

3 December 2024

Property | Real Estate

## Sime Darby Property (SDPR MK)

### Buy (Maintained)

### Google DC Phase 2 Has Come; BUY

Target Price (Return): MYR2.33 (+55%)  
Price (Market Cap): MYR1.50 (USD2,294m)  
ESG score: 3.2 (out of 4)  
Avg Daily Turnover (MYR/USD) 25.3m/5.84m

- **Maintain BUY, TP rises to MYR2.33 from MYR2.20, 55% upside with c.2% FY24F yield.** We are upbeat on Google's second investment for a data centre (DC) in Elmina Business Park (EBP), which is larger in value and capacity than the first one. Sime Darby Property's earnings growth profile will change from 2026-2027 onwards, and the journey ahead could be exciting – as we expect a DC fund to potentially be set up, and listing of a REIT to be in the pipeline. We also do not rule out the possibility that SDPR may acquire some industrial properties to grow the size of its asset portfolio faster.
- **Google DC Phase 2.** SDPR announced the signing of a new build-and-lease agreement with Pearl Computing Malaysia (ie Google) for another DC facility to be developed on a 77-acre site in EBP. The second facility is near to the first Google DC, which is currently under construction and targeted for completion in early 2026. Upon the completion of the second Google DC in FY27, a 20-year lease valued at up to MYR5.6bn will commence, and the lease comes with an option for renewal for two additional 5-year terms.
- **Solid execution by management.** The second Google DC came in just six months after the first one was announced. We estimate that the investment by Google for Phase 2 could worth MYR4-5bn, as the capacity could be around 200-250MW, based on the land size and the value of total rental. Together with the MYR1.5-2bn investment for Phase 1 (of about 100MW), Google is investing a total of MYR5.5-7bn in EBP alone. This is a boost of confidence for the growth prospects of EBP, and should entice more manufacturers to set up their production facilities in the area. Already, EBP is seeing significant interest from many ancillary industries along the DC supply chain (eg cooling tower manufacturing). We expect EBP and the Elmina township to continue to be a major property sales contributor (now accounting for 25-30% of annual property sales) in the coming years.
- **Ramping up recurring income stream.** Putting the step-up rental aside, based on a simple average calculation, both Phases 1 and 2 could generate MYR380m in rental income per year, and contribute around MYR170-180m to total net profit. This is slightly more than 30% of our earnings forecast for FY24, suggesting that SDPR's earnings from FY27 onwards may undergo a quantum leap when both DCs contribute at the same time.
- **Balance sheet is healthy enough to fund more capex.** Although management has yet to provide details on its funding plan, we think SDPR's balance sheet will be able to fund the capex for the facility. The additional borrowings (assuming 70% debt) should raise the company's net gearing to around 0.4-0.5x, from 0.195x currently. We believe that the market should be receptive to this, considering the quality of the tenant and asset – which has an almost-zero off-taker risk and 7-8% expected yield.

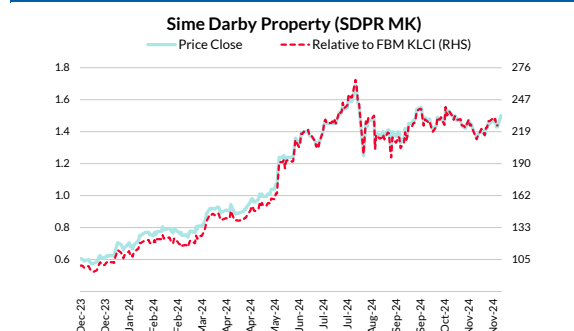
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	140.0	5.6	9.5	21.0	147.9
Relative	130.4	6.2	14.5	21.2	138.4
52-wk Price low/high (MYR)				0.58	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)	37.20	25.33	19.93	17.95	16.73
P/B (x)	1.07	1.01	0.99	0.96	0.93
Dividend Yield (%)	1.5	1.7	2.3	2.3	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 tonnes of palm oil trunks into biomass fuel pallets in some of its townships. It has also planted >90,000 trees since Sep 2011. So far, it has seven green certified projects.

##### S: EXCELLENT

It has built homes for the B40 community and multi-generational inclusive homes with access for the disabled. It also has 600 members in its young sustainability ambassadors programme, an educational initiative for children on sustainable living, civil society and environment.

##### G: GOOD

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

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
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
<b>Sime Darby Property</b>	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
<b>Valuation basis</b>						
Our SOP valuation comprises:	<b>Valuation metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
i. 20% discount to RNAV for the property segment;	Recurring P/E (x)	37.20	25.33	19.93	17.95	16.73
ii. DCF for its data centre investments.	P/B (x)	1.1	1.0	1.0	1.0	0.9
	Dividend Yield (%)	1.5	1.7	2.3	2.3	2.7
<b>Key drivers</b>	EV/EBITDA (x)	17.88	14.36	11.34	10.85	10.30
Large landbank.						
<b>Key risks</b>	<b>Income statement (MYRm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
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
<b>Company Profile</b>	<b>Cash flow (MYRm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
Sime Darby Property is the largest landowner among all the listed developers, with various township, commercial and integrated developments under its belt.	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
	<b>Balance sheet (MYRm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	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
	<b>Key metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	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

## Google DC Phase 2

### Realising management's SHIFT25 strategy step by step

Perhaps accelerating a REIT listing would be sensible. Of course, we will not rule out the possibility that a DC fund could be set up (similar to the previous Industrial Development Fund) to fund more DC developments in the pipeline. However, accelerating the listing of a REIT could also be an option to monetise the asset and alleviate concerns on gearing. More importantly, SDPR is also able to benefit from the tax incentive for REITs.

Upon the completion of both Phases 1 and 2 of the Google DC, we estimate that the total investment property portfolio value could amount to >MYR8bn (from MYR2.6bn presenting) – which is a meaningful size for a REIT listing, in our view.

**Valuations.** Rental contributions from Phases 1 and 2 of the Google DC are expected to be lower at the initial stage, then likely step up after the first few years. Based on a DCF valuation for the second Google DC, our SOP-based TP rises to MYR2.33. SDPR remains as one of our Top Picks for the property sector.

Figure 2: RNAV estimate

	Remaining nett acreage	Remaining GDV (MYRm)	Effective interest	NPV @ 10% (MYRm)
<b>Property development</b>				
Bukit Jelutong, Shah Alam	79	1,700	60%	57.19
Elmina West	783	17,000	100%	822.57
Elmina East	132	2,000	100%	134.65
Denai Alam	37	700	100%	54.44
Kota Elmina	838	9,700	100%	601.17
Bandar Bukit Raja 1, Klang	32	300	100%	29.81
Bandar Bukit Raja 2 & 3 Klang	781	13,200	100%	886.26
Serenia City, Dengkil/Sepang	459	7,700	100%	623.43
Nilai Impian 1, Nilai	177	1,200	100%	96.72
Nilai Impian 2, Nilai	174	2,400	100%	178.12
Bandar Ainsdale, Seremban	164	1,200	100%	47.10
Bandar University Pagoh, Muar	1,937	8,800	100%	558.36
Taman Pasir Putih, Pasir Gudang	62	200	100%	15.29
Hamilton (MVV)	90	500	100%	37.38
Ara Damansara	3	100	100%	11.97
KLGCC Resort	35	4,900	100%	518.95
KL East	31	2,500	100%	219.28
Putra Heights	29	2,100	100%	162.69
SJ7	39	5,200	100%	389.93
SJCC	22	4,000	100%	218.97
New Labu land	760	3,420	100%	159.06
New Kapar land (Bandar Bukit Raja 4)	949	3,500	100%	150.30
Battersea Power Station London	15	24,072	40%	6.50
Land for future development	1,473	24,880	100%	613.89
Non-core land	1,123	-	100%	-
<b>Total</b>	<b>10,247</b>	<b>141,572</b>		<b>6,594</b>
Unbilled sales				360.00
Shareholders' equity				10,057.10
Google DC 1				521.58
Google DC 2				1,429.72
Total RNAV				19,021.94
Share cap				6,800.84
RNAV/share				2.80
Discount to RNAV				20%
Intrinsic price				2.24
ESG premium / discount				4%
Target price				2.33

Source: Company data, RHB

Emissions And ESG

Trend analysis
The reduction in SDPR's Scope 1 and 2 emissions in 2022 was mainly due to energy efficiency initiatives – fleshed out by retrofitting components, as well as implementing energy-saving practices.

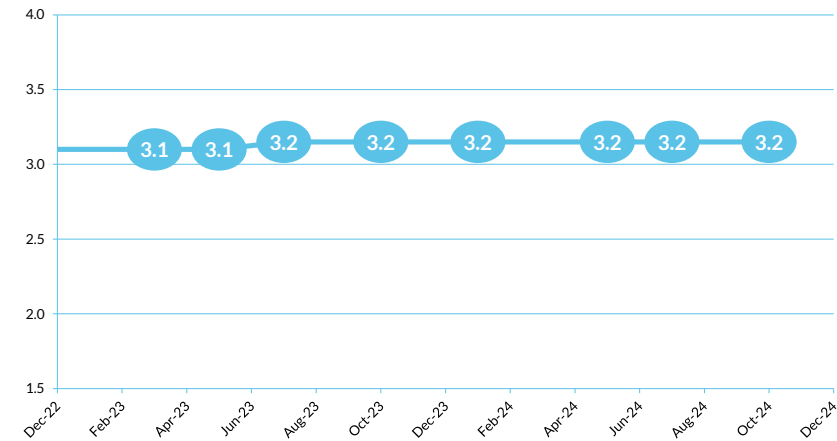
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	450	744	na
Scope 2	14,293	13,510	na
Scope 3	na	na	na
Total emissions	14,743	14,254	na

Source: Company data, RHB

Latest ESG-Related Developments

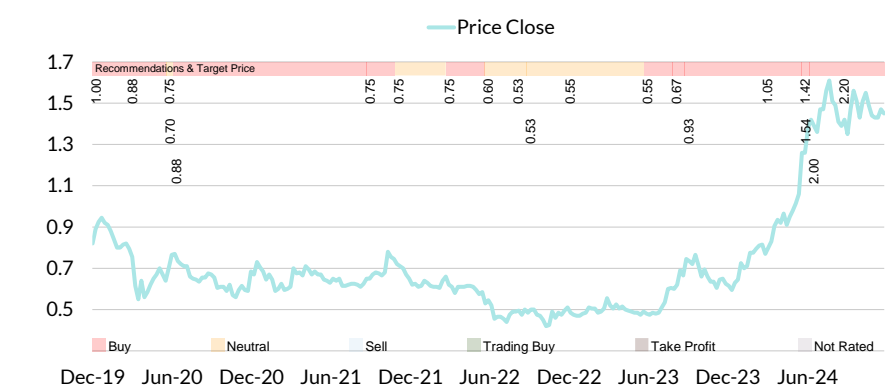
- Sime Darby Property plans to install solar power solutions at its township developments. It also aims to venture into solar farming to supply green energy to its off-takers, potentially from their industrial parks.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-10-27	Buy	2.20	1.47
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

Source: RHB, Bloomberg

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