

26 September 2022

Industrials | Industrial Services

## Sime Darby (SIME MK)

### Buy (Maintained)

### Sale Of 1,282 Acres Of MVV Land; Keep BUY

Target Price (Return): MYR2.75 (27.3%)  
Price (Market Cap): MYR2.16 (USD3,213m)  
ESG score: 3.00 (out of 4)  
Avg Daily Turnover (MYR/USD) 15.7m/3.50m

• **Maintain BUY with higher MYR2.75 TP from MYR2.55, 27% upside and c.6% FY23F (Jun) yield.** In recent months, Sime Darby sold 2,664 acres of its Malaysia Vision Valley (MVV) land, as part of its efforts to monetise this non-core asset. Its recent sales, at 19% above cost, will fetch MYR905m, which Sime can use for investments, dividends, working capital, and repaying debt. We understand it is still in talks with more interested parties to sell the remaining 5,372 acres of its MVV land.

• **Details of transactions.** Last Friday, Sime announced the sale of 1,282 acres of its MVV land to NS Corporation for a consideration of MYR445m, implying MYR8/sq ft (psf). This comes shortly after Sime announced the sale of 1,382 acres of its MVV land on 24 Aug to NS Corp for MYR460m, implying MYR7.64 psf. Sime is expected to record net gains (including the reversal of consolidation adjustments) of MYR399m and MYR412m, totalling MYR811m, upon completion of sale in FY24 (Figure 3).

• **Usage of proceeds.** With total proceeds of MYR905m (MYR445m and MYR460m), Sime is expected to use up to: i) 50% for capex and investments, ii) 15% for dividends, and iii) 85% for working capital requirements and repayment of borrowings. We think Sime may reinvest into its core motor and industrial businesses, potentially acquiring adjacent and complementary assets. The maximum 15% distribution of proceeds implies a potential DPS of 2 sen (FY23F DPS: 12 sen).

• **Continued divestment of non-core assets.** Since acquiring 8,796 acres of MVV land from Sime Darby Plantation (SDPL MK, NEUTRAL, TP: MYR4.60) in 2017 as part of Sime's demerger exercise, it has undergone three transactions to sell its MVV land (Figure 3). This leaves Sime with 5,372 acres of MVV land, which we believe the group will continue to sell, as it is currently in talks with more interested buyers.

• **Post-transaction, we maintain our core-earnings forecast,** as the gains from the sale of land are non-core. We also maintain our DPS estimate, as we did not bake in the potential dividend, to be conservative. However, we raise our TP to MYR2.75, as we adjust the MVV land value in our SOP-valuation to reflect: i) Proceeds from recent MVV land sale and ii) 50% discount to RNAV of the unsold MVV land. The 50% discount reflects the uncertainty in Sime's ability to monetise its MVV land in the near future at the market price of MYR8 psf. Previously, we valued the MVV land with a 90% discount to RNAV. As its ESG score is on par with the country median, we ascribe a 0% ESG premium/discount.

• **BUY** for its dividend yield, resilient Australasia industrial segment, potential special dividends from disposal of its non-core assets, and growing fleet of EV offerings.

• **Key risks** include weaker-than-expected Australasia industrial margins, softer-than-expected car sales across its markets, and longer-than-expected downturn in China.

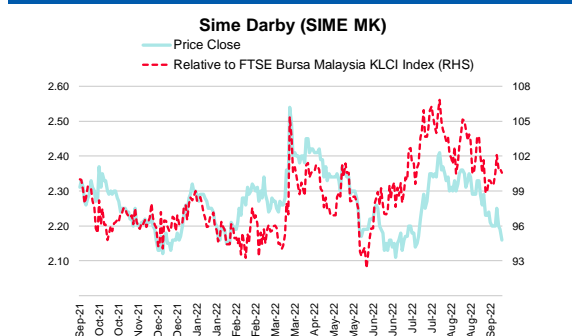
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(6.9)	(8.1)	0.5	(8.5)	(7.3)
Relative	2.2	(4.2)	0.9	2.3	0.1
52-wk Price low/high (MYR)	2.11 – 2.54				



Source: Bloomberg

#### Overall ESG Score: 3.00 (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 Sime has been 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	45,647	47,286	48,543
Recurring net profit (MYRm)	1,248	1,195	1,328	1,379	1,468
Recurring net profit growth (%)	20.0	(4.2)	11.1	3.9	6.4
Recurring P/E (x)	11.79	12.31	11.08	10.67	10.02
P/B (x)	0.9	0.9	0.9	0.9	0.8
P/CF (x)	5.28	18.16	7.39	6.02	5.60
Dividend Yield (%)	6.9	5.3	5.6	5.8	6.0
EV/EBITDA (x)	4.05	5.32	4.52	4.03	3.49
Return on average equity (%)	9.9	7.4	8.2	8.2	8.5
Net debt to equity (%)	net cash	7.4	3.4	net cash	net cash

Source: Company data, RHB

See important disclosures at the end of this report

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

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Jun-21</b>	<b>Jun-22</b>	<b>Jun-23F</b>	<b>Jun-24F</b>	<b>Jun-25F</b>
Malaysia	Recurring EPS	0.18	0.18	0.19	0.20	0.22
Industrials	DPS	0.15	0.12	0.12	0.13	0.13
<b>Sime Darby</b>	BVPS	2.33	2.35	2.43	2.50	2.59
SIME MK	Return on average equity (%)	9.9	7.4	8.2	8.2	8.5
Buy						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Jun-21</b>	<b>Jun-22</b>	<b>Jun-23F</b>	<b>Jun-24F</b>	<b>Jun-25F</b>
Sum-of-Parts	Recurring P/E (x)	11.79	12.31	11.08	10.67	10.02
	P/B (x)	0.9	0.9	0.9	0.9	0.8
	FCF Yield (%)	15.5	1.2	10.1	13.2	14.4
	Dividend Yield (%)	6.9	5.3	5.6	5.8	6.0
<b>Key drivers</b>	EV/EBITDA (x)	4.05	5.32	4.52	4.03	3.49
i. Strength in regional consumer discretionary spending;	EV/EBIT (x)	6.10	8.70	7.48	6.67	5.69
ii. Intensity of macroeconomic activity supporting demand for heavy equipment.						
<b>Key risks</b>	<b>Income statement (MYRm)</b>	<b>Jun-21</b>	<b>Jun-22</b>	<b>Jun-23F</b>	<b>Jun-24F</b>	<b>Jun-25F</b>
i. Weaker-than-expected Australasia margins;	Total turnover	44,302	42,502	45,647	47,286	48,543
ii. Softer-than-expected car sales across its markets;	Gross profit	6,823	6,545	7,030	7,282	7,476
iii. Longer-than-expected downturn in China.	EBITDA	3,264	2,863	3,226	3,347	3,513
	Depreciation and amortisation	(1,101)	(1,113)	(1,278)	(1,324)	(1,359)
	Operating profit	2,163	1,750	1,948	2,023	2,154
	Net interest	(86)	(109)	(84)	(84)	(84)
	Pre-tax profit	2,159	1,732	1,956	2,031	2,162
	Taxation	(573)	(474)	(528)	(548)	(584)
	Reported net profit	1,530	1,187	1,328	1,379	1,468
	Recurring net profit	1,248	1,195	1,328	1,379	1,468
<b>Company Profile</b>	<b>Cash flow (MYRm)</b>	<b>Jun-21</b>	<b>Jun-22</b>	<b>Jun-23F</b>	<b>Jun-24F</b>	<b>Jun-25F</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	107	1,090	(608)	(250)	(192)
	Cash flow from operations	2,784	810	1,989	2,445	2,627
	Capex	(510)	(639)	(510)	(510)	(510)
	Cash flow from investing activities	83	(464)	(495)	(418)	(418)
	Dividends paid	(998)	(783)	(817)	(851)	(885)
	Cash flow from financing activities	(1,650)	(686)	(901)	(935)	(969)
	Cash at beginning of period	1,694	2,473	1,772	2,265	3,257
	Net change in cash	1,217	(340)	593	1,092	1,240
	Ending balance cash	2,911	2,163	2,365	3,357	4,497
	<b>Balance sheet (MYRm)</b>	<b>Jun-21</b>	<b>Jun-22</b>	<b>Jun-23F</b>	<b>Jun-24F</b>	<b>Jun-25F</b>
	Total cash and equivalents	2,473	1,772	2,265	3,257	4,397
	Tangible fixed assets	6,225	5,740	4,972	4,158	3,309
	Total investments	1,236	1,063	1,063	1,063	1,063
	Total assets	28,487	30,229	31,025	31,679	32,334
	Short-term debt	1,454	2,607	2,507	2,407	2,307
	Total long-term debt	373	376	328	328	328
	Total liabilities	12,227	13,858	14,143	14,269	14,343
	Total equity	16,260	16,371	16,881	17,409	17,992
	Total liabilities & equity	28,487	30,229	31,025	31,679	32,334
	<b>Key metrics</b>	<b>Jun-21</b>	<b>Jun-22</b>	<b>Jun-23F</b>	<b>Jun-24F</b>	<b>Jun-25F</b>
	Revenue growth (%)	19.9	(4.1)	7.4	3.6	2.7
	Recurrent EPS growth (%)	20.0	(4.2)	11.1	3.9	6.4
	Gross margin (%)	15.4	15.4	15.4	15.4	15.4
	Operating EBITDA margin (%)	7.4	6.7	7.1	7.1	7.2
	Net profit margin (%)	3.5	2.8	2.9	2.9	3.0
	Dividend payout ratio (%)	66.8	66.0	61.6	61.7	60.3
	Capex/sales (%)	1.2	1.5	1.1	1.1	1.1
	Interest cover (x)	17.9	11.8	14.8	15.3	16.3

Source: Company data, RHB

Figure 1: SOP valuation

Segment	Valuation method	Value (MYRm)	Per share (MYR)
<b>Motor</b>			
FY23F NP (MYRm)	12x P/E	8,285	1.22
<b>Industrials</b>			
FY23F NP (MYRm)	13x P/E	7,875	1.16
<b>MVV land</b>			
Proceeds from sale in FY23		905	
RNAV of unsold land (assuming MYR8psf)	Discount to RNAV of 50%	936	
<b>Logistics</b>			
Proceeds from sale of Weifang ports		1,623 *	0.24
<b>Healthcare</b>			
FY23F NP (MYRm); 50% stake	40x P/E	1,342	0.20
		<b>20,966</b>	<b>3.08</b>
Holding company discount	10%	(2,097)	
<b>SOP Valuation</b>		<b>18,869</b>	
Number of shares		6,810	
<b>Intrinsic value per share</b>			<b>2.77</b>
ESG premium/ (discount)			0%
<b>TP per share (rounded)</b>			<b>2.75</b>

Note: \*MYR 1,623m is approximately equivalent to the total proceeds of CNY2,463m

Source: Company data, RHB

Figure 2: Sime Darby's Malaysia Vision Valley land

	Total	Sold	Unsold
Acres	8,796	3,424	5,372
Sq ft (m)	383	149	234
Proceeds/(cost) MYRm	(2,504)	1,185	1,872
Proceeds psf/(cost psf) MYR	(6.5)	7.9	8.0 *

Note: \*We assumed MYR8 per square foot for the unsold MVV land

Source: Company data, RHB

Figure 3: Sime Darby's Malaysia Vision Valley land sale

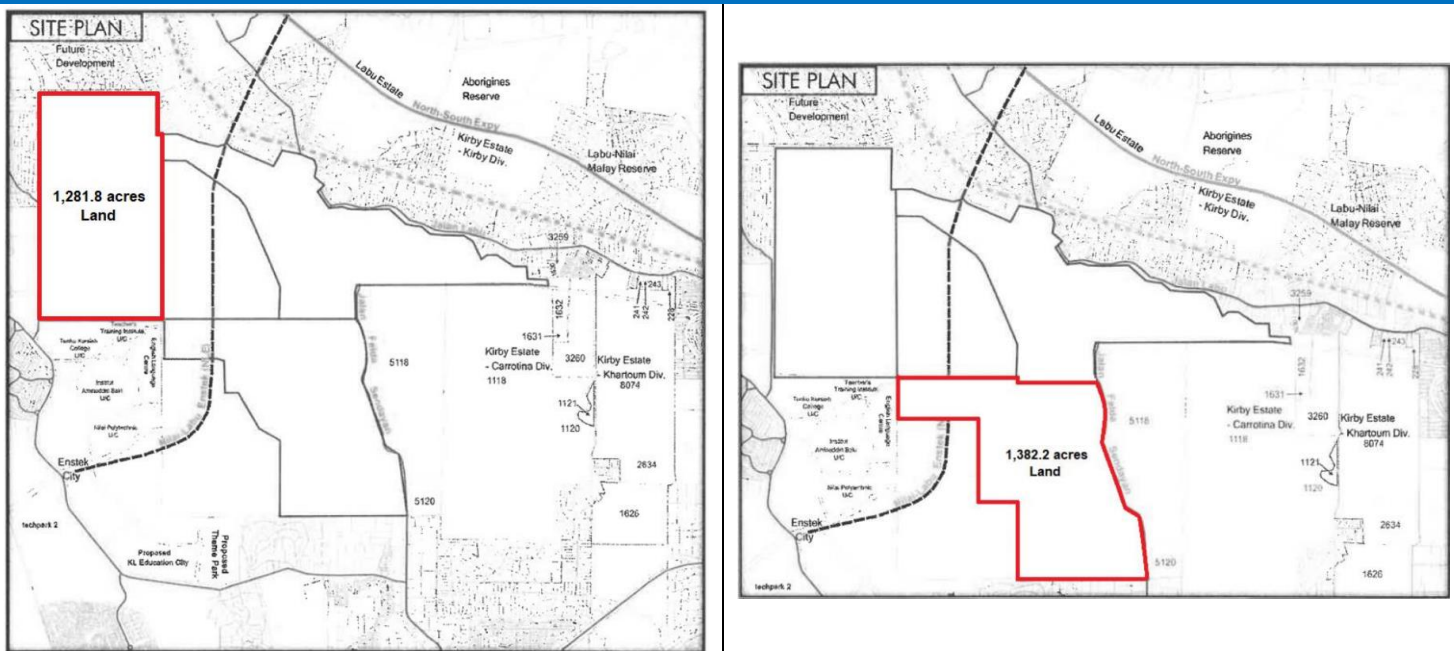
Date of transaction	27-Oct-21	24-Aug-22	23-Sep-22	Total Sold
Buyer	Sime Darby Property	NS Corporation	NS Corporation	
Acres sold	760	1,382	1,282	3,424
Sq ft sold (m)	33	60	56	149
Selling price (MYRm)	280	460	445	1,185
Selling price (MYR psf)	8.5	7.6	8.0	7.9
KSDB's gain from disposal	55	57	69	181
Sime Darby group's gain from disposal	250	412	399	1,061

Note: The higher gain on disposal in Sime's consolidated accounts is due to the reversal of consolidation adjustments. The reversal of consolidation adjustments does not increase the retained profits available for distribution to shareholders of Sime

KSDB is Kumpulan Sime Darby, an indirect wholly owned subsidiary of Sime Darby group. It owns Sime Darby group's MVV land

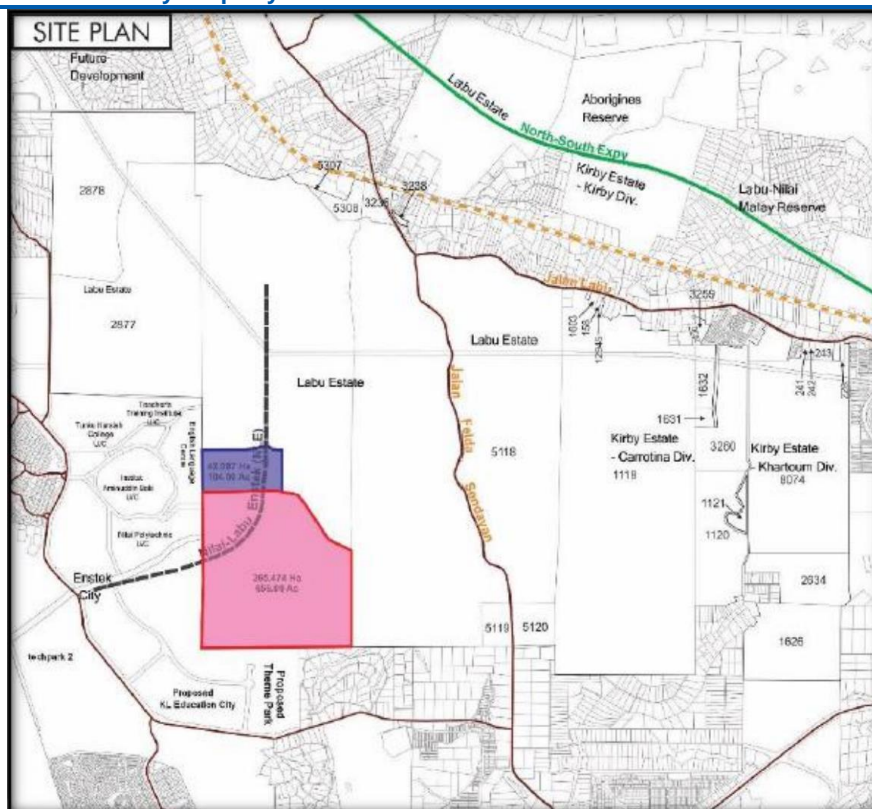
Source: Company data, RHB

Figure 4: MVV land sold to NS Corp



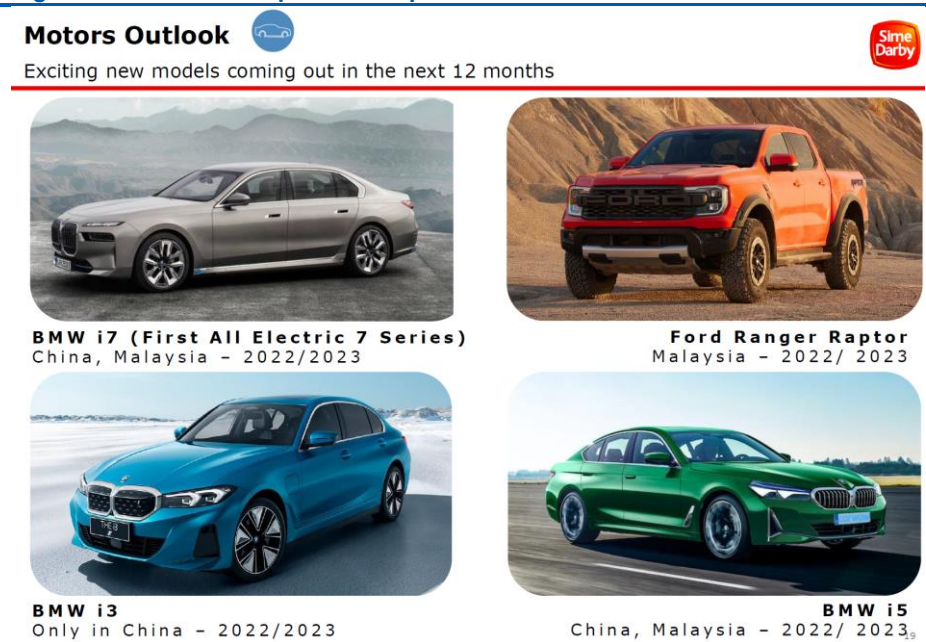
Source: Company

Figure 5: MVV land sold to Sime Darby Property



Source: Company

Figure 6: Sime's motor product map



Source: Company

## Recommendation Chart

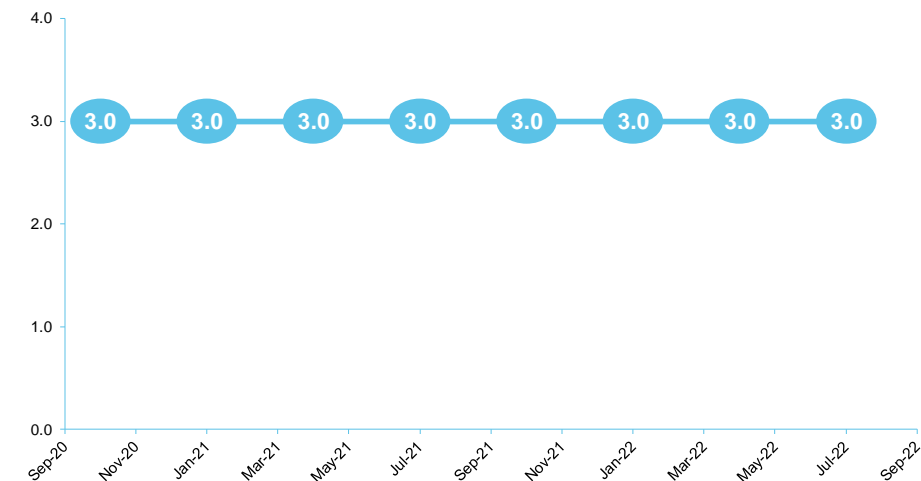


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2021-11-30	Neutral	2.30	2.19
2021-08-26	Buy	2.70	2.39
2021-05-27	Buy	2.70	2.31
2021-02-26	Buy	2.88	2.27
2020-11-27	Buy	2.80	2.33
2020-10-07	Buy	2.75	2.39
2020-08-28	Neutral	2.10	2.19

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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