28 November 2023

Industrials | Industrial Services

Sime Darby (SIME MK)

Buy (Maintained)

Strong Start of The Year; Maintain BUY

Target Price (Return):	MYR2.85 (19.7%)
Price (Market Cap):	MYR2.38 (USD3,462m)
ESG score:	2.9 (out of 4)
Avg Daily Turnover (MYR/USD)	19.0m/4.02m

- **Maintain BUY, new MYR2.85 TP (SOP) from MYR2.50, 20% upside, c.6% FY24F (Jun) yield.** 1QFY24 net profit beat our and Street's full-year forecasts at 27%. Driven by EV sales, Sime Darby's Malaysia and China motor segments should remain resilient despite macroeconomic headwinds. Its Australasia industrial segment's contribution continues to grow following its recent acquisitions.
- **Results beat.** SIME's MYR325m 1QFY24 core profit beat our and consensus expectations at 27% of full-year FY24 forecasts. This was due to stronger-than-expected performances across all segments.
- **The motor segment's PBIT rose 15% YoY,** largely contributed by its Malaysia motor business (+88% YoY), driven by higher volumes sold (+65% YoY) and units assembled (+43% YoY). This was offset by China motor business, which declined 60% YoY in the midst of a stiff price war. This has resulted in ASPs declining 9%.
- **Industrial results.** SIME's Australasia market, which made up the bulk or 86% of its 1QFY24 industrial PBIT, rose 66% YoY thanks to elevated spare parts and services revenue, as well as higher-margin contributions from its Onsite Rental acquisition. The latter contributed MYR38m at PBIT level, ie >10% of Australasia's industrial PBIT. With the recently concluded acquisition of Cavpower, we believe this unit will record solid numbers in the coming quarters.
- **Outlook.** We continue to expect the industrial division to chart robust numbers, supported by the anticipated Cavpower earnings on top of contributions from Onsite Rental. We remain cautious on the China motor and industrial units given the relatively weak economic outlook there. We estimate SIME's car sales will soften 4% YoY in China, mainly weighed by the continuing stiff price war from Chinese marques. That said, we expect margins to gradually recover. In Malaysia, we expect the motor segment to remain resilient, driven by a series of new EV launches.
- **We lift estimates by 9-10%** as we tweak our car ASPs in Malaysia, and car sales volumes here and in China. We also increase the industrial division's contributions for Australasia, supported by Onsite Rental and Cavpower.
- **Keep BUY with a higher MYR2.85 TP** as we roll forward our valuation to CY24F. Our TP includes a 0% ESG premium/discount, which implies 14x CY24F P/E, which we believe is where this stock deserves to be traded at – ie higher than historical mean of 11.6x P/E – considering that the proposed acquisition of UMW (UMWH, NEUTRAL, TP: MYR5) will be earnings accretive to SIME, in our view.
- **Key risks:** Weaker-than-expected margins, softer-than-expected car sales across its markets, and a longer-than-expected downturn in China.

Forecasts and Valuation	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Total turnover (MYRm)	42,502	48,288	50,956	53,134	55,543
Recurring net profit (MYRm)	1,195	1,154	1,312	1,477	1,541
Recurring net profit growth (%)	(4.2)	(3.4)	13.7	12.6	4.3
Recurring P/E (x)	13.56	14.04	12.36	10.98	10.52
P/B (x)	1.0	1.0	0.9	0.9	0.9
P/CF (x)	19.86	16.18	6.95	6.10	5.90
Dividend Yield (%)	4.8	5.5	5.5	5.9	5.9
EV/EBITDA (x)	5.84	na	5.46	4.70	4.21
Return on average equity (%)	7.4	(239.3)	7.7	8.4	8.5
Net debt to equity (%)	7.4	16.0	24.2	17.8	11.3

Source: Company data, RHB

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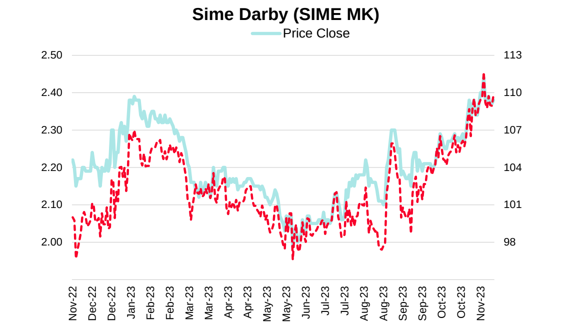
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	3.5	4.8	8.2	15.5	7.2
Relative	6.7	4.4	7.9	12.3	9.8
52-wk Price low/high (MYR)					1.99 – 2.44



Source: Bloomberg

Overall ESG Score: 2.9 (out of 4)

E: GOOD
SIME 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 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's board members are independent, following the best practices of the Malaysian Code on Corporate Governance 2017. We notice that the company has been very forthcoming with regards to sharing information with the market.

Financial Exhibits

Asia
Malaysia
Industrials
Sime Darby
SIME MK
Buy

Valuation basis

Sum-of-Parts

Key drivers

i. Strength in regional consumer discretionary spending;
ii. Intensity of macroeconomic activity supporting demand for heavy equipment.

Key risks

i. Weaker-than-expected margins;
ii. Softer-than-expected car sales across its markets;
iii. Longer-than-expected downturn in China.

Company Profile

SIME 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 Property. Its key earnings drivers are its motor and industrial divisions.

Financial summary (MYR)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Recurring EPS	0.18	0.17	0.19	0.22	0.23
DPS	0.12	0.13	0.13	0.14	0.14
BVPS	2.35	2.49	2.55	2.62	2.71
Return on average equity (%)	7.4	(239.3)	7.7	8.4	8.5

Valuation metrics	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Recurring P/E (x)	13.56	14.04	12.36	10.98	10.52
P/B (x)	1.0	1.0	0.9	0.9	0.9
FCF Yield (%)	1.1	2.1	11.2	13.2	13.8
Dividend Yield (%)	4.8	5.5	5.5	5.9	5.9
EV/EBITDA (x)	5.84	na	5.46	4.70	4.21
EV/EBIT (x)	9.55	na	8.97	7.47	6.71

Income statement (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Total turnover	42,502	48,288	50,956	53,134	55,543
Gross profit	7,616	8,168	8,153	8,501	8,887
EBITDA	2,863	(37,458)	3,326	3,648	3,803
Depreciation and amortisation	(1,113)	(1,269)	(1,299)	(1,355)	(1,416)
Operating profit	1,750	(38,727)	2,027	2,293	2,386
Net interest	(109)	(263)	(257)	(217)	(217)
Pre-tax profit	1,732	(38,869)	1,898	2,136	2,229
Taxation	(474)	(484)	(531)	(598)	(624)
Reported net profit	1,187	(39,407)	1,312	1,477	1,541
Recurring net profit	1,195	1,154	1,312	1,477	1,541

Cash flow (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Change in working capital	1,090	(1,011)	(407)	(332)	(368)
Cash flow from operations	816	1,002	2,333	2,656	2,746
Capex	(639)	(660)	(510)	(510)	(510)
Cash flow from investing activities	(464)	(1,435)	(2,705)	(450)	(450)
Dividends paid	(783)	(885)	(885)	(953)	(953)
Cash flow from financing activities	(686)	2,769	(1,142)	(1,170)	(1,170)
Cash at beginning of period	2,473	1,772	3,086	1,472	2,407
Net change in cash	(334)	2,336	(1,514)	1,036	1,126
Ending balance cash	2,169	4,108	1,572	2,507	3,533

Balance sheet (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Total cash and equivalents	1,772	3,086	1,472	2,407	3,433
Tangible fixed assets	5,740	7,990	7,201	6,356	5,449
Total investments	1,063	1,175	2,675	2,675	2,675
Total assets	30,229	37,036	37,099	37,822	38,642
Short-term debt	2,607	3,611	3,511	3,411	3,311
Total long-term debt	376	2,246	2,246	2,246	2,246
Total liabilities	13,858	19,753	19,390	19,590	19,822
Total equity	16,371	17,283	17,709	18,233	18,820
Total liabilities & equity	30,229	37,036	37,099	37,822	38,642

Key metrics	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Revenue growth (%)	(4.1)	13.6	5.5	4.3	4.5
Recurrent EPS growth (%)	(4.2)	(3.4)	13.7	12.6	4.3
Gross margin (%)	17.9	16.9	16.0	16.0	16.0
Operating EBITDA margin (%)	6.7	(77.6)	6.5	6.9	6.8
Net profit margin (%)	2.8	(81.6)	2.6	2.8	2.8
Dividend payout ratio (%)	66.0	(2.2)	67.5	64.6	61.9
Capex/sales (%)	1.5	1.4	1.0	1.0	0.9
Interest cover (x)	11.8	(116.3)	5.7	7.3	7.6

Source: Company data, RHB

Results At a Glance

Figure 1: Results review

FYE June (MYRm)	1QFY23	4QFY23	1QFY24	QoQ (%)	YoY (%)	Comments
Revenue	**12,182**	**13,286**	**13,980**	***5.2***	***14.8***	Refer to Figure 2 for revenue breakdown. QoQ: Lower due to dividend income from BMW in the preceding quarter.
EBIT	**353**	**880**	**820**	***(6.8)***	***132.3***	YoY: Higher due to stronger performance from both the motor and industrial divisions.
Net Interest	(46)	(104)	(102)	*(1.9)*	*121.7*	
Associates & JV	33	36	34	*(5.6)*	*3.0*	Includes the healthcare division.
Pre-tax profit	**340**	**812**	**752**	***(7.4)***	***121.2***	
Tax	(97)	(176)	(154)	*(12.5)*	*58.8*	
Minority Interest	(20)	(14)	(9)	*(35.7)*	*(55.0)*	
Reported PATAMI	**223**	**622**	**589**	***(5.3)***	***164.1***	
Recurring PATAMI	**207**	**463**	**325**	***(29.8)***	***57.0***	Above our expectations, mainly due to stronger-than-expected performance from the motor division.
EBIT Margin (%)	*2.9*	*6.6*	*5.9*			
PBT Margin (%)	*2.8*	*6.1*	*5.4*			
Effective tax rate (%)	*(28.5)*	*(21.7)*	*(20.5)*			
Core Net Margin (%)	*1.7*	*3.5*	*2.3*			

Source: Company data, RHB

Figure 2: Revenue – segmental review

FYE June (MYRm)	1QFY23	4QFY23	1QFY24	QoQ (%)	YoY (%)	Comments
Motor	**7,955**	**8,214**	**9,221**	**12.3**	**15.9**	Higher QoQ and YoY due to elevated volumes.
Malaysia	1,378	1,839	2,139	16.3	55.2	Higher YoY due to elevated units sold (+65% YoY) offset by lower ASPs (-6% YoY).
South-East Asia (ex-Malaysia)	1,300	1,145	1,503	31.3	15.6	Higher YoY due to elevated ASPs (+22% YoY) offset by lower units sold (-5%).
China/Hong Kong	3,884	3,797	3,919	3.2	0.9	Slightly higher YoY due to elevated units sold (+9% YoY) offset by lower ASPs (-8%).
Australasia/New Zealand	1,393	1,433	1,660	15.8	19.2	Higher YoY due to elevated units sold (+22% YoY) offset by lower ASPs (-2% YoY).
Industrial	**4,212**	**5,058**	**4,741**	**(6.3)**	**12.6**	
Malaysia	234	237	311	31.2	32.9	Higher YoY partly due to increased revenue from petroleum and energy services.
South-East Asia (ex-Malaysia)	230	167	260	55.7	13.0	YoY: Higher revenue from the energy segment as well as maintenance work in the oil and gas and marine sectors.
China/Hong Kong	714	647	579	(10.5)	(18.9)	Remains soft YoY due less projects in the property and construction sectors.
Australasia/New Zealand	3,034	4,007	3,591	(10.4)	18.4	Higher due to elevated products support revenue.
Others	**15**	**14**	**18**	**28.6**	**20.0**	
Total*	**10,673**	**10,908**	**12,182**	**11.7**	**14.1**	

*Note: *Includes logistics revenue, which is not reflected in Figure 1*
Source: Company data, RHB

Figure 3: PBIT – segmental review

FYE June (MYRm)	1QFY23	4QFY23	1QFY24	QoQ (%)	YoY (%)	Comments Note: Due to year-end adjustments and non-recurring costs/reversals, QoQ comparisons are not as meaningful as YoY comparisons.
RECURRING PBIT						
Motor	**176**	**376**	**203**	**(46.0)**	**15.3**	
Malaysia	55	253	99	(60.9)	80.0	Higher YoY, boosted by higher deliveries.
South-East Asia (ex-Malaysia)	17	17	24	41.2	41.2	
China/ Hong Kong	48	37	19	(48.6)	(60.4)	YoY, significant decline in margins due to the stiff price war.
Australasia/New Zealand	56	69	61	(11.6)	8.9	
Industrial	**216**	**375**	**358**	**(4.5)**	**65.7**	
Malaysia	(1)	1	11	>100	>100	Supported by higher share of profits from associates/JVs.
South-East Asia (ex-Malaysia)	12	1	20	>100	66.7	
China/Hong Kong	19	35	18	(48.6)	(5.3)	Weaker YoY in line with its revenue.
Australasia/New Zealand	186	338	309	(8.6)	66.1	Higher YoY due to elevated products support revenue as well as Onsite Rental's contributions.
Others	**12**	**(3)**	**28**	**>100**	**>100**	
Elimination	(13)	(5)	(18)	260.0	38.5	
Total	**394**	**559**	**386**	**(30.9)**	**(2.0)**	

Source: Company data, RHB

Figure 4: SOP valuation

Segment	Valuation method	Value (MYRm)	Per share (MYR)
Motor			
CY24F NP (MYRm)	14x P/E	7,350	1.08
Industrials			
CY24F NP (MYRm)	15x P/E	12,642	1.86
Malaysia Vision Valley land			
RNAV of unsold land (assuming MYR8psf)	Discount to RNAV of 50%	936	0.14
Healthcare			
FY24F NP (MYRm); 50% stake		1,050	0.15
		21,979	**3.23**
Holding company discount	10%	(2,198)	
Holding company net cash / (debt)		85	
SOP valuation		**19,866**	
No. of shares		6,810	
Intrinsic value per share			**2.92**
ESG premium/ (discount)			-2%
TP per share (rounded)			**2.85**

Source: Company data, RHB

Figure 5: Sime Darby's motor products map

Source: Company

Emissions And ESG

Trend analysis
In FY23, Scope 1 emissions increased to 34k tonnes of CO2 equivalents (FY22: 32k tonnes of CO2 equivalents) while Scope 2 increased to 71k tonnes of CO2 equivalents (FY22: 68k tonnes of CO2 equivalents)

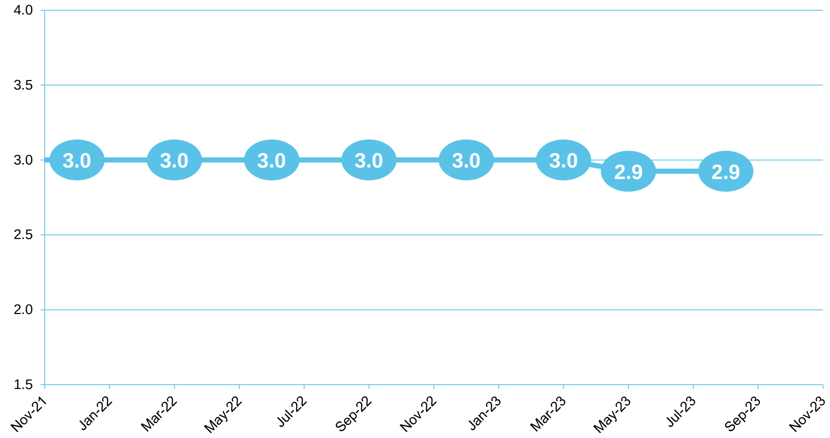
Emissions (tCO2e)	Jun-21	Jun-22	Jun-23
Scope 1	31,000	32,000	34,000
Scope 2	68,000	68,000	71,000
Scope 3	na	na	na
Total emissions	99,000	100,000	105,000

Source: Company data, RHB

Latest ESG-Related Developments

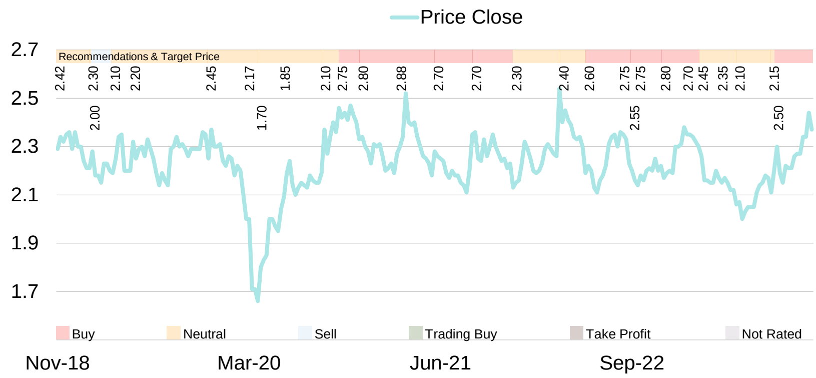
- **Energy efficiency:** SIME recorded a decrease in energy consumption by 3% in FY23.
- **Minimising greenhouse gas (GHG) emissions:** SIME's efforts to minimise GHG emissions includes generation of 2.8k MWh of renewable electricity in FY23 through installation of solar photovoltaic panels across its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

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2022-04-18	Neutral	2.40	2.41

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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