

22 February 2024

Industrials | Industrial Services

## Sime Darby (SIME MK)

**Buy** (Maintained)

### Local Auto Behemoth With Cheap Valuations; BUY

Target Price (Return): MYR3.15 (19.9%)  
Price (Market Cap): MYR2.63 (USD3,739m)  
ESG score: 2.9 (out of 4)  
Avg Daily Turnover (MYR/USD) 29.1m/6.19m

- **Maintain BUY, new MYR3.15 TP (SOP) from MYR2.85, 20% upside, c.5% FY24F (Jun) yield.** 1HFY24 largely met both our and Street's full-year forecasts. Post-acquisition of UMW, we believe Sime Darby is now undervalued, trading at 10.9x CY24 P/E – below its historical mean of 13x.
- **SIME's MYR594m 1HFY24 core earnings** were largely in line with our and Street's expectations of full-year FY24 forecasts. It declared a 3 sen DPS, which translates to a c.25% payout ratio or 1% yield. We maintain our FY24 DPS of 13 sen.
- **The 2QFY24 motor segment's PBIT rose 27% YoY**, bringing 1HFY24 PBIT to MYR395m (+21% YoY). The YoY rise in 2QFY24 was largely contributed by SIME's Malaysia motor business (+84% YoY), driven by higher volumes sold (+46% YoY) and elevated units assembled. This was offset by the China motor business, which recorded a MYR16m loss (2QFY23 PBIT of MYR15m), as the price war rumbled on while ASPs declined 3% YoY.
- **Solid Industrial results.** SIME's industrial segment recorded a PBIT of MYR351m (+57% YoY) in 2QFY24, resulting in 1HFY24 PBIT rising 61% YoY. The Australasia market continued to be the segment's main contributor, with its recent acquisitions – Onsite Rental and Cavpower Group – contributing c.15% of Australasia's industrial PBIT in 1HFY24.
- **UMW results.** UMW's FY23 earnings doubled to MYR835m (FY22: MYR415m) thanks to record high sales from Perodua (+41%) and Toyota/Lexus (+14%). While we remain neutral on the post-acquisition synergies in the short term, we believe the addition of mass market brands to SIME's offerings strengthens its presence in the local auto market.
- **Outlook.** We continue to expect the industrial division to record robust numbers, supported by the full contributions from Cavpower. The China industrial unit is expected to remain weak given the current macroeconomic headwinds while EV overcapacity may see the price war going on for longer. In Malaysia, we expect the motor segment to chart stronger results – driven by a flurry of new EV launches – while the UMW acquisition should increase SIME's overall earnings base moving forward.
- **We lift our FY24F-26F earnings by 17-22%**, mainly due to the consolidation of UMW, while we cut our bottomline estimates for China (both industrial and motor segments), given the continuing weak sentiment there.
- **Keep BUY with a higher SOP-based MYR3.15 TP** with a 2% ESG discount. We now factor in UMW into our SOP valuation, with a previously ascribed 14x target P/E. Post the acquisition, SIME is undervalued – it is currently trading at 10.9x CY24F P/E vs its historical mean of 13x.
- **Key risks:** Weaker-than-expected margins, softer-than-expected car sales across its markets, and a longer-than-expected downturn in China.

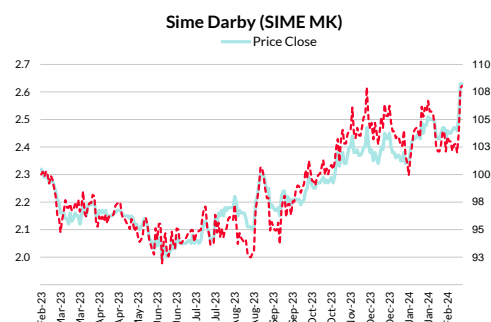
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	11.9	6.0	10.5	24.6	13.4
Relative	5.2	1.6	4.4	17.6	8.1
52-wk Price low/high (MYR)				1.99 – 2.63	



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-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Total turnover (MYRm)	42,502	48,288	60,959	68,808	72,894
Recurring net profit (MYRm)	1,195	1,154	1,549	1,729	1,879
Recurring net profit growth (%)	(4.2)	(3.4)	34.2	11.6	8.7
Recurring P/E (x)	14.99	15.52	11.56	10.36	9.53
P/B (x)	1.1	1.1	0.8	0.8	0.8
P/CF (x)	21.95	17.87	4.52	3.97	3.48
Dividend Yield (%)	4.4	4.9	4.9	5.3	5.3
EV/EBITDA (x)	6.43	6.04	4.63	3.53	2.61
Return on average equity (%)	7.4	8.1	8.3	8.9	10.2
Net debt to equity (%)	7.4	16.0	23.2	12.6	0.0

Source: Company data, RHB

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Jun-22</b>	<b>Jun-23</b>	<b>Jun-24F</b>	<b>Jun-25F</b>	<b>Jun-26F</b>
Malaysia	Recurring EPS	0.18	0.17	0.23	0.25	0.28
Industrials	DPS	0.12	0.13	0.13	0.14	0.14
<b>Sime Darby</b>	BVPS	2.35	2.49	3.10	3.22	3.35
SIME MK	Return on average equity (%)	7.4	8.1	8.3	8.9	10.2
Buy						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Jun-22</b>	<b>Jun-23</b>	<b>Jun-24F</b>	<b>Jun-25F</b>	<b>Jun-26F</b>
Sum-of-Parts	Recurring P/E (x)	14.99	15.52	11.56	10.36	9.53
	P/B (x)	1.1	1.1	0.8	0.8	0.8
	FCF Yield (%)	1.0	1.9	19.3	22.4	25.4
	Dividend Yield (%)	4.4	4.9	4.9	5.3	5.3
<b>Key drivers</b>	EV/EBITDA (x)	6.43	6.04	4.63	3.53	2.61
i. Strength in regional consumer discretionary spending;	EV/EBIT (x)	10.53	9.83	8.00	6.05	4.35
ii. Intensity of macroeconomic activity supporting demand for heavy equipment.						
<b>Key risks</b>	<b>Income statement (MYRm)</b>	<b>Jun-22</b>	<b>Jun-23</b>	<b>Jun-24F</b>	<b>Jun-25F</b>	<b>Jun-26F</b>
i. Weaker-than-expected Australasia margins;	Total turnover	42,502	48,288	60,959	68,808	72,894
ii. Softer-than-expected car sales across its markets;	Gross profit	7,616	8,168	9,753	11,009	11,663
iii. Longer-than-expected downturn in China.	EBITDA	2,863	3,289	4,342	4,953	5,462
	Depreciation and amortisation	(1,113)	(1,269)	(1,829)	(2,064)	(2,187)
	Operating profit	1,750	2,020	2,513	2,889	3,275
	Net interest	(109)	(263)	(454)	(367)	(281)
	Pre-tax profit	1,732	1,878	2,316	2,834	3,300
	Taxation	(474)	(484)	(576)	(674)	(742)
	Reported net profit	1,187	1,340	1,584	1,915	2,292
	Recurring net profit	1,195	1,154	1,549	1,729	1,879
<b>Company Profile</b>	<b>Cash flow (MYRm)</b>	<b>Jun-22</b>	<b>Jun-23</b>	<b>Jun-24F</b>	<b>Jun-25F</b>	<b>Jun-26F</b>
Sime Darby is a multinational conglomerate involved in four core sectors (automotive, industrial, logistics and healthcare). It was formed as a result of the demerger of Sime Darby Plantation and Sime Darby Properties. Its key earnings drivers are its motor and industrial divisions.	Change in working capital	(883)	(2,040)	349	595	1,038
	Cash flow from operations	816	1,002	3,959	4,513	5,148
	Capex	(639)	(660)	(510)	(510)	(600)
	Cash flow from investing activities	(464)	(1,435)	(1,577)	(822)	(906)
	Dividends paid	(783)	(885)	(885)	(953)	(953)
	Cash flow from financing activities	(716)	(250)	2,176	(1,791)	(1,704)
	Cash at beginning of period	2,473	1,772	3,086	7,644	9,545
	Net change in cash	(364)	(683)	4,558	1,901	2,539
	Ending balance cash	2,139	1,089	7,644	9,545	12,084
	<b>Balance sheet (MYRm)</b>	<b>Jun-22</b>	<b>Jun-23</b>	<b>Jun-24F</b>	<b>Jun-25F</b>	<b>Jun-26F</b>
	Total cash and equivalents	1,772	3,086	7,644	9,545	12,084
	Tangible fixed assets	5,740	7,990	12,181	10,627	9,040
	Total investments	1,063	1,175	3,425	3,737	4,042
	Total assets	30,229	37,036	54,687	56,568	57,877
	Short-term debt	2,607	3,611	7,994	7,794	7,594
	Total long-term debt	376	2,246	4,899	4,699	4,499
	Total liabilities	13,858	19,753	32,088	33,193	33,577
	Total equity	16,371	17,283	22,600	23,375	24,301
	Total liabilities & equity	30,229	37,036	54,687	56,568	57,877
	<b>Key metrics</b>	<b>Jun-22</b>	<b>Jun-23</b>	<b>Jun-24F</b>	<b>Jun-25F</b>	<b>Jun-26F</b>
	Revenue growth (%)	(4.1)	13.6	26.2	12.9	5.9
	Recurrent EPS growth (%)	(4.2)	(3.4)	34.2	11.6	8.7
	Gross margin (%)	17.9	16.9	16.0	16.0	16.0
	Operating EBITDA margin (%)	6.7	6.8	7.1	7.2	7.5
	Net profit margin (%)	2.8	2.8	2.6	2.8	3.1
	Dividend payout ratio (%)	66.0	66.1	55.9	49.8	41.6
	Capex/sales (%)	1.5	1.4	0.8	0.7	0.8
	Interest cover (x)	11.8	6.1	4.5	4.6	5.3

Source: Company data, RHB

## Results At a Glance

Figure 1: Results review

FYE June (MYRm)	2QFY23	1QFY24	2QFY24	QoQ (%)	YoY (%)	1HFY23	1HFY24	YoY (%)	Comments
Revenue	11,292	13,980	15,548	11.2	37.7	23,474	29,528	25.8	Higher YoY contributions from all segments.
EBIT	390	820	558	(32.0)	43.1	743	1,378	85.5	
Net Interest	(56)	(102)	(138)	35.3	146.4	(102)	(240)	135.3	
Associates & JV	31	10	32	220.0	3.2	64	42	(34.4)	
Pretax profit	365	728	452	(37.9)	23.8	705	1,180	67.4	
Tax	(103)	(154)	(140)	(9.1)	35.9	(200)	(294)	47.0	
Minority Interest	(7)	(9)	(48)	433.3	585.7	(27)	(57)	111.1	
Reported PATAMI	255	565	260	(54.0)	2.0	478	825	72.6	
Recurring PATAMI	251	325	269	(17.2)	7.2	458	594	29.7	1HFY24 core earnings of MYR458m are largely in line with our and Street's expectations, making up 45-50% of full-year forecasts.
EBIT Margin (%)	3.5	5.9	3.6			3.2	4.7		
PBT Margin (%)	3.2	5.2	2.9			3.0	4.0		
Effective tax rate (%)	(28.2)	(21.2)	(31.0)			(28.4)	(24.9)		
Core Net Margin (%)	2.2	2.3	1.7			2.0	2.0		

Source: Company data, RHB

Figure 2: Revenue – segmental review

FYE June (MYRm)	2QFY23	1QFY24	2QFY24	QoQ (%)	YoY (%)	1HFY23	1HFY24	YoY (%)	Comments
Motor	7,545	9,221	9,582	3.9	27.0	15,500	18,803	21.3	
Malaysia	1,593	2,139	2,391	11.8	50.1	2,971	4,530	52.5	Higher YoY: Driven by stronger sales units (+54% YoY) offset by lower ASPs (-1% YoY).
South-East Asia (ex-Malaysia)	1,242	1,503	1,608	7.0	29.5	2,542	3,111	22.4	
China/Hong Kong	3,361	3,919	4,055	3.5	20.6	7,245	7,974	10.1	Higher YoY: Driven by stronger sales units (+16% YoY) offset by lower ASPs (-5% YoY). Higher YoY: Driven by stronger sales units (+22% YoY) offset by lower ASPs (-5% YoY).
Australasia/New Zealand	1,349	1,660	1,528	(8.0)	13.3	2,742	3,188	16.3	
Industrial	3,734	4,741	5,003	5.5	34.0	7,946	9,744	22.6	
Malaysia	243	311	341	9.6	40.3	477	652	36.7	Higher YoY – partly due to increased revenue from petroleum and energy services. Partially contributed by the engines segments due to investments into Singapore's telecommunications data centre businesses. Lower deliveries of new equipment due to market sentiment remaining weak. Due to higher product support and mining equipment revenue as well as contributions from Cappower Group and Onsite Rental.
South-East Asia (ex-Malaysia)	190	260	247	(5.0)	30.0	420	507	20.7	
China/Hong Kong	708	579	647	11.7	(8.6)	1,422	1,226	(13.8)	
Australasia/New Zealand	2,593	3,591	3,768	4.9	45.3	5,627	7,359	30.8	
UMW	0	0	945	n.m.	n.m.	0	945	n.m.	
Others	13	18	18	0.0	38.5	28	36	28.6	
Total	11,292	13,980	15,548	11.2	37.7	23,474	29,528	25.8	

Source: Company data, RHB

Figure 3: PBIT – segmental review

FYE June (MYRm)	2QFY23	1QFY24	2QFY24	QoQ (%)	YoY (%)	1H FY23	1H FY24	YoY (%)	Comments
<b>RECURRING PBIT</b>									
<b>Motor</b>	151	203	192	(5.4)	27.2	327	395	20.8	
Malaysia	70	99	129	30.3	84.3	125	228	82.4	Supported by strong revenue growth.
South-East Asia (ex-Malaysia)	17	24	33	37.5	94.1	34	57	67.6	
China/Hong Kong	15	19	(16)	(184.2)	(206.7)	63	3	(95.2)	Significant decline in margins due to the stiff price war.
Australasia/New Zealand	49	61	46	(24.6)	(6.1)	105	107	1.9	
<b>Industrial</b>	224	358	351	(2.0)	56.7	440	709	61.1	
Malaysia	7	11	24	118.2	242.9	6	35	483.3	Improved performance from engines and energy segments. Higher profits largely supported by higher product support revenue and power system deliveries for data centre projects. 1H FY22 also included some FX losses.
South-East Asia (ex-Malaysia)	15	20	10	(50.0)	(33.3)	27	30	11.1	
China/Hong Kong	28	18	18	0.0	(35.7)	47	36	(23.4)	Weaker YoY in line with its revenue.
Australasia/New Zealand	174	309	299	(3.2)	71.8	360	608	68.9	Higher YoY due to elevated products support revenue as well as contributions from Onsite Rental and Cavpower Group.
<b>UMW</b>	0	0	46	n.m.	n.m.	0	46	n.m.	
<b>Others</b>	59	28	264	n.m.	n.m.	71	292	n.m.	
Elimination	(13)	(27)	5	(118.5)	(138.5)	(31)	(22)	(29.0)	
<b>Total</b>	<b>421</b>	<b>562</b>	<b>858</b>	<b>52.7</b>	<b>103.8</b>	<b>807</b>	<b>1,420</b>	<b>76.0</b>	

Source: Company data, RHB

Figure 4: SOP valuation

Segment	Valuation method	Value (MYRm)	Per share (MYR)
<b>Motor</b>			
CY24F NP (MYRm)	14x P/E	6,425	0.94
<b>Industrials</b>			
CY24F NP (MYRm)	15x P/E	11,763	1.73
<b>UMW</b>			
FY24F NP (MYRm); 50% stake	14x P/E	5,137	0.75
<b>MVV Land</b>			
RNAV of unsold land (assuming MYR8psf)	Discount to RNAV of 50%	936	0.14
		<b>24,261</b>	<b>3.56</b>
Holding company discount	10%	(2,426)	
Holding company net cash / (debt)		85	
<b>SOP valuation</b>		<b>21,920</b>	
No. of shares		6,810	
<b>Intrinsic value per share</b>			<b>3.22</b>
ESG premium/ (discount)			-2%
<b>TP per share (rounded)</b>			<b>3.15</b>

Source: Company data, RHB

Figure 5: SIME's motor products map



**BMW iX1**  
Hong Kong/Macau - 2024



**Mini Cooper MINI Electric**  
China - 2024



**BYD Seal**  
Malaysia - 2024



**Volvo EX30**  
Malaysia - 2024

Source: Company data

## Emissions And ESG

### Trend analysis

In FY23, Scope 1 emissions increased to 34k tonnes of CO<sub>2</sub>e (FY22: 32k tonnes of CO<sub>2</sub>e) while Scope 2 increased to 71k tonnes of CO<sub>2</sub>e (FY22: 68k tonnes of CO<sub>2</sub>e).

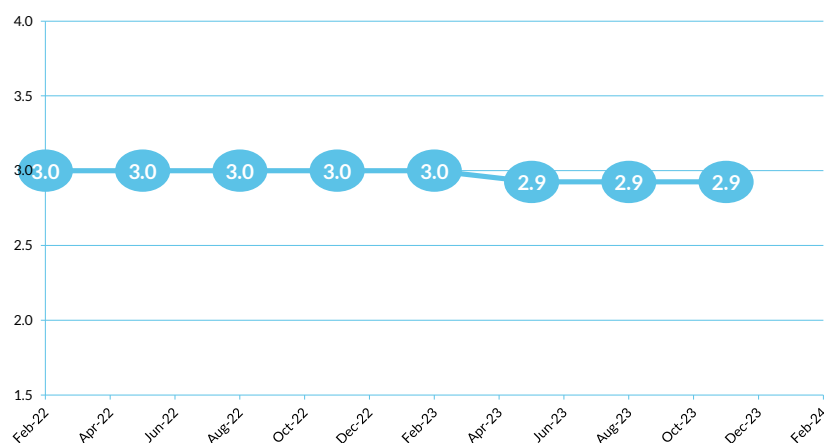
Emissions (tCO <sub>2</sub> e)	Jun-21	Jun-22	Jun-23
Scope 1	31,000	32,000	34,000
Scope 2	68,000	68,000	71,000
Scope 3	na	na	na
Total emissions	99,000	100,000	105,000

Source: Company data, RHB

## Latest ESG-Related Developments

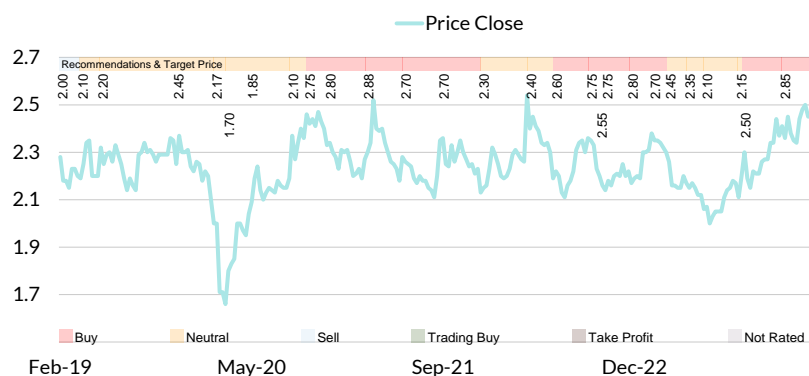
- **Energy efficiency:** SIME recorded a decrease in energy consumption by 3% in FY23.
- **Minimising greenhouse gas (GHG) emission:** SIME's efforts to minimise GHG emissions includes generation of 2.8kMWh of renewable electricity in FY23 through the installation of solar photovoltaic or PV panels across its facilities.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-11-28	Buy	2.85	2.40
2023-08-25	Buy	2.50	2.20
2023-08-15	Neutral	2.15	2.16
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

Source: RHB, Bloomberg



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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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