYR2.20 (+50%)
Price (Market Cap): MYR1.47 (USD2,302m)
ESG score: 3.2 (out of 4)
Avg Daily Turnover (MYR/USD) 40.0m/9.18m

- **Maintain BUY, with new MYR2.20 TP from MYR2.00, 50% upside and c.2% yield.** After our site visit last Thursday to the Elmina township and Elmina Business Park (EBP), we come away bullish on the development and believe it will continue driving Sime Darby Property's property sales and earnings over the next 10-15 years. Since Google's data centre (DC) investment announcement, SDPR has seen significant demand in EBP. Given the faster landbank turnaround and value maximisation effort on its industrial land, we narrow our discount to RNAV to 20% (from 25%).

- **Strong growth prospects for Elmina township.** The Elmina development encompasses 6,500 acres of freehold land with MYR30bn GDV. It currently has 12,535 completed residential units and a population size of 67,000. The township city centre, which comprises an education hub, wellness hub, office cluster and retail components, is well-planned and now gradually taking shape, especially after the opening of Elmina Lakeside Mall (ELM) in August this year. The first school in the township SJK(C) Regent Elmina will open in 2026, while construction for Chung Hwa Independent High School will start by end 2024. The future transit hub may also have a Mass Rapid Transit (MRT) station (Line 3) there. Hence, with all the important infrastructure, commercial elements and amenities available, we think Elmina will be a well-developed township in 5-10 years.

- **Expect Kanopi Residences to be sold out.** Kanopi Residences (estimated at GDV MYR250m), which will be launched next month, is the first high-rise project in the Elmina township. Pricing at around MYR530psf (before discount) with 1,000 sqf built-up (3 bedrooms and two carparks), we think the project is within the affordable range, and will be well received as ELM, schools, a future medical centre and transportation hub are all within the vicinity.

- **Further upside in Elmina's GDV is highly likely.** The Elmina township and EBP are now a significant property sales contributor and the number has grown over the past three years (FY22: MYR788.7m, FY23: MYR993m; 1HFY24: MYR501.6m), accounting for 25-30% of annual property sales.

- **Google DC construction site is busy.** Google DC is on track to be completed in 3Q26. SDPR indicated that the land at EBP available for built-to-suit purposes has only 38 acres remaining in EBP 1, and hence, insufficient to meet the significant demand in the pipeline. Many ancillary industries along the DC supply chain (eg cooling tower manufacturing) are keen to set up a production plant in EBP. As such, SDPR will have to be discerning in its selection. However, the company is also in the process to activate the infrastructure and ground works for EBP 2, which could possibly house more factories and DCs in the future.

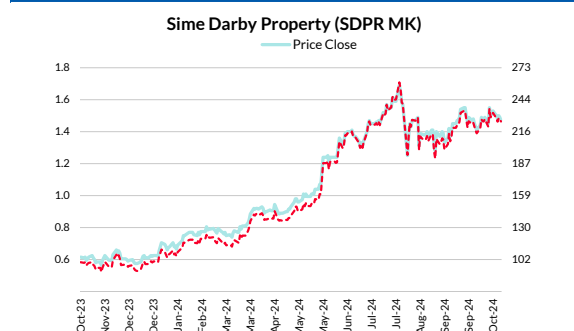
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	135.2	(2.0)	(7.6)	60.7	131.5
Relative	124.0	1.0	(7.8)	57.6	119.3
52-wk Price low/high (MYR)				0.57	1.69



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	2,742	3,437	4,027	4,291	4,529
Recurring net profit (MYRm)	274	403	512	568	610
Recurring net profit growth (%)	100.3	46.9	27.1	11.0	7.2
Recurring EPS (MYR)	0.04	0.06	0.08	0.08	0.09
DPS (MYR)	0.02	0.03	0.04	0.04	0.04
Recurring P/E (x)	36.46	24.82	19.53	17.59	16.40
P/B (x)	1.05	0.99	0.97	0.94	0.91
Dividend Yield (%)	1.6	1.7	2.4	2.4	2.7
Return on average equity (%)	3.4	4.2	5.0	5.4	5.6
Net debt to equity (%)	21.3	22.3	23.9	21.5	22.7

Source: Company data, RHB

Overall ESG Score: 3.2 (out of 4)

E: EXCELLENT

SDPR has converted 36,000 MT palm oil trunks into biomass fuel pallets in some of its townships. It has also planted >90,000 trees since Sept 2011. Thus far, it has seven green certified projects.

S: EXCELLENT

SDPR has built homes for the B40 community and multi-generational inclusive homes with disable access. It also has 600 members in its young sustainability ambassadors programme, which is an education engagement for children about sustainable living, civil society and environment.

G: GOOD

56% of board members are independent, with full disclosure on director remuneration, which includes salaries and bonuses on named basis. SDPR has an in-house investor relations team and holds investor meetings regularly, embodying good transparency and disclosure practices.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	Recurring EPS	0.04	0.06	0.08	0.08	0.09
Property	EPS	0.05	0.06	0.08	0.08	0.09
Sime Darby Property	DPS	0.02	0.03	0.04	0.04	0.04
SDPR MK	BVPS	1.40	1.48	1.52	1.57	1.62
Buy	Return on average equity (%)	3.4	4.2	5.0	5.4	5.6
	Return on average assets (%)	2.1	2.6	3.2	3.4	3.5
Valuation basis						
20% discount to RNAV						
Key drivers	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Large landbank	Recurring P/E (x)	36.46	24.82	19.53	17.59	16.40
	P/B (x)	1.1	1.0	1.0	0.9	0.9
	Dividend Yield (%)	1.6	1.7	2.4	2.4	2.7
	EV/EBITDA (x)	17.49	14.05	11.10	10.61	10.08
Key risks	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Weaker-than-expected market conditions	Total turnover	2,742	3,437	4,027	4,291	4,529
	Gross profit	827	1,009	1,242	1,312	1,422
	EBITDA	520	655	851	872	940
	Depreciation and amortisation	(32)	(32)	(33)	(36)	(44)
	Operating profit	488	623	817	837	896
	Net interest	9	40	43	39	38
	Pre-tax profit	459	610	741	806	868
	Taxation	(147)	(193)	(222)	(234)	(252)
	Reported net profit	316	408	512	568	610
	Recurring net profit	274	403	512	568	610
Company Profile	Cash flow (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Sime Darby Property is the largest landowner among all the listed developers, with various township, commercial and integrated developments.	Change in working capital	550	(244)	(465)	(108)	(98)
	Cash flow from operations	931	258	206	570	628
	Capex	(3)	(39)	(80)	(80)	(500)
	Cash flow from investing activities	(3)	(39)	(80)	(80)	(500)
	Dividends paid	(68)	(157)	(172)	(238)	(238)
	Cash flow from financing activities	(643)	1	(172)	(238)	(238)
	Cash at beginning of period	910	985	603	371	553
	Net change in cash	285	220	(46)	252	(110)
	Ending balance cash	1,195	1,206	557	623	442
	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	985	603	371	553	643
	Tangible fixed assets	5,688	6,245	6,292	6,336	6,792
	Intangible assets	7	6	6	6	6
	Total investments	3,082	3,315	3,315	3,315	3,315
	Total other assets	1,904	1,771	1,771	1,771	1,771
	Total assets	15,263	15,940	16,552	17,009	17,764
	Short-term debt	754	413	413	413	413
	Total long-term debt	2,284	2,481	2,481	2,481	2,781
	Total liabilities	5,618	5,657	5,988	6,111	6,521
	Shareholders' equity	9,520	10,057	10,331	10,661	10,999
	Minority interests	125	226	233	237	244
	Total equity	9,645	10,284	10,564	10,898	11,243
	Total liabilities & equity	15,263	15,940	16,552	17,009	17,764
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	23.5	25.3	17.2	6.5	5.6
	Recurring net profit growth (%)	100.3	46.9	27.1	11.0	7.2
	Recurrent EPS growth (%)	100.3	46.9	27.1	11.0	7.2
	Gross margin (%)	30.1	29.4	30.8	30.6	31.4
	Recurring net profit margin (%)	10.0	11.7	12.7	13.2	13.5
	Dividend payout ratio (%)	49.6	42.2	46.5	41.9	44.6

Source: Company data, RHB

Elmina – a Booming Township

The significance of SDPR's City of Elmina

SDPR's City of Elmina (COE) is accessible via the Guthrie Corridor Expressway and the Damansara-Shah Alam Elevated Expressway. It is also only 9km away from the Sultan Abdul Aziz Shah Airport in Subang. COE comprises five townships that include Elmina East, Elmina West, Denai Alam, Bukit Subang and Elmina Business Park. Started from 6,500 acres, the total remaining landbank for these five townships now stands at 1,797.2 acres (net area) with an estimated GDV of MYR27.9bn, representing about 30-33% of total balance landbank and GDV in the portfolio. Therefore, COE should continue to anchor SDPR's property sales and earnings over the next 10-15 years.

Further upside in Elmina's GDV is highly likely

Upside in GDV is possible in our view, especially when the township development progresses (and if an MRT 3 station is eventually built there), and EBP sees more manufacturing activities in the coming years. The recent launch of Elmina Ridge 1 (most exclusive and low-density precinct) that comprises 228 units of superlink, cluster and semi-detached homes was 99% sold. Based on the GDV of MYR373m, average price per unit is about MYR1.6m. The company is likely to price its future launches of similar products higher given the growth prospects of the township. According to SDPR, the home buyers for Elmina products are mainly from Kota Damansara, Subang, Kepong, Petaling Jaya and Shah Alam, and they are mostly 25-45 years old – a relatively young population profile. In our view, the opening of the Chinese primary and high school as well as an international school over the next few years will likely draw a greater population to the township. SDPR is also in talks with a hospital operator to set up a medical centre in the wellness hub.

ELM has a good retail tenant mix

ELM is highly successful, with 99% occupancy and average rental of MYR5.50 psf. Big brands such as Jaya Grocer, Harvey Norman, Kenny Hills Bakers, and many F&B outlets are housed there. We saw decent footfall even during lunch time on a weekday.

Over the medium term, management shared its plan to build a regional mall with an NLA of 1m sqf. We think it makes sense, especially when the population size in the township grow much bigger in the future, and there also are no anchor malls in the area nearby (within a 30-minute driving distance).

ELM is the third retail mall under SDPR's portfolio after KL East Mall and Melawati Mall (JV-owned). Senada Mall in KLGCC will be the next one to be opened in 2H25. SDPR's track record in retail mall operations should set a good trajectory for future retail mall developments.

EBP sees positive spillover from Google's investment

We also toured around EBP and visited the Google DC site. We were impressed with the speed of the construction as the site has already been cleared and the steel structure is in place. SDPR indicated that the DC facility should be ready in 3Q26.

The entry of Google in EBP has attracted interest from various industrial players to set up or expand their production plant in EBP. The recent launch of twin factories was also all fully sold. Investors and industrial players are mainly attracted by the location and prospects of the industrial park. We understand that the more recent land sale in EBP was transacted at MYR112 psf, and given the scarcity of landbank and the strategic plan to build a sizeable investment property portfolio (or assets under management), management has decided to restrict land disposal for now, and will instead focus on extracting more value from all remaining industrial land plots, with a preference for built-to-suit for lease or end industrial users.

Valuation

Our new TP for SDPR is MYR2.20. Given the faster landbank turnaround and value maximisation effort on its industrial land, we narrow our discount to RNAV to 20% (from 25%).

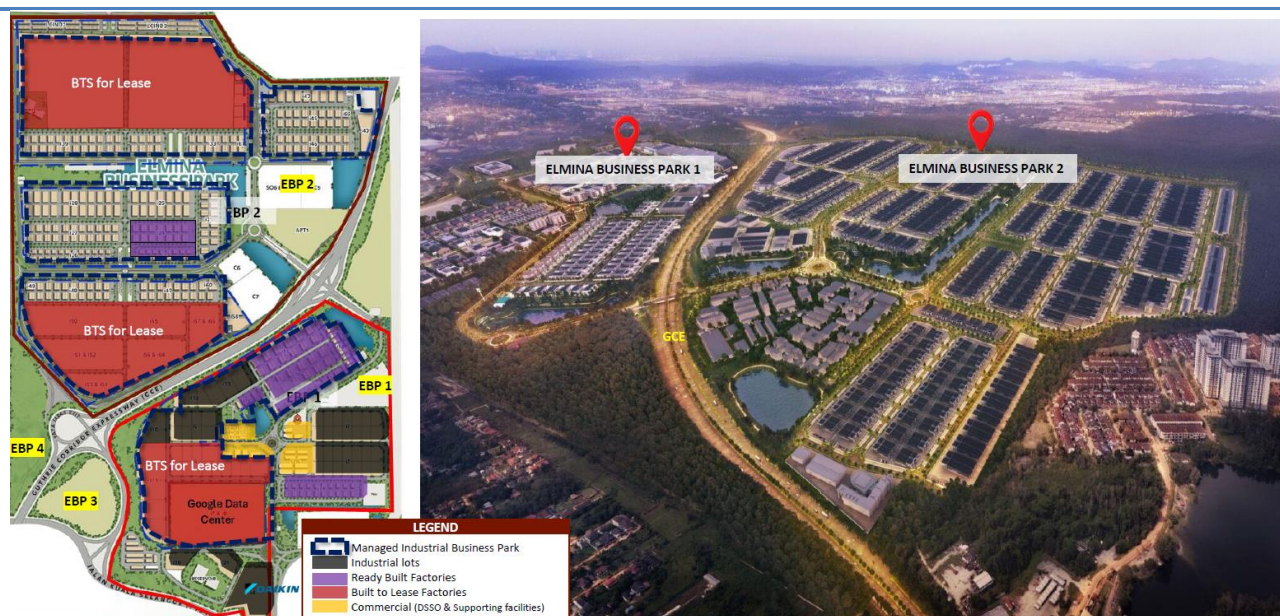
Although SDPR's valuation is no longer cheap, we think the stock is becoming a sector bellweather with strategic exposure to the industrial segment that not many other developers have. Earnings quality has significantly improved since 2-3 years ago with the clearing of non-core businesses and assets, and topping up the core property development business with investment property assets to strengthen its recurring income stream. We believe the transformation journey to become a real estate company according to its SHIFT25 plan is well on track.

Figure 1: The development plan for the Elmina city centre



Source: Company data

Figure 2: Masterplan of EBP



Source: Company data

Figure 3: Good tenant mix in ELM



Source: RHB

Figure 4: Lakeside walk along F&B outlets



Source: RHB

Figure 5: A good crowd in Elmina sales gallery on a Sunday



Source: RHB

Figure 6: Google DC site – structure is already up



Source: RHB

Figure 7: New twin factories in EBP – all fully sold



Source: RHB

Figure 8: Kanopi Residences' scale model



Source: RHB

Figure 9: RNAV estimate

	Remaining nett acreage	Remaining GDV (MYRm)	Effective interest	NPV @ 9% (MYRm)
<u>Property development</u>				
Bukit Jelutong, Shah Alam	79	1,700	60%	57.92
Elmina West	783	17,000	100%	906.31
Elmina East	132	2,000	100%	147.62
Denai Alam	37	700	100%	59.67
Kota Elmina	838	9,700	100%	713.26
Bandar Bukit Raja 1, Klang	32	300	100%	30.03
Bandar Bukit Raja 2 & 3 Klang	781	13,200	100%	901.29
Serenia City, Dengkil/Sepang	459	7,700	100%	682.62
Nilai Impian 1, Nilai	177	1,200	100%	106.42
Nilai Impian 2, Nilai	174	2,400	100%	196.40
Bandar Ainsdale, Seremban	164	1,200	100%	48.33
Bandar University Pagoh, Muar	1,937	8,800	100%	566.45
Taman Pasir Putih, Pasir Gudang	62	200	100%	15.40
Hamilton (MVV)	90	500	100%	37.85
Ara Damansara	3	100	100%	12.05
KLGCC Resort	35	4,900	100%	525.53
KL East	31	2,500	100%	221.63
Putra Heights	29	2,100	100%	165.45
SJ7	39	5,200	100%	395.58
SJCC	22	4,000	100%	224.10
New Labu land	760	3,420	100%	163.34
New Kapar land (Bandar Bukit Raja 4)	949	3,500	100%	154.65
Battersea Power Station London	15	24,072	40%	6.57
Land for future development	1,473	24,880	100%	634.76
Non-core land	1,123	-	100%	-
Total	10,247	141,572		6,973
Unbilled sales				360.00
Shareholders' equity				10,057.10
Google DC				558.09
Total RNAV				18,009.31
Share cap				6,800.84
RNAV/share				2.65
Discount to RNAV				20%
Intrinsic price				2.12
ESG premium / discount				4%
Target price				2.20

Source: Company data, RHB

Emissions And ESG

Trend analysis
The reduction in Scope 1 and Scope 2 in 2022 was mainly due to energy efficiency initiatives through retrofitting of components, as well as the implementation of energy-saving practices.

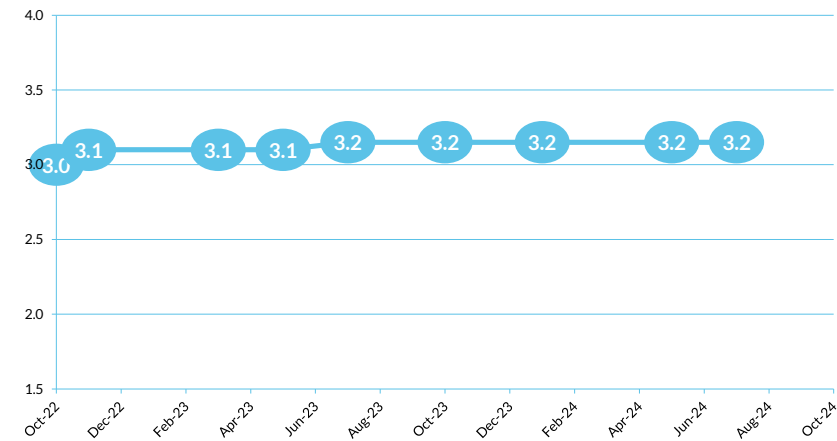
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	450	744	na
Scope 2	14,293	13,510	na
Scope 3	na	na	na
Total emissions	14,743	14,254	na

Source: Company data, RHB

Latest ESG-Related Developments

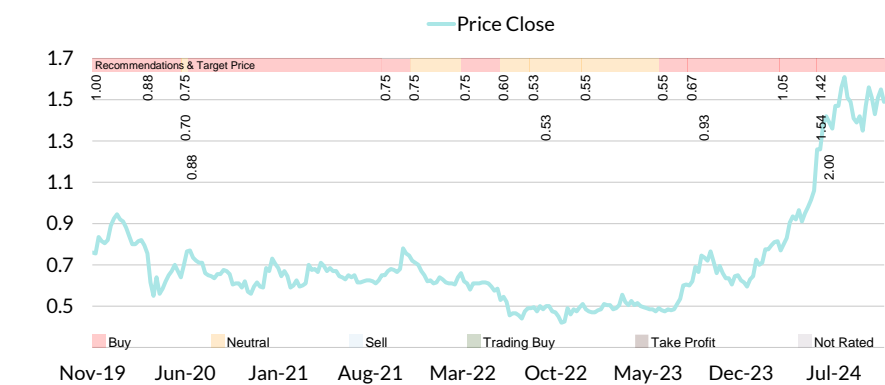
- Sime Darby Property plans to implement solar solutions for its township developments and will also venture into solar farming to supply green energy to its offtakers, potentially from their industrial parks.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-08-22	Buy	2.00	1.40
2024-06-11	Buy	2.00	1.34
2024-05-23	Buy	1.54	1.16
2024-05-22	Buy	1.42	1.07
2024-02-25	Buy	1.05	0.80
2023-11-26	Buy	0.93	0.63
2023-08-28	Buy	0.93	0.69
2023-07-30	Buy	0.67	0.59
2023-05-25	Buy	0.55	0.47
2022-11-29	Neutral	0.55	0.49
2022-08-29	Neutral	0.53	0.49
2022-08-25	Neutral	0.53	0.48
2022-08-01	Neutral	0.53	0.48
2022-05-24	Neutral	0.60	0.55
2022-02-25	Buy	0.75	0.64

Source: RHB, Bloomberg

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