

28 August 2019

Sime Darby Berhad

FY19 Above Our Expectation

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FY19 CNP of RM950m (+14%) came in above our expectation at 113%, but appear to be in line with consensus at 100%, of full-year estimate. The positive variance was due to better-than-expected Motors segment contribution from higher recognition of dividend income/volume-sales incentives in 4Q. Nevertheless, we are cautious on Automotive and industry segment outlook (lower order-book) which could be affected by the softer demand amidst the US-China trade tension. No changes to our FY20E CNP and TP of RM2.20. Maintain MP.

FY19 above our expectation. FY19 CNP of RM950m (+14%) came in above our expectation at 113%, but appear to be in line with the consensus at 100%, of full-year estimate. The positive variance was due to better-than-expected Motors segment contribution from higher recognition of dividend income/volume-sales incentives in 4Q. A 2nd interim DPS of 7.0 sen, and special DPS of 1.0 sen (4Q18: 6.0 sen), were declared for the quarter, bringing FY19 DPS to 10.0 sen (FY18: 8.0 sen), above our expectation. Hence, we revised our DPS estimate higher to 10.0 sen (from 8.0 sen).

YoY, FY19 core CNP increased 14% mainly from higher Industrials' core PBT (+88%), despite reduction in order-book of RM2.4b (-13%), from improved equipment mix deliveries, supported by the stronger product support sales to the construction and mining sectors in Australia. These more than offset: (i) lower Motors Vehicles core PBT (-11%) from heavy discounting activities to sustain sales momentum (total global vehicles sales at 86,906 units (+6%), and (ii) lower Logistics core PBT (-43%) from the weaker general cargo throughput (-7% to 30.3m MT) amidst a tough trading environment and cessation of Weifang water port services.

QoQ, 4Q19 core CNP surged 38% driven by the stronger Motor Vehicles core PBT contribution (+152%) from: (i) higher recognition of RM135m dividend income (4Q18: RM121m) received from 49%-owned BMW Malaysia SB, (ii) higher Motor vehicles segment sales (+10%) from stronger China super luxury vehicles sales (i.e. BMW X7 & Porsche 911), and (iii) higher one-off China volume-sales incentives (a large portion of the increase in earnings) from BMW China. These more than offset: (i) lower Industrial core PBT (-3%), from reduction in order-book (-8%) due to changes in heavy equipment delivery timing, and (ii) lower Logistics core PBT (-45%) from unfavourable cargo mix services.

Outlook. The Industrial division in Australia continued to show growth as a result of the mining business recovery, but near-term could be affected by softer demand, as evident from the lower order-book from cautious consumer sentiment amidst the US-China trade tension. In the long term, sales contribution from Gough Group NZ at c.RM1b/year (acquisition expected to finalize by Sep 2019) could improve order-book. The Motors operation will continue to be impacted by strong competition, whereas its Port operation will be facing competition from other ports especially with the China government rationalizing ports operation to create a larger ports entity. SIME will continue to rationalize its logistics operations (with remaining 4 ports) which could see value unlocking of RM1.2b from its net book value (RM0.18/share). Capex of c.RM1b was allocated for FY20 (FY19:RM900m, with RM361m utilized).

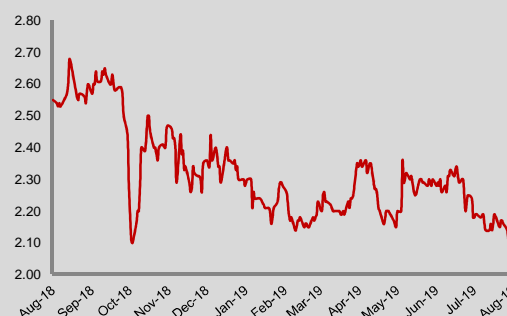
Maintain MARKET PERFORM with unchanged Target Price of RM2.20 based on Sum-of-Parts (SoP) which implied PER of 17.4x on FY20E EPS (at 24% premium to local peers' average PER of 14x due to large market capitalization and bulk of its earnings came from Industrials which entailed higher PER valuation).

Risks to our call include: (i) a sharp downturn in the economy leading to lower-than-expected car sales volume, and (ii) unfavourable forex.

MARKET PERFORM ↔

Price: RM2.11
Target Price: RM2.20 ↔

Share Price Performance



KLCI 1,590.84
YTD KLCI chg -5.9%
YTD stock price chg -12.1%

Stock Information

| | |
|----------------------|----------------|
| Shariah Compliant | Yes |
| Bloomberg Ticker | SIME MK EQUITY |
| Market Cap (RM m) | 14,349.8 |
| Shares Outstanding | 6,800.8 |
| 52-week range (H) | 2.73 |
| 52-week range (L) | 2.04 |
| 3-mth avg daily vol: | 5,757,742 |
| Free Float | 41% |
| Beta | 1.6 |

Major Shareholders

| | |
|------------------------------|-------|
| Skim Amanah Saham Bumiputera | 42.2% |
| Employees Provident Fund | 10.0% |
| KWAP | 7.1% |

Summary Earnings Table

| FY June (RM m) | 2019A | 2020E | 2021E |
|-------------------|------------|------------|------------|
| Turnover | 36,156 | 37,629 | 39,279 |
| EBIT | 1,542 | 1,531 | 1,737 |
| PBT | 1,291 | 1,384 | 1,533 |
| NP | 948 | 860 | 993 |
| CNP | 950 | 860 | 993 |
| Consensus (NP) | - | 972 | 1,037 |
| Earnings Revision | - | - | New |
| Core EPS (sen) | 14.0 | 12.7 | 14.6 |
| Core EPS (%) | 13.8 | -9.4 | 15.4 |
| NDPS (sen) | 10.0 | 10.0 | 10.0 |
| BV/Share (RM) | 2.22 | 2.24 | 2.28 |
| Core PER (x) | 15.0 | 16.5 | 14.3 |
| Price/BV (x) | 0.9 | 0.9 | 0.9 |
| Net Gearing (x) | 0.1 | 0.2 | 0.2 |
| Net Dvd Yield (%) | 4.8 | 4.8 | 4.8 |

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Results Highlights

(Continued Operation)

| FY June | 4Q19 | 3Q19 | QoQ % | 4Q18 | YoY % | 12M19 | 12M18 | YoY% |
|----------------------------|------------|------------|-------------|------------|------------|------------|------------|------------|
| Revenue | 9,323 | 8,565 | 9% | 8,575 | 9% | 36,156 | 33,828 | 7% |
| Op Profit | 483 | 351 | 38% | 354 | 36% | 1,542 | 1,102 | 40% |
| PBT | 344 | 308 | 12% | 341 | 1% | 1,291 | 1,065 | 21% |
| Tax | (142) | (75) | 89% | (164) | -13% | (281) | (380) | -26% |
| MI | (18) | (11) | 64% | (14) | 29% | (62) | (67) | -7% |
| Reported Net Profit | 184 | 222 | -17% | 163 | 13% | 948 | 618 | 53% |
| Core Net Profit | 315 | 228 | 38% | 320 | -2% | 950 | 835 | 14% |
| EPS (sen) | 2.7 | 4.7 | -43% | 2.4 | 13% | 13.9 | 9.1 | 53% |
| Net DPS (sen) | 8.0 | 0.0 | | 6.0 | | 10.0 | 8.0 | |
| EBIT % | 5.2% | 4.1% | | 4.1% | | 4.3% | 3.3% | |
| PBT% | 3.7% | 3.6% | | 4.0% | | 3.6% | 3.1% | |
| Tax % | 41.3% | 24.4% | | 48.1% | | 21.8% | 35.7% | |

Source: Company, Kenanga Research

Segmental Breakdown

| FY June | 4Q19 | 3Q19 | QoQ % | 4Q18 | YoY % | 12M19 | 12M18 | YoY% |
|---------------------------|--------------|--------------|------------|--------------|------------|---------------|---------------|------------|
| Segmental Revenue | | | | | | | | |
| - Industrial | 3,764 | 3,516 | 7% | 3,492 | 8% | 14,113 | 13,041 | 8% |
| - Motor Vehicles | 5,463 | 4,947 | 10% | 4,908 | 11% | 21,606 | 20,341 | 6% |
| - Logistics | 69 | 64 | 8% | 91 | -24% | 283 | 341 | -17% |
| - Others | 27 | 38 | -29% | 84 | -68% | 154 | 105 | 47% |
| Total Revenue | 9,323 | 8,565 | 9% | 8,575 | 9% | 36,156 | 33,828 | 7% |
| Segmental Core PBT | | | | | | | | |
| - Industrial | 202 | 209 | -3% | 129 | 57% | 817 | 434 | 88% |
| - Motor Vehicles | 280 | 111 | 152% | 281 | 0% | 616 | 692 | -11% |
| - Logistics | 6 | 11 | -45% | 13 | -54% | 42 | 74 | -43% |
| - Others | 10 | 6 | 67% | 17 | -41% | 23 | 28 | -18% |
| Total Core PBT | 498 | 337 | 48% | 440 | 13% | 1,498 | 1,228 | 22% |
| Core Net Profit | 315 | 228 | 38% | 320 | -2% | 950 | 835 | 14% |

Source: Company, Kenanga Research

Sum-of-Parts Valuation

| Segment | Valuation | Note | Fair Value (RM'm) | PER | Net Income(RM'm) |
|---|--------------------|--|-------------------|-----|------------------|
| Motors | 7x CY20E earnings | Average fwd PER for motor companies in China | 4,763.5 | 7 | 680.5 |
| Industries | 11x CY20E earnings | Caterpillar's Fwd. PER | 8,944.9 | 11 | 813.2 |
| Logistics | 14x CY20E earnings | Average fwd PER for PORTs in China | 596.7 | 14 | 42.6 |
| 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 | | | (852) | | |
| Sum-Of-Parts (RM m) | | | 18,519 | | |
| Holding Co. Discount (10%) | | | (3,704) | | |
| 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 Compliance | 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. | | | | |
| STOCKS UNDER COVERAGE | | | | | | | | | | | | | | | | | | |
| BERMAZ AUTO BHD | 2.31 | 2,683.3 | Y | 04/2020 | 2.9% | 0.5% | 0.7% | 2.0% | 10.1 | 10.0 | 9.8 | 4.7 | 4.4 | 45.1% | 8.5% | 3.00 | OP | |
| DRB-HICOM BHD | 2.57 | 4,968.4 | Y | 12/2019 | -33.3% | 63.8% | -4.8% | 77.1% | 27.2 | 28.5 | 16.1 | 0.7 | 0.7 | 2.6% | 1.2% | 2.60 | UP | |
| MBM RESOURCES BERHAD | 4.17 | 1,630.0 | Y | 12/2019 | -3.7% | 0.3% | 13.0% | 2.5% | 9.8 | 8.7 | 8.5 | 1.0 | 0.9 | 11.4% | 2.9% | 4.40 | MP | |
| SIME DARBY BERHAD | 2.11 | 14,349.8 | Y | 06/2019 | 4.1% | 4.4% | -9.4% | 15.4% | 15.1 | 16.7 | 14.4 | 1.0 | 1.0 | 5.8% | 4.7% | 2.20 | MP | |
| TAN CHONG MOTOR HOLDINGS BHD | 1.47 | 959.4 | Y | 12/2019 | -13.1% | 1.0% | -26.1% | 13.4% | 9.1 | 12.3 | 10.9 | 0.4 | 0.3 | 2.8% | 2.7% | 1.40 | MP | |
| UMW HOLDINGS BHD | 5.04 | 5,888.2 | Y | 12/2019 | 6.0% | 7.0% | -1.3% | 21.5% | 15.5 | 15.7 | 12.9 | 1.8 | 1.6 | 10.8% | 1.5% | 5.45 | MP | |
| Simple Average | | | | | -8.6% | 14.0% | -5.3% | 22.1% | 14.3 | 15.3 | 12.0 | 1.6 | 1.5 | 13.5% | 4.0% | | | |
| CONSENSUS NUMBERS | | | | | | | | | | | | | | | | | | |
| APM AUTOMOTIVE HOLDINGS BHD | 2.40 | 469.3 | Y | 12/2019 | -1.1% | 3.7% | 2.9% | 4.7% | 12.2 | 11.9 | 11.3 | 0.4 | 0.4 | 3.0 | 0.1 | 2.63 | SELL | |
| PECCA GROUP BHD | 1.13 | 207.2 | Y | 06/2020 | 2.1% | 5.0% | 8.3% | 5.0% | 12.5 | 11.5 | 11.0 | 1.2 | 1.2 | 10.6 | 0.1 | 1.31 | BUY | |

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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