

19 January 2023

Industrials | Industrial Services

## Sime Darby (SIME MK)

**Buy** (Maintained)

### Looking Beyond Near-Term Pressures; Stay BUY

Target Price (Return):	MYR2.70 (+14%)
Price (Market Cap):	MYR2.37 (USD3,743m)
ESG score:	3.00 (out of 4)
Avg Daily Turnover (MYR/USD)	14.3m/3.18m

- BUY, new MYR2.70 TP from MYR2.80, 14% upside with c.5% FY24F (Jun) yield.** We recently held a BYD test drive session and a conference call with Sime Darby. Despite growth from Malaysia, SIME's motor division may face near-term pressures from China, with margins normalising on recovering supply chains and softer demand for cars. Its Australasia industrial unit benefits from easing China-Australia tensions, but China's property sector recovery will likely be gradual, in our view. As with previous divestments, a special DPS from recent asset sales is still on the table.
- Motor unit.** The BYD Atto 3 is proving to be popular here 1,500 orders made after its launch in the first month. SIME will be targeting 3,000 sales pa of the Atto 3. It is also working towards launching BYD's Dolphin, Seal, and e6 in 2023. With the existing import and excise duty exemption for CBU EVs, BYD currently has no incentive to locally assemble its cars. With its forthcoming Vietnam components factory and Thai assembly plant, we think the carmaker will only consider assembly operations here later, given high EV adoption in ASEAN. Over in China, with the gradual normalisation of supply chains and likely lower spending on cars (as consumers spend on travel and services), we think: i) Auto sales volumes will likely soften QoQ against a high 1QFY23 base and ii) auto PBIT margins will likely normalise to pre-pandemic levels of 2-3% vs 3-5% during the pandemic. That said, we still expect YoY growth in auto sales volumes on Beijing's pro-growth policies, new EV launches, and recovering supply.
- Industrial division.** The easing tensions between China and Australia could lead to a recovery in China's demand for Australia's metallurgical (MET) coal and, as such, keep MET coal prices elevated near current levels of USD310/tonne. This would benefit SIME's Australasia industrial segment. In China, with Beijing's policy support and high consumer savings, the ailing property sector may slowly turn around. We think that the sector's (and SIME's China industrial division's) recovery will likely be gradual, as both the property oversupply and shaky consumer confidence persist.
- Forecasts.** We cut FY23-25F earnings by 5-7%, premised on lower assumptions for China auto margins and its industrial recovery.
- Still BUY,** based on a lower SOP-based MYR2.70 TP. Our TP includes a 0% premium/discount, as SIME's ESG score is on par with the country median. While China's reopening may present near-term pressures on its motor segment, we think that the normalisation of supply chains and Beijing's pivot towards growth-oriented policies should bode well for SIME's operations in China over the long run. Maintain BUY on: i) Potential special dividends from the divestment of non-core assets, which are still on the table, ii) growth in its Malaysia motor sales volume, iii) Australasia's industrial unit's resilience from elevated MET coal prices. Key downside risks: Weaker-than-expected Australasia industrial margins, softer-than-expected car sales across markets, and a longer-than-expected downturn in China.

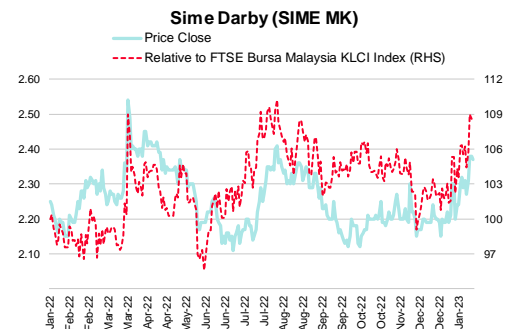
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	3.0	7.7	9.2	5.3	5.3
Relative	3.0	6.6	2.4	0.7	8.4
52-wk Price low/high (MYR)	2.11 – 2.54				



Source: Bloomberg

Forecasts and Valuation	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Total turnover (MYRm)	44,302	42,502	45,854	47,454	48,885
Recurring net profit (MYRm)	1,248	1,195	1,153	1,252	1,325
Recurring net profit growth (%)	20.0	(4.2)	(3.5)	8.6	5.8
Recurring P/E (x)	12.93	13.51	14.00	12.89	12.18
P/B (x)	1.0	1.0	1.0	1.0	0.9
P/CF (x)	5.80	19.93	8.71	6.82	6.52
Dividend Yield (%)	6.3	4.9	5.1	5.3	5.5
EV/EBITDA (x)	4.48	5.82	5.33	4.75	4.23
Return on average equity (%)	9.9	7.4	7.1	7.6	7.8
Net debt to equity (%)	net cash	7.4	4.6	net cash	net cash

Source: Company data, RHB

#### Overall ESG Score: 3.00 (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. There are no major issues between the company and its employees.

##### G: EXCELLENT

50% of Sime Darby's board comprise independent directors, following the best practices of the Malaysian Code on Corporate Governance 2017. We note that it has been very forthcoming with regards to sharing information with the market.

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## Financial Exhibits

Asia	Financial summary (MYR)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Malaysia	Recurring EPS	0.18	0.18	0.17	0.18	0.19
Industrials	DPS	0.15	0.12	0.12	0.13	0.13
<b>Sime Darby</b>	BVPS	2.33	2.35	2.40	2.46	2.52
SIME MK	Return on average equity (%)	9.9	7.4	7.1	7.6	7.8
Buy						
	<b>Valuation metrics</b>	<b>Jun-21</b>	<b>Jun-22</b>	<b>Jun-23F</b>	<b>Jun-24F</b>	<b>Jun-25F</b>
<b>Valuation basis</b>	Recurring P/E (x)	12.93	13.51	14.00	12.89	12.18
SOP	P/B (x)	1.0	1.0	1.0	1.0	0.9
	FCF Yield (%)	14.1	1.1	8.3	11.5	12.2
<b>Key drivers</b>	Dividend Yield (%)	6.3	4.9	5.1	5.3	5.5
i. Strength in regional consumer discretionary spending;	EV/EBITDA (x)	4.48	5.82	5.33	4.75	4.23
ii. Intensity of macroeconomic activity supporting the demand for heavy equipment.	EV/EBIT (x)	6.77	9.51	9.21	8.11	7.15
	<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>
<b>Key risks</b>	Total turnover	44,302	42,502	45,854	47,454	48,885
i. Weaker-than-expected Australasia margins;	Gross profit	6,823	6,545	7,062	7,308	7,528
ii. Softer-than-expected car sales across its markets;	EBITDA	3,264	2,863	3,043	3,207	3,347
iii. Longer-than-expected downturn in China.	Depreciation and amortisation	(1,101)	(1,113)	(1,284)	(1,329)	(1,369)
	Operating profit	2,163	1,750	1,759	1,878	1,979
The opposite, and the faster-than-expected sale of MVV land at better rates, represents upside risks.	Net interest	(86)	(109)	(176)	(156)	(136)
	Pre-tax profit	2,159	1,732	1,703	1,850	1,979
	Taxation	(573)	(474)	(477)	(518)	(554)
	Reported net profit	1,530	1,187	1,153	1,252	1,325
	Recurring net profit	1,248	1,195	1,153	1,252	1,325
	<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>
	Change in working capital	107	1,090	(640)	(244)	(218)
	Cash flow from operations	2,784	810	1,853	2,365	2,475
	Capex	(510)	(639)	(510)	(510)	(510)
	Cash flow from investing activities	83	(464)	(467)	(382)	(374)
	Dividends paid	(998)	(783)	(817)	(851)	(885)
	Cash flow from financing activities	(1,650)	(686)	(993)	(1,007)	(1,021)
	Cash at beginning of period	1,694	2,473	1,772	2,064	2,940
	Net change in cash	1,217	(340)	392	976	1,080
	Ending balance cash	2,911	2,163	2,164	3,040	4,020
	<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	2,064	2,940	3,920
	Tangible fixed assets	6,225	5,740	4,966	4,147	3,289
	Total investments	1,236	1,063	1,063	1,063	1,063
	Total assets	28,487	30,229	30,878	31,400	31,937
	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	14,172	14,292	14,390
	Total equity	16,260	16,371	16,706	17,107	17,547
	Total liabilities & equity	28,487	30,229	30,878	31,400	31,937
	<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)	7.9	3.5	3.0
	Recurrent EPS growth (%)	20.0	(4.2)	(3.5)	8.6	5.8
	Gross margin (%)	15.4	15.4	15.4	15.4	15.4
	Operating EBITDA margin (%)	7.4	6.7	6.6	6.8	6.8
	Net profit margin (%)	3.5	2.8	2.5	2.6	2.7
	Dividend payout ratio (%)	66.8	66.0	70.9	68.0	66.8
	Capex/sales (%)	1.2	1.5	1.1	1.1	1.0
	Interest cover (x)	17.9	11.8	8.0	9.4	11.0

Source: Company data, RHB

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Figure 1: SOP valuation

Segment	Valuation method	Value (MYRm)	Per share (MYR)
<b>Motor</b>			
CY23F NP (MYRm)	12x P/E	7,608	1.12
<b>Industrials</b>			
CY23F NP (MYRm)	13x P/E	7,708	1.13
<b>MVV land</b>			
Proceeds from sale in FY23		905	0.13
RNAV of unsold land (assuming MYR8psf)	Discount to RNAV of 50%	936	0.14
<b>Logistics</b>			
Proceeds from sale of Weifang ports		1,623	0.24
<b>Healthcare</b>			
FY23F NP (MYRm); 50% stake	40x P/E	1,600	0.23
		<b>20,379</b>	<b>2.99</b>
Holding company discount	10%	(2,038)	
<b>SOP valuation</b>		<b>18,341</b>	
Number of shares		6,810	
<b>Intrinsic value per share</b>			<b>2.69</b>
ESG premium/ (discount)			0%
<b>TP per share (rounded)</b>			<b>2.70</b>

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

Source: Company data, RHB

Figure 2: BYD Atto 3



Source: BYD

Figure 3: BYD Seal



Source: BYD

Figure 4: BYD Dolphin



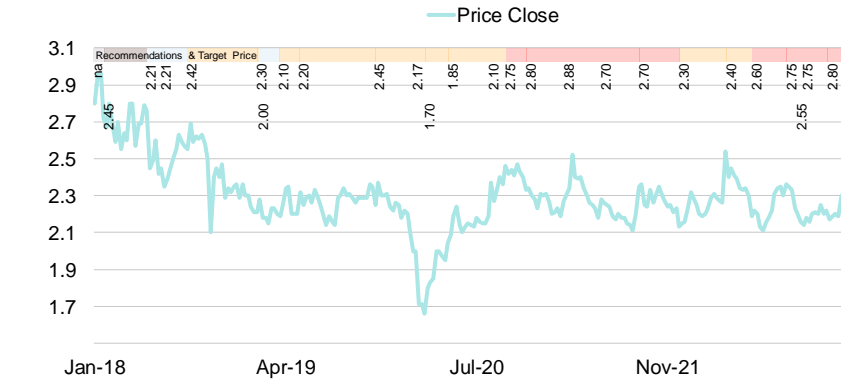
Source: BYD

Figure 5: BYD e6



Source: BYD

## Recommendation Chart

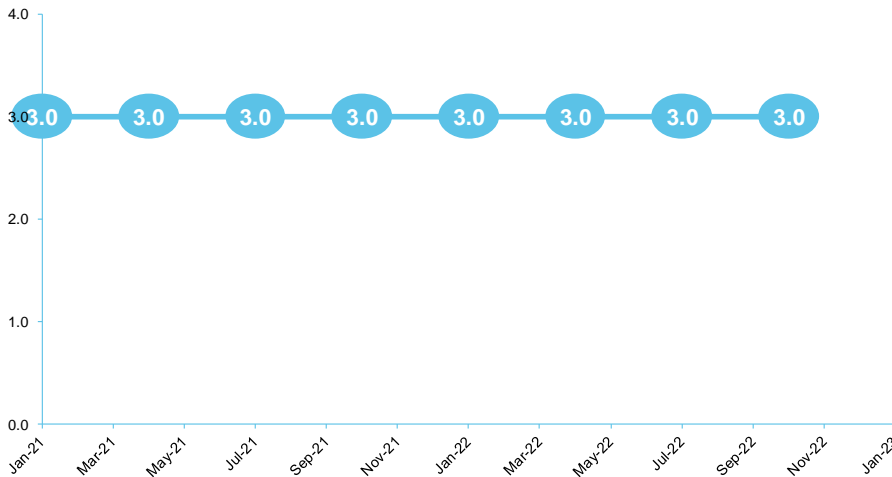


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
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

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
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<b>Not Rated:</b>	Stock is not within regular research coverage

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