

15 August 2023

Industrials | Industrial Services

Sime Darby (SIME MK)

Neutral (Maintained)

Acquisition Of Cavpower

Target Price (Return): MYR2.15 (-1%)
 Price (Market Cap): MYR2.16 (USD3,189m)
 ESG score: 2.93 (out of 4)
 Avg Daily Turnover (MYR/USD) 7.29m/1.59m

- **Still NEUTRAL, new MYR2.15 TP (SOP) from MYR2.10, 1% downside.** Yesterday, Sime Darby announced its acquisition of Cavpower Group – a Caterpillar dealership mainly serving the mining and construction sectors in South Australia (SA) – for MYR1.5bn (AUD500m). The deal is at a fair c.8.5x FY23F (Jun) EV/EBITDA. While the funding structure has yet to be determined, we think SIME can stretch its 0.38x gearing ratio. We are positive on the acquisition as it is mildly earnings accretive and helps the group diversify its geographical and commodity exposure in Australia.
- **Same customers, different regions and commodities.** Traditionally, SIME's presence has mainly been in Queensland and the Northern Territories. This acquisition is synergistic, as it allows the group to expand into SA while serving the same major customers. As Cavpower's mining customers in SA mainly mine minerals critical for the clean energy transition (eg copper, uranium, and cobalt), this allows SIME to diversify its commodity exposure from coking coal.
- **Funding structure yet to be determined,** but we assume SIME to fund this acquisition with 90% debt and 10% cash. This implies additional debt of AUD450m (c.MYR1.35bn), which brings its gearing ratio to 0.47x from 0.38x. Recall: Management prefers to keep its gearing ratio below 0.6x. The acquisition of c.8.5x FY23F EV/EBITDA is fair, as it is within the trading multiples of similar businesses.
- **Cavpower's prospects.** Between FY19 and FY22 (Jun), Cavpower's net margin fell to 6.3% from 7.9%, likely due to COVID-19 disruptions and Australia-China trade tensions. On FY22 revenue and PATAMI of AUD365m and AUD23m, we estimate FY23F-25F PATAMI at AUD25-31m from higher equipment spending, as demand for said commodities continue to grow and Australia-China trade tensions ease.
- **Appetite for M&A.** Given the extra gearing headroom, SIME is still open to synergistic transactions in its markets. That said, given media reports of Permodalan Nasional's potential sale of its 65.56% UMW (UMWH MK, NEUTRAL, TP: MYR3.80) stake, we do not think it is synergistic for the group to acquire UMW. Although both run automotive and machinery businesses, they operate in different market segments, and SIME derives >80% of its revenue from overseas. UMW is domestic focused. Moreover, an acquisition of a >MYR3bn stake in UMW would stretch SIME's gearing ratio to 0.66x. Separately, the group [recently](#) tapped Bank of America and Deutsche Bank to sell its healthcare unit. We think SIME may use the proceeds to pare down its debt and to pay special DPS.
- **Higher MYR2.15 TP.** We estimate the acquisition to increase FY23F-FY25F earnings by 2-3%, which lifts our TP slightly (2% ESG discount). SIME currently trades at 14x FY24F P/E, close to its 13x 5-year mean. We remain NEUTRAL. Despite the outperformance of its Australasia industrial unit, its China motor and industrial segments may continue to weigh in the near term – especially as Tesla just cut prices in China again yesterday.

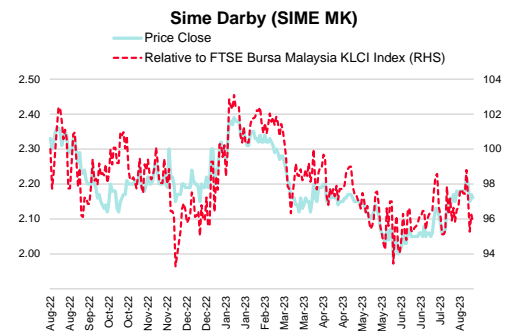
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(6.1)	2.4	1.9	(6.9)	(6.1)
Relative	(3.5)	(0.8)	(0.5)	(5.1)	(2.8)
52-wk Price low/high (MYR)	1.99 – 2.39				



Source: Bloomberg

Overall ESG Score: 2.9 (out of 4)

E: GOOD

Sime Darby is committed to its sustainability goals, with specific targets detailed across operating segments in its annual report. Proactive steps are underway to reduce its carbon footprint, and reduce dependency on non-renewable energy sources. However, environmental statistics are lacking. It remains on track to achieve its target to reduce its carbon and energy footprint by 5% in 2023 from the 2018 baseline.

S: GOOD

Aside from its up-to-date health and safety policies, Sime Darby recently introduced a next-generation safety culture programme called Safe Engage Lead and Focus (SELF), which will be rolled out to all operations in stages. It makes social investments through philanthropic foundation Yayasan Sime Darby, offering scholarships to outstanding individuals, and funding impactful conservation, outreach and development programmes. No major issues between the company and its employees.

G: EXCELLENT

50% of Sime Darby's board members are independent, following the best practices of the Malaysian Code on Corporate Governance 2017. We notice that Sime Darby has been very forthcoming with regards to sharing information with the market.

Forecasts and Valuation	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Total turnover (MYRm)	44,302	42,502	45,511	47,848	50,730
Recurring net profit (MYRm)	1,248	1,195	946	1,046	1,201
Recurring net profit growth (%)	20.0	(4.2)	(20.9)	10.6	14.8
Recurring P/E (x)	11.79	12.31	15.56	14.06	12.25
P/B (x)	0.9	0.9	0.9	0.9	0.9
P/CF (x)	5.28	18.16	8.54	7.06	6.73
Dividend Yield (%)	6.9	5.3	4.6	5.1	5.6
EV/EBITDA (x)	4.05	5.32	5.90	5.34	4.69
Return on average equity (%)	9.9	7.4	5.9	6.4	7.2
Net debt to equity (%)	net cash	7.4	36.1	31.9	27.2

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

Financial Exhibits

Asia	Financial summary (MYR)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Malaysia	Recurring EPS	0.18	0.18	0.14	0.15	0.18
Industrials	DPS	0.15	0.12	0.10	0.11	0.12
Sime Darby	BVPS	2.33	2.35	2.39	2.43	2.49
SIME MK	Return on average equity (%)	9.9	7.4	5.9	6.4	7.2
Neutral						
	Valuation metrics	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Valuation basis	Recurring P/E (x)	11.79	12.31	15.56	14.06	12.25
SOP	P/B (x)	0.9	0.9	0.9	0.9	0.9
	FCF Yield (%)	15.5	1.2	7.2	10.7	11.4
	Dividend Yield (%)	6.9	5.3	4.6	5.1	5.6
Key drivers	EV/EBITDA (x)	4.05	5.32	5.90	5.34	4.69
i. Strength in regional consumer discretionary spending;	EV/EBIT (x)	6.10	8.70	9.86	8.84	7.62
ii. Intensity of macroeconomic activity supporting demand for heavy equipment.						
	Income statement (MYRm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Key risks	Total turnover	44,302	42,502	45,511	47,848	50,730
i. Weaker-than-expected Australasia margins;	Gross profit	7,351	7,616	7,282	7,656	8,117
ii. Softer-than-expected car sales across its markets;	EBITDA	3,264	2,863	2,812	2,996	3,264
iii. Longer-than-expected downturn in China.	Depreciation and amortisation	(1,101)	(1,113)	(1,129)	(1,187)	(1,258)
	Operating profit	2,163	1,750	1,683	1,809	2,006
	Net interest	(86)	(109)	(356)	(336)	(296)
The opposite, and the faster-than-expected sale of Malaysian Vision Valley or MVV land at better rates, represents upside risks.	Pre-tax profit	2,159	1,732	1,447	1,601	1,838
	Taxation	(573)	(474)	(441)	(488)	(561)
	Reported net profit	1,530	1,187	946	1,046	1,201
	Recurring net profit	1,248	1,195	946	1,046	1,201
	Cash flow (MYRm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
	Change in working capital	107	1,090	(588)	(357)	(440)
	Cash flow from operations	2,784	810	1,723	2,084	2,187
	Capex	(510)	(639)	(660)	(510)	(510)
	Cash flow from investing activities	83	(464)	(5,533)	(382)	(382)
	Dividends paid	(998)	(783)	(681)	(749)	(817)
	Cash flow from financing activities	(1,650)	(686)	2,229	(1,085)	(1,113)
	Cash at beginning of period	1,694	2,473	1,772	1,191	1,708
	Net change in cash	1,217	(340)	(1,581)	617	692
	Ending balance cash	2,911	2,163	191	1,808	2,400
	Balance sheet (MYRm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
	Total cash and equivalents	2,473	1,772	1,191	1,708	2,300
	Tangible fixed assets	6,225	5,740	5,271	4,595	3,847
	Total investments	1,236	1,063	4,479	4,479	4,479
	Total assets	28,487	30,229	35,126	35,645	36,326
	Short-term debt	1,454	2,607	3,607	3,507	3,407
	Total long-term debt	373	376	3,594	3,594	3,594
	Total liabilities	12,227	13,858	18,491	18,713	19,010
	Total equity	16,260	16,371	16,636	16,933	17,316
	Total liabilities & equity	28,487	30,229	35,126	35,645	36,326
	Key metrics	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
	Revenue growth (%)	19.9	(4.1)	7.1	5.1	6.0
	Recurrent EPS growth (%)	20.0	(4.2)	(20.9)	10.6	14.8
	Gross margin (%)	16.6	17.9	16.0	16.0	16.0
	Operating EBITDA margin (%)	7.4	6.7	6.2	6.3	6.4
	Net profit margin (%)	3.5	2.8	2.1	2.2	2.4
	Dividend payout ratio (%)	66.8	66.0	72.0	71.6	68.1
	Capex/sales (%)	1.2	1.5	1.5	1.1	1.0
	Interest cover (x)	17.9	11.8	4.2	4.8	5.9

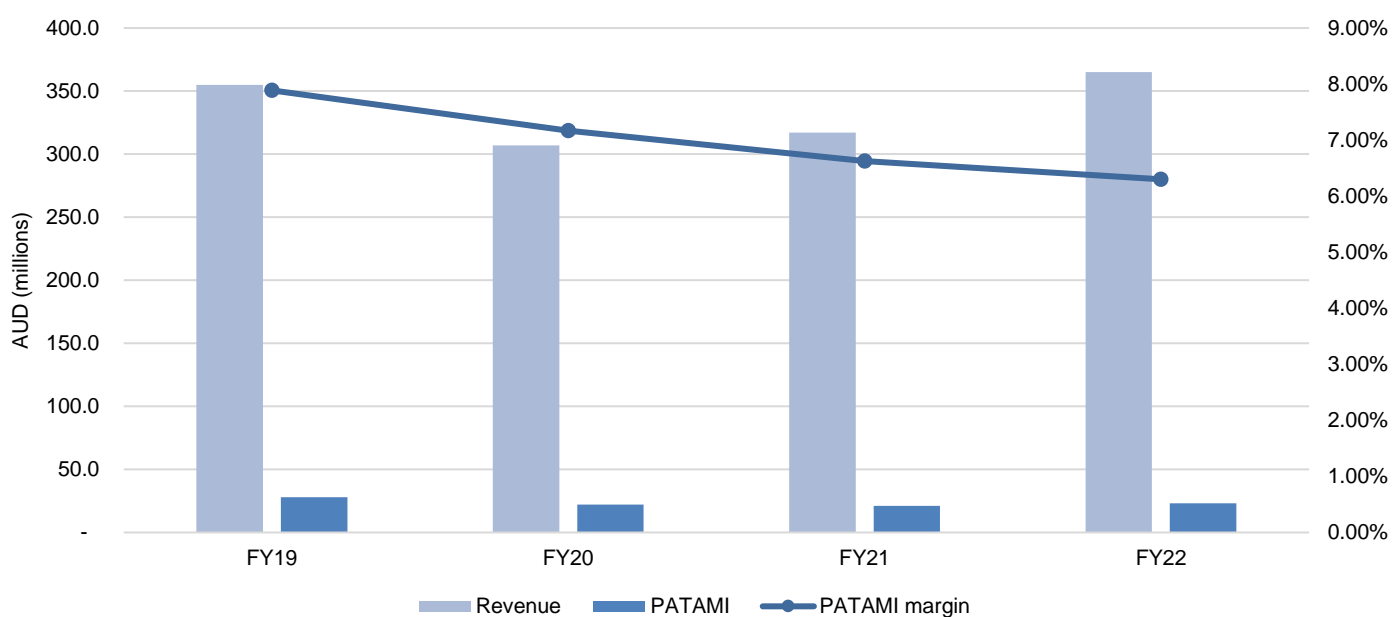
Source: Company data, RHB

Figure 1: SOP valuation

Segment	Valuation method	Value (MYRm)	Per share (MYR)
Motor			
FY24F NP (MYRm)	12x P/E	5,394	0.79
Industrials			
FY24F NP (MYRm)	13x P/E	8,547	1.26
MVV Land			
RNAV of unsold land (assuming MYR8psf)	Discount to RNAV of 50%	936	
Healthcare			
FY24F NP (MYRm); 50% stake	40x P/E	1,703	0.25
		16,579	2.81
Holding company discount	10%	(1,658)	
Holding company net cash/(debt)		150	
SOP valuation		15,071	
No. of shares		6,810	
Intrinsic value per share			2.21
ESG premium/ (discount)			-2%
TP per share (rounded)			2.15

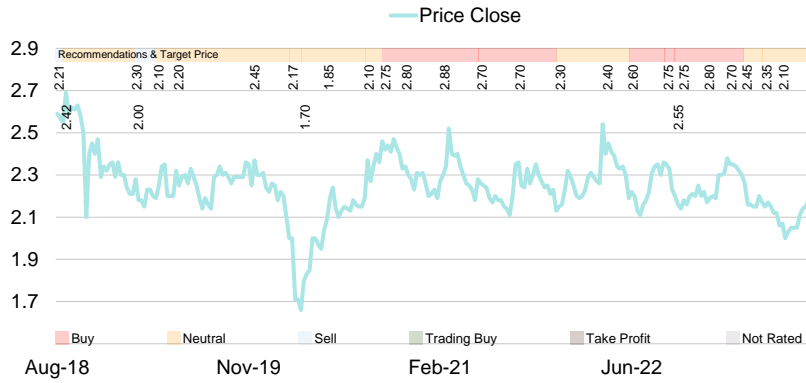
Source: Company data, RHB

Figure 2: Cavpower's key historical financials



Source: Company data

Recommendation Chart

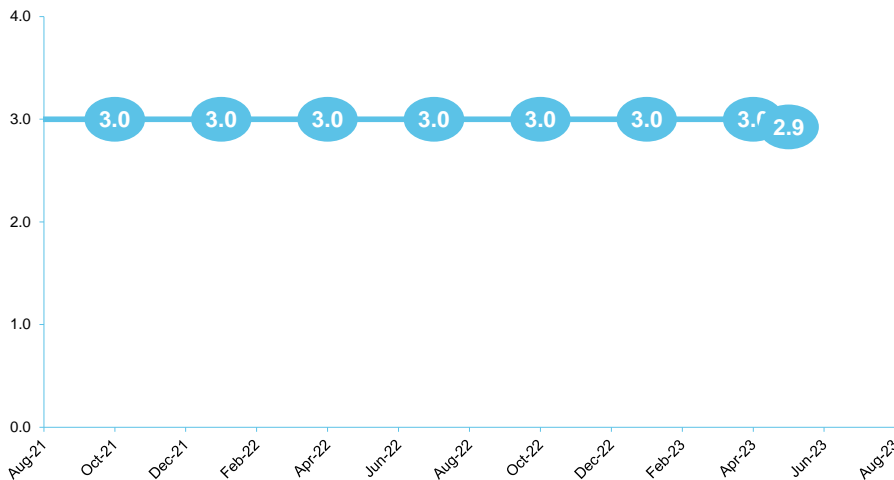


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-05-25	Neutral	2.10	2.07
2023-04-14	Neutral	2.35	2.17
2023-03-03	Neutral	2.45	2.26
2023-02-24	Neutral	2.45	2.30
2023-01-18	Buy	2.70	2.37
2022-11-25	Buy	2.80	2.22
2022-09-26	Buy	2.75	2.17
2022-09-11	Buy	2.55	2.23
2022-08-18	Buy	2.75	2.35
2022-07-05	Buy	2.60	2.17
2022-06-17	Buy	2.60	2.13
2022-05-25	Buy	2.60	2.17
2022-04-18	Neutral	2.40	2.41
2022-03-24	Neutral	2.40	2.34
2022-02-17	Neutral	2.30	2.31

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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