

14 August 2019

Sime Darby Berhad

Acquiring Caterpillar's NZ Business

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Sime Darby (NZ) Holdings Limited has entered into a sale and purchase agreement to acquire Gough Group Limited for cash at NZ\$211m (c.RM572m), funded by borrowings. GGL which owns CAT distribution rights for New Zealand is a strategic fits for SIME's Caterpillar business. We are neutral on this acquisition as we expect earnings accretion of just c.1% to our FY20E CNP. Nevertheless, we cut our TP to RM2.20 from RM2.35 as we ascribed a 10% holdings company discount into our SoP to factor potential earnings risk from the US-China trade war. Maintain MP.

Buying GGL at NZ\$211m (RM572m). Sime Darby (NZ) Holdings Limited, an indirect wholly-owned subsidiary of SIME, incorporated in New Zealand had on 13 August 2019 entered into a sale and purchase agreement with privately owned, Gough Holdings Limited (GHL) to acquire Gough Group Limited (GGL) for NZ\$211m (c. RM572m) or NZ\$RM3.90/share. GGL through its subsidiary, Gough, Gough & Hamer Limited, owns the CAT distribution rights for New Zealand, as well as a range of commercial transport and material handling related businesses in New Zealand and Australia. The acquisition will be fully funded by bank borrowings, and is subjected to New Zealand's Overseas Investment Office (OIO) approval and other completion conditions. The deal is expected to be completed by 30 September 2019.

Impact to financials. GGL grew its revenue to NZ\$540m (+18%) (c.RM1.5b) in 2018. Based on back-of-the envelope calculation, ascribing profit margin of 2% to GGL, the PAT works out to be at NZ\$10.8m (c.RM29.3m) and at acquisition PER of 19.5x, which seems to be at premium to our ascribed Caterpillar Fwd. PER of 11x, which we believe is due to its niche market (the only CAT distributor). Following the acquisition, we expect SIME's net debt to increase to RM2.4b (net gearing at 0.17x) from RM1.8b (net gearing at 0.13x) as of 31st March 2019. For illustrative purposes, assuming additional finance costs of RM21m/year, the acquisition will enhance our FY20E CNP by RM8.2m (+1%).

Rationale of the acquisition. SIME considers GGL a strategic fit for its industrial and motors operations as it: (i) presents an opportunity to acquire the CAT distribution rights for New Zealand and to expand its geographical footprint within the Asia-Pacific region, (ii) broadens franchise business through premium brands such as Palfinger, Wabco and SANY, and (iii) complements the company's existing commercial vehicle business in New Zealand as GHL also provides premium accessory brands and services to the commercial vehicle market.

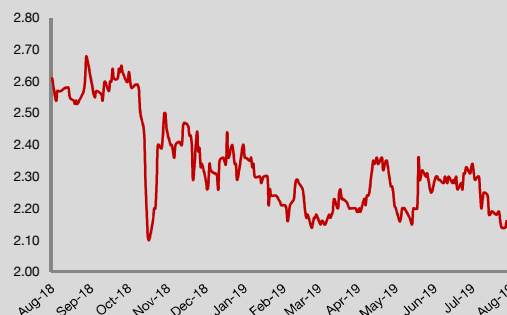
Outlook. The Industrial division in Australia continued to show growth as a result of the mining business recovery, whilst the China operation is benefiting from strong demand in the construction industry. Nevertheless, the Motors operation will continue to be impacted by strong competition and cautious consumer sentiment, whereas its Port operation will be facing competition from other ports as well as environmental controls implemented by local authorities limiting the operating time of the ports. SIME will continue to rationalize its logistics operations (with remaining 4 ports) which could see value unlocking of RM1.2b of its net book value (RM0.18/share).

Maintain MARKET PERFORM with a lower target price of RM2.20 from RM2.35 based on revised Sum-of-Parts (SoP) as we ascribed a 10% holdings company discount to factor potential earnings risk from the prolonged US-China trade wars (CAT supply is from the US). Our TP implied PER of 17.5x on FY20 EPS, at +1SD of local peers' average PER. Risks to our call include: (i) lower-than-expected car sales volume, and (ii) unfavourable forex.

MARKET PERFORM ↔

Price : **RM2.15**
Target Price : **RM2.20** ↓

Share Price Performance



KLCI	1,592.88
YTD KLCI chg	-5.8%
YTD stock price chg	-10.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SIME MK EQUITY
Market Cap (RM m)	14,621.8
Shares outstanding	6,800.8
52-week range (H)	2.73
52-week range (L)	2.04
3-mth avg daily vol:	5,759,431
Free Float	41%
Beta	1.6

Major Shareholders

Skim Amanah Saham Bumiputera	42.2%
Employees Provident Fund	10.1%
KWAP	6.9%

Summary Earnings Table

FY June (RM m)	2018A	2019E	2020E
Turnover	33,828	34,792	35,842
EBIT	1,102	1,347	1,386
PBT	1,065	1,303	1,371
NP	618	844	860
CNP	857	844	860
Consensus (NP)	-	945	971
Earnings Revision	-	-	-
Core EPS (sen)	12.6	12.4	12.6
Core EPS (%)	1.1	-1.6	2.0
NDPS (sen)	8.0	7.5	7.5
BV/Share (RM)	2.17	2.21	2.26
Core PER	17.1	17.3	17.0
Price/BV (x)	1.0	1.0	1.0
Net Gearing (x)	0.1	0.1	0.1
Net Dvd Yield (%)	3.7	3.5	3.5

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Gough Holdings Limited (GHL)

Gough Palfinger New Zealand



Gough Materials Handling



GOUGH PARTNERS WITH SANY



Gough Transport Solutions



Gough Transpecs



Source: Bloomberg, Kenanga Research

Sum-of-Parts Valuation

Segment	Valuation	Note	Fair Value (RM'm)	PER	Net Income(RM'm)
Motors	8x CY20E earnings	Average Fwd. PER for motor companies in China	3,349.4	8	418.7
Industries	11x CY20E earnings	Caterpillar's Fwd. PER	9,265.8	11	842.3
Logistics	14x CY20E earnings	Average Fwd. PER for PORTs in China	652.6	14	46.6
Ramsay Sime Darby Health Care (RSDHC)	22x CY20E earnings	Ramsay Healthcare Ltd (Australia) Fwd. PER	2,156.0	22	98.0
Eastern & Oriental Bhd		Market Value @ 11.6% stake	135.4		
Land Assets at Malaysia Vision Valley, Labu		8,800 acres @ Market Value	2,500.0		
Weifang Sime Darby Water Management		Disposal Value	275.0		
Less: Net (Debt) / cash			(1,531)		
Sum-Of-Parts (RM m)			16,803		
Holding Co. Discount (10%)			(1,680)		
No of shares (m)			6,800		
TP (RM)			2.20		

Source: Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
STOCKS UNDER COVERAGE																	
BERMAZ AUTO BHD	2.41	2,799.4	Y	04/2020	2.9%	0.5%	0.7%	2.0%	10.5	10.5	10.3	4.9	4.6	45.1%	8.1%	3.00	OP
DRB-HICOM BHD	2.60	5,026.4	Y	12/2019	4.6%	4.0%	68.0%	14.2%	27.5	16.4	14.3	0.7	0.7	4.5%	2.3%	2.20	MP
MBM RESOURCES BERHAD	3.26	1,274.3	Y	12/2019	0.3%	1.0%	1.7%	2.1%	7.7	7.6	7.4	0.7	0.6	8.9%	1.8%	3.45	OP
SIME DARBY BERHAD	2.15	14,621.8	Y	06/2019	2.8%	3.0%	-1.5%	1.9%	17.1	17.3	17.0	1.0	1.0	5.8%	3.5%	2.20	MP
TAN CHONG MOTOR HOLDINGS BHD	1.42	926.8	Y	12/2019	-13.1%	1.0%	-14.0%	3.1%	8.8	10.2	9.9	0.3	0.3	3.3%	2.8%	1.50	MP
UMW HOLDINGS BHD	5.10	5,958.3	Y	12/2019	6.0%	7.0%	-1.3%	21.5%	15.7	15.9	13.1	1.8	1.6	10.8%	1.5%	5.45	MP
Simple Average					-0.5%	1.9%	11.0%	4.7%	14.3	12.4	11.8	1.5	1.5	13.5%	3.7%		
CONSENSUS NUMBERS																	
APM AUTOMOTIVE HOLDINGS BHD	2.51	490.8	Y	12/2019	-0.8%	3.8%	-1.0%	4.5%	12.8	12.9	12.3	0.4	0.4	3.0	0.1	2.63	SELL
PECCA GROUP BHD	1.17	214.5	Y	06/2019	13.2%	5.5%	77.6%	5.7%	21.0	11.8	11.2	1.3	1.3	11.1	0.1	1.40	SELL

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

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