

22 August 2024

Property | Real Estate

Sime Darby Property (SDPR MK)

Buy (Maintained)

SHIFT25 Strategy: Now In Fourth Gear; BUY

Target Price (Return): MYR2 (44.6%)
 Price (Market Cap): MYR1.38 (USD2,143m)
 ESG score: 3.2 (out of 4)
 Avg Daily Turnover (MYR/USD) 41.1m/8.92m

Analyst

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- **Maintain BUY and MYR2 TP, 45% upside and c.3% yield.** 2Q24 net profit beat expectations. Despite the sale of non-core land, Sime Darby Property's operating performance was fairly strong, mainly driven by high property sales and billings. This has helped to offset the Malaysian Financial Reporting Standard 17 (MFRS 17) impact related to a 5-year guarantee due to a disposal of a London office tower. The recent sell-down represents a good buying opportunity. Apart from its strong property sales, further news flows on data centre-related real estate deals are expected to buoy sentiment on the stock.
- **2Q24 results.** High property sales and billings, as well as the disposal of non-core land in Elmina and Lembah Acob in Selangor, were the key revenue drivers during the quarter. Despite the impact of land sales that may worth c.MYR100m – based on our estimate – 1H24 EBIT margin expanded to 25% (1H23: 17%), well reflecting the strong performance at core operating level. Bandar Bukit Raja, Serenia City, Elmina, KLGCC Resort, and Ara Damansara were the key contributors to sales and billings. Meanwhile, unsold completed inventory inched up slightly to MYR330m (1Q24: MYR313m). Net gearing stayed healthy at 0.22x vs 0.24x in the previous quarter. A 1.5 sen first interim dividend was declared vs 1 sen in 1H23.
- **MFRS 17 impact.** SDPR incurred a MYR87.9m share of JV losses in 2Q24. This was mainly caused by the negative accounting impact from MFRS 17 "Insurance Contract" related to a 5-year rental guarantee (with potential price adjustments) on the disposal of an office tower in London by the Battersea Power Station or BPS consortium, as well as higher finance costs incurred. While management is likely to elaborate more during tomorrow's analysts briefing, SP Setia's (SPSB MK, BUY, TP: MYR1.72) management team indicated that the accounting impact was already based on fairly conservative assumptions. Hence, we believe future losses (if any) related to the rental yield guarantee could be minimal.
- **Raised FY24 sales target to MYR3.5bn from MYR3bn.** 2Q24 property sales achieved MYR1.14bn (1Q24: MYR956m). The industrial segment contributed 35% to total sales of MYR2.1bn in 1H24, followed by high-rise and landed residential at 25% and 21%. As at 11 Aug, SDPR has total bookings worth MYR2.2bn to be converted into contractual sales.
- **Forecasts.** In view of the strong 1H24 results, we raise our FY24F-26F earnings by 10%, 14%, and 10%. Unbilled sales stood at MYR3.7bn vs MYR3.6bn during the previous quarter.
- **Maintain TP.** Our TP (with 4% ESG premium) is based on a 25% discount to RNAV.

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	120.8	(10.4)	29.0	78.1	110.7
Relative	108.4	(10.3)	28.2	72.8	98.0
52-wk Price low/high (MYR)				0.57	1.69

Sime Darby Property (SDPR MK)



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)	34.23	23.30	18.33	16.51	15.39
P/B (x)	0.99	0.93	0.91	0.88	0.85
Dividend Yield (%)	1.7	1.8	2.5	2.5	2.9
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 oil palm tree trunks into biomass fuel pallets at some of its townships. It has also planted >90,000 trees since Sep 2011. So far, SDPR has seven green-certified projects.

S: EXCELLENT

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

G: GOOD

56% of SDPR's board members are independent, with full disclosures on director remunerations, 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

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						
25% discount to RNAV						
Key drivers	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Large landbank.	Recurring P/E (x)	34.23	23.30	18.33	16.51	15.39
	P/B (x)	1.0	0.9	0.9	0.9	0.9
	Dividend Yield (%)	1.7	1.8	2.5	2.5	2.9
	EV/EBITDA (x)	16.31	13.12	10.38	9.91	9.43
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
The largest landowner among all the listed developers, with various townships, as well as 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

Results At a Glance

Figure 1: Quarterly results

FYE Dec (MYRm)	2Q23	1Q24	2Q24	QoQ (%)	YoY (%)	1H23	1H24	YoY (%)	Comments
Turnover	688.9	978.7	1,203.2	22.9	74.6	1,374.3	2,181.9	58.8	
Property development	639.7	925.6	1,147.6	24.0	79.4	1,276.5	2,073.2	62.4	The higher revenue was mainly driven by stronger property sales and billings, as well as material land sales in Elmina and Lembah Acob in Selangor.
Property investment	26.3	29.1	29.0	(0.0)	10.6	52.5	58.1	10.7	
Leisure & Hospitality	22.9	24.0	26.5	10.5	15.7	45.3	50.5	11.7	Revenue was mainly driven by existing memberships and golfing activities.
EBIT	120.3	196.2	340.0	73.3	182.7	239.0	536.2	124.4	
Property development	113.1	190.6	328.0	72.0	189.9	220.3	518.6	135.4	
Property investment	3.9	7.7	6.1	(20.7)	n.m.	9.4	13.8	n.m.	
Leisure & Hospitality	(1.8)	(1.7)	1.6	(189.6)	(185.8)	(0.1)	(0.2)	54.7	The wider losses were attributed to higher depreciation arising from an asset review exercise.
Net interest	13.3	8.0	12.1	50.8	(9.0)	19.9	20.1	1.0	
Pre-tax profit	114.3	180.8	265.5	46.9	132.3	212.2	446.3	110.3	The stronger operating earnings in 2Q24 were able to offset the impact of MFRS 17 "Insurance Contract" related to a 5-year rental guarantee (with potential price adjustments) on the disposal of an office tower in the Battersea Power Station project, as well as higher finance costs incurred.
Taxation	(35.4)	(53.5)	(99.8)	86.7	181.6	(72.2)	(153.3)	112.3	
Minority interest	(7.8)	(3.8)	(3.8)	0.3	(51.5)	(8.3)	(7.5)	(9.2)	
Net profit	71.1	123.6	162.0	31.1	127.9	131.7	285.5	116.7	
Core net profit	71.1	123.6	162.0	31.1	127.9	126.6	285.5	125.6	Above expectations.
EPS (sen)	1.0	1.8	2.4	0.0		1.9	4.2		
Gross DPS (sen)	1.0	0.0	1.5	0.0		1.0	1.5		
NTA/share (RM)	1.5	1.5	1.5	0.0		1.5	1.5		
EBIT margin (%)	17.5	20.0	28.3	0.0		17.4	24.6		
Pre-tax margin (%)	16.6	18.5	22.1	0.0		15.4	20.5		
Tax rate (%)	31.0	29.6	37.6	0.0		34.0	34.3		

Source: Company data, RHB

22 August 2024

Property | Real Estate

Figure 2: RNAV estimate

	Remaining nett acreage	Remaining GDV (MYRm)	Effective interest	NPV @ 9% (MYRm)
Property development				
Bukit Jelutong, Shah Alam	82	1,600	60%	54.51
Elmina West	1,077	17,700	100%	876.23
Elmina East	172	2,100	100%	143.93
Denai Alam	42	700	100%	55.08
Kota Elmina	938	7,900	100%	497.92
Bandar Bukit Raja 1, Klang	41	400	100%	40.05
Bandar Bukit Raja 2 & 3 Klang	1,191	14,700	100%	1,003.71
Serenia City, Dengkil/Sepang	624	7,400	100%	656.02
Nilai Impian 1, Nilai	187	900	100%	79.82
Nilai Impian 2, Nilai	257	3,300	100%	270.05
Bandar Ainsdale, Seremban	159	1,100	100%	44.31
Bandar University Pagoh, Muar	1,856	9,500	100%	611.51
Taman Pasir Putih, Pasir Gudang	61	200	100%	15.40
Hamilton (MVV)	167	700	100%	48.58
Ara Damansara	9	500	100%	56.21
KLGCC Resort	41	5,700	100%	575.38
KL East	37	1,800	100%	159.57
Taman Melawati	2	200	100%	20.11
Putra Heights	48	3,200	100%	235.30
USJ Heights	16	100	100%	12.25
SJ7	33	5,200	100%	395.58
SJCC	24	4,200	100%	235.30
New Labu land	760	2,964	100%	129.76
New Kapar land (Bandar Bukit Raja 4)	949	3,500	100%	141.76
Battersea Power Station London	15	24,072	40%	6.57
Land for future development	1,473	14,900	100%	
Non-core land	2,453	-	100%	-
Total	12,718	134,536		6,365
Unbilled sales				360.00
Shareholders' equity				10,057.10
Google DC				558.09
Total RNAV				17,400.98
Share cap				6,800.84
RNAV/share				2.56
Discount to RNAV				25%
Intrinsic price				1.92
ESG premium / discount				4%
Target price				2.00

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 the retrofitting of components, as well as the implementation of energy-saving practices.

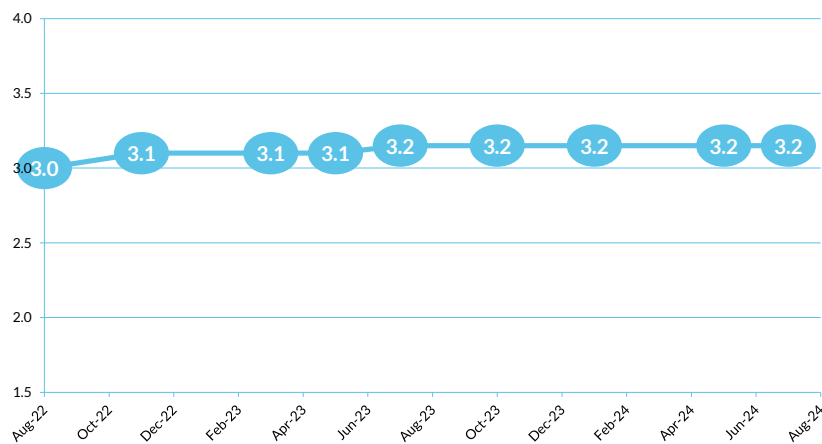
Emissions (tCO ₂ e)	Dec-21	Dec-22	Dec-23
Scope 1	450	744	na
Scope 2	14,293	13,510	na
Scope 3	na	na	na
Total emissions	14,743	14,254	na

Source: Company data, RHB

Latest ESG-Related Developments

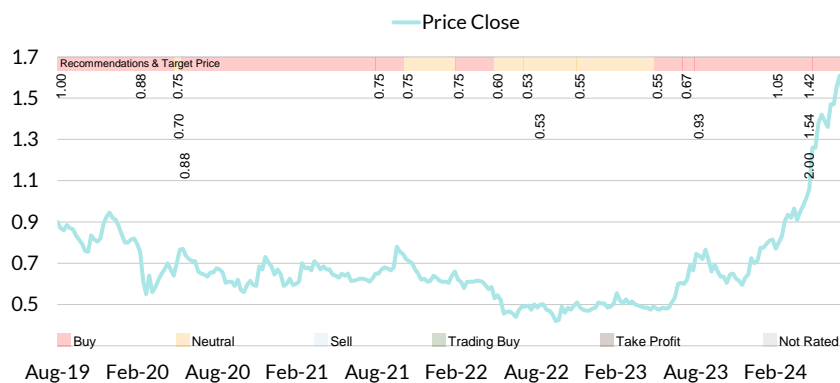
- Sime Darby Property plans to solar solutions for its township developments and will also venture into solar farming to supply green energy to its offtakers, potentially from its industrial parks.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2021-11-26	Neutral	0.75	0.65

Source: RHB, Bloomberg

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Not Rated:	Stock is not within regular research coverage

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