

29 August 2019

Sime Darby Property Bhd

Above Expectations

By Marie Vaz | msvaz@kenanga.com.my

1H19 CNP of RM500m came above our and consensus expectations at 134% and 119%, respectively, on lower-than-expected financing cost and tax rate. 1H19 sales of RM1.4b are broadly within at 65% thanks to ongoing promotions in 2Q. We increase FY19-20E CNP by 50-33% on higher product margins, lower financing cost and tax rates. Upgrade to OP on an unchanged TP of RM1.10.

Above expectations. 1H19 CNP of RM500m came above our and consensus expectations at 134% and 119%, respectively. Top-line came in within at 54% but the deviation from our estimate was due to lower-than-expected financing cost (which made up 6% of our FY19 estimate) as a large chunk of financing cost was capitalised this quarter, while effective tax rates (which made up 12% of our FY19 estimate) were also unexpectedly lower as the Group recognised deferred tax assets this quarter, but we expect these items to increase closer to more normalized levels in coming quarters. 1H19 sales of RM1.4b is deemed broadly within our target at 65%, and management's target at 61%, riding on on-going promotions in 2Q, namely Primetime 8 and Pop Raya. A 1.0 sen dividend was announced, which is within our expectation of 2.2 sen in FY19 (45%).

Result highlights. YoY-Ytd, top-line was up (22%) driven mainly by the property segment (+32%) on higher recognitions from Cantara Residences, Bandar Bukit Raja (BBR), Serenia City and City of Elmina. Bottom-line jumped by 910% on: (i) higher net interest income due to lower financing cost (+53%) as some items were capitalised, (ii) lower losses from associate and joint ventures (-48%), (iii) higher gains from the sale of Darby Park, Singapore and Bukit Selarong land (+1691%), and (iv) lower minority interest contribution, which inflated bottom-line. **QoQ,** top-line was up by 51% spearheaded by the property segment due to similar reasons mentioned above. EBIT was up by 170% likely on better product margins. However, bottom-line declined by 11% as 1Q saw increased gains from the sale of Darby Park, Singapore.

Outlook. FY19 will see RM2.0-2.5b worth of launches, while 1H19 launches were worth RM1.2b from projects such as Elmina West (Elmina Valley 5), Serenia City (Adiva 2), Bandar Universiti Pagoh (Harmoni Permai) and Putra Heights (Irama Square). Going forward, upcoming launches will be mostly residential projects located in the GCE, Klang and within the Greater Klang Valley and mostly priced below RM750k/unit. Unbilled sales of RM1.5b provide <1-year visibility.

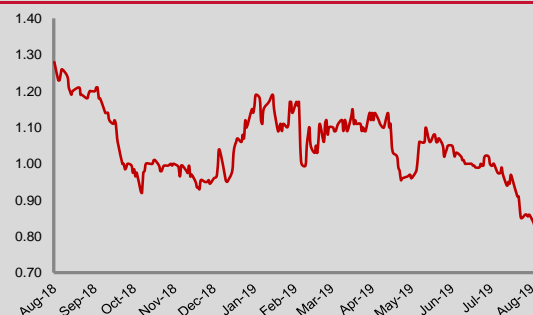
We increase FY19-20E CNP by 50-33% to RM556-544m on: (i) higher PBT margin of 27% (from 22%) in FY19-20, closer to current levels on better project margins as well as lower administrative and marketing expenses, (ii) slightly lower financing cost in FY19 as some items were capitalized, which brought down borrowing cost in FY19, but we expect this to normalize in coming quarters, and (iii) lower effective tax rate in FY19 of 18% (from 23%) due to low tax rates in 1H19. We maintain our sales targets of RM2.14-2.10b in FY19-20 which are slightly more conservative than management's FY19 sales target of RM2.3b.

Upgrade to OUTPERFORM (from MP) with an unchanged TP of RM1.10. Our current recommendation is based on an implied 66% discount to its FD SoP of RM3.24. Our discount is in line with peer SPSETIA with its valuations pegged closer to the -2.0SD levels, given expected thin ROEs of 5-6% in FY19-20. We believe our call is warranted given the attractive upsides as earnings while sales momentum remains healthy, which is commendable given the challenging environment, but our valuations remain conservative to account for possible earnings risk in coming quarters from IAS23 as well as lumpy earnings from land sale gains going forward.

OUTPERFORM ↑

Price : RM0.800
Target Price : RM1.10 ↔

Share Price Performance



KLCI	1,589.82
YTD KLCI chg	-6.0%
YTD stock price chg	-19.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SDPR MK EQUITY
Market Cap (RM m)	5,440.7
Shares Outstanding	6,800.8
52-week range (H)	1.26
52-week range (L)	0.79
3-mth avg daily vol:	4,644,569
Free Float	40%
Beta	1.9

Major Shareholders

Skim Amanah Saham Bumiputera	44.0%
Employees Provident Fund Board	11.1%
Yayasan Pelaburan Bumiputra	5.3%

Summary Earnings Table

FY Dec (RMm)	6MFPE18A	2019E	2020E
Turnover	1269	2893	3007
EBITDA	21	711	730
PBT	-38	774	801
Net Profit (NP)	-319	556	544
Core Net Profit	7	556	544
Consensus(NP)	N.A.	420.5	405.6
Earnings Revision	N.A.	+50%	+33%
Core EPS (sen)	0.1	8.2	8.0
Core EPS growth (%)	-98%	n.m.	-2%
NDPS (sen)	1.0	3.3	3.2
BV/Share (RM)	1.35	1.40	1.45
Core PER	778.4	9.8	10.0
Price/BV (x)	0.6	0.6	0.6
Net Gearing (x)	0.3	0.3	0.2
Net Dvd Yield (%)	1.3%	4.1%	4.0%

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OTHER POINTS

Risks include: (i) weaker-than-expected property sales, (ii) weaker margins, (iii) changes in real estate policies, and (iv) changes in lending environment.

Result Highlight

FYE: 31st Dec (RMm)	2Q19	1Q19	QoQ	4Q18	YoY	1H19	6MFPE18	YoY
Revenue	865.9	575.1	51%	617.4	40%	1,441.0	1,176.9	22%
Op costs w/o depn/amort	(663.6)	(493.0)	35%	(557.2)	19%	(1,156.5)	(1,073.0)	8%
Other Op Income	3.1	1.9	69%	4.5	-30%	5.0	15.6	-68%
EBITDA	205.5	84.0	144%	64.7	218%	289.5	119.4	142%
Depn/Amort	(15.9)	(13.9)	14%	(12.7)	25%	(29.8)	(24.7)	21%
EBIT	189.6	70.1	170%	52.0	265%	259.7	94.7	174%
Other operating expenses /gains	(24.1)	204.4	-112%	(1.5)	1541%	180.3	10.1	1691%
Net interest (exp)/inc	28.8	23.5	23%	28.3	2%	52.3	34.1	53%
Associate + JCE	(14.9)	3.5	-529%	(5.0)	198%	(11.4)	(22.1)	-48%
Fair Value Adj /One-Off	30.1	(0.6)	-5084%	(25.9)	-216%	29.5	(30.7)	-196%
Pretax profit	209.6	300.9	-30%	47.9	337%	510.4	86.1	493%
Taxation	12.5	(27.2)	-146%	17.8	-29%	(14.6)	3.5	-521%
Minority Interests & disc. ops	13.3	(9.2)	-243%	(45.0)	-129%	4.0	(40.0)	-110%
Net profit	205.3	265.1	-23%	46.6	341%	470.3	80.2	486%
Core net profit	235.4	264.5	-11%	20.7	1037%	499.8	49.5	910%
EPS (sen)	3.0	3.9	-23%	0.7	341%	6.9	1.2	486%
DPS (sen)	1.0	0.0		3.0		1.0	3.0	
NTA/share (RM)	1.41	1.39		1.43		1.41	1.43	
BV/share (RM)	1.41	1.39		1.43		1.41	1.43	
Net gearing/(cash) (x)	0.26	0.26		0.18		0.26	0.18	
EBIT margin	21.9%	12.2%		8.4%		18.0%	8.0%	
Pretax margin (ex FV/one-offs)	20.7%	52.4%		12.0%		33.4%	9.9%	
Effective tax rate	-7.0%	9.0%		-24.1%		3.0%	-3.0%	

Source: Company, Kenanga Research

*YoY-Ytd results are compared against the period of Jan-June 2018 which was the Groups 3QFY18-4QFY18. Note that SIMEPROP has since changed its financial year end to Dec, from June

Segment Results

FYE: 31st Dec (RMm)	1Q19	2QFP18	QoQ	3Q18	YoY
Revenue					
Property Development	534.8	729.9	-27%	522.0	2%
Property investment	18.3	6.2	196%	13.2	39%
Leisure & hospitality	22.0	23.6	-7%	24.3	-9%
Concession Arrangement	0.0	29.0	-100%	0.0	n.a.
Other operations	0.0	0.0	n.a.	0.0	n.a.
Total	575.1	788.8	-27%	559.5	3%
PBIT					
Property Development	72.8	-28.4	n.m.	34.6	110%
Property investment	6.6	-23.0	n.m.	6.5	1%
Leisure & hospitality	198.6	-2.0	n.m.	-3.9	n.m.
Concession Arrangement	0.0	9.3	n.m.	0.0	n.a.
Other operations	0.0	0.0	n.a.	0.0	n.a.
Total	278.0	-44.2	n.m.	37.2	648%
PBIT Margin			ppt		ppt
Property Development	13.6%	-3.9%	n.m.	6.6%	7.0%
Property investment	35.9%	-371.2%	n.m.	49.4%	-13.5%
Leisure & hospitality	902.6%	-8.6%	n.m.	-16.2%	918.9%
Concession Arrangement	n.a.	32.1%	n.a.	n.a.	n.a.
Other operations	n.a.	n.a.	n.a.	n.a.	n.a.
Total	48.3%	-5.6%	n.m.	6.6%	41.7%

Source: Company, Kenanga Research

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FD SOP							
Projects	Location	Stake	Assumed Duration (Yrs)	Remaining GDV (RM'm)	Remaining Net Profit *** (RM'm)	WAC C (%)	DCF Value (RM m)***
Unbilled Sales		100%	3	1,766	120	9%	101
Launched but not yet sold		100%	3	1,600	109	9%	92
Niche/Integrated							
ALYA	Kuala Lumpur	100%	8	7,200	490	9%	337
- Senada Residences	Kuala Lumpur	60%	5	0	0	9%	0
Chemara Hills	Seremban	100%	5	40	3	9%	2
USJ Heights	Subang Jaya	100%	5	200	14	9%	10
SJ7	Subang Jaya	100%	5	5,250	358	9%	253
SJCC	Subang Jaya	100%	5	3,600	126	9%	98
KL East	Setapak	100%	5	2,200	224	9%	159
Township							
City of Elmina: Elmina West	Shah Alam	100%	20	15,350	3,773	9%	1,698
City of Elmina: Elmina East	Shah Alam	100%	15	2,500	614	9%	326
City of Elmina: Denai Alam & Bukit Subang	Shah Alam	100%	8	1,000	351	9%	241
Bandar Bukit Raja 2 & 3	Klang	100%	20	11,450	3,216	9%	1,214
Bandar Bukit Raja 1	Klang	100%	10	1,200	337	9%	214
Serenia City	Dengkil, Sepang	100%	15	8,750	2,458	9%	1,195
Putra Heights	Subang Jaya	100%	8	3,400	239	9%	164
Ara Damansara	Petaling Jaya	100%	8	6,700	706	9%	485
- Oasis Corporate Park	Petaling Jaya	60%	5	0	0	9%	0
Bukit Jelutong	Shah Alam	50%	5	1,200	105	9%	75
Saujana Impian	Kajang	100%	5	30	4	9%	3
Taman Melawati	Ulu Klang	100%	5	600	84	9%	60
Nilai Impian 2	Nilai	100%	12	3,100	653	9%	353
Nilai Impian 1	Nilai	100%	10	1,000	211	9%	123
Bandar Ainsdale	Seremban	100%	12	1,200	84	9%	50
Planters' Haven	Nilai	100%	5	100	14	9%	10
Bandar Universiti Pagoh	Muar	100%	15	5,450	1,148	9%	610
Taman Pasir Putih	Pasir Gudang	100%	5	200	63	9%	45
Overseas							
Serenity Cove	Gold Coast, Australia	60%	5	1,950	164	9%	127
Battersea	London, UK	40%	8	36,427	2,558	9%	1,511
Future Development							
Kota Elmina	Shah Alam	100%	20	11,643	2,453	9%	711
Lagong	Gombak	100%	20	11,175	2,354	9%	682
MVV	Negeri Sembilan	100%	20	9,716	2,047	9%	772
Jerai Estate	Kedah	100%	15	4,767	1,004	9%	447
Mostyn Estate	Sabah	100%	10	438	92	9%	49
Remaining area		100%	15	1,307	275	9%	79
Property DCF							12,296
							Surplus/ (Deficit) ***
Investment, Hospitality, Concessions, Others							0.0
Shareholder's Funds @ 4Q18							9734.6
SOP							22,030
SOP per share (RM)							MYR 3.24
No. of shares ('m)							6,801
Dilution Impact							0
FD SOP/share (RM)							MYR 3.24
FD No. of shs ('m)							6,801
TP (RM)							
*** Effective							
Property Discount						-65%	-13,505
SOP Discount						-66%	MYR 1.10

Source: Kenanga Research

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Peer Comparison

Name	Last Price	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
	(RM)				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.	1-Yr. Fwd.		
PROPERTY DEVELOPERS UNDER COVERAGE																		
AMVERTON BHD	1.08	394.3	Y	12/2019	-0.7%	3.4%	-58.8%	7.3%	16.5	40.0	37.3	0.6	0.5	1.4%	0.0%	1.00	UP	
ECO WORLD DEVELOPMENT GROUP	0.700	2,061.1	Y	10/2019	-4.4%	-18.3%	9.5%	18.8%	12.4	11.4	9.6	0.5	0.4	4.8%	1.3%	1.15	OP	
HUA YANG BHD	0.325	114.4	Y	03/2020	-11.0%	-1.2%	153.2%	-11.8%	N.A.	13.9	15.8	0.2	0.2	1.4%	0.0%	0.335	UP	
IOI PROPERTIES GROUP BHD	1.18	6,497.3	Y	06/2019	-15.0%	-6.0%	2.2%	-5.3%	9.8	9.6	10.1	0.4	0.3	3.6%	4.2%	1.65	OP	
LBS BINA GROUP BHD	0.540	841.6	Y	12/2019	31.3%	0.9%	7.9%	-7.2%	9.9	9.2	9.9	0.6	0.5	6.6%	3.3%	0.495	MP	
MAGNA PRIMA BHD	1.15	382.5	Y	12/2019	-5.6%	28.8%	-572.6%	-139.5%	N.A.	N.A.	N.A.	0.7	0.7	-2.0%	0.0%	0.710	UP	
MAH SING GROUP BHD	0.860	2,087.8	Y	12/2019	4.5%	7.0%	-4.3%	-0.3%	12.7	13.3	13.3	0.6	0.6	5.2%	4.7%	1.05	OP	
MALAYSIAN RESOURCES CORP BHD	0.710	3,132.6	Y	12/2019	-41.9%	70.5%	-95.3%	2791.2%	41.3	882.2	30.5	0.6	0.6	1.2%	0.0%	0.700	UP	
SIME DARBY PROPERTY BHD	0.800	5,440.7	Y	12/2019	127.9%	3.9%	7861.6%	-2.3%	778.4	9.8	10.0	0.6	0.6	5.9%	4.1%	1.10	OP	
SP SETIA BHD	1.53	6,185.0	Y	12/2019	5.5%	24.3%	27.2%	46.0%	28.1	22.2	15.1	0.4	0.4	1.9%	4.6%	1.85	MP	
SUNSURIA BHD	0.730	654.0	Y	09/2019	-2.7%	7.3%	-4.0%	4.8%	4.9	5.1	4.9	0.7	0.7	14.5%	0.0%	0.760	MP	
SUNWAY BHD	1.61	7,851.6	Y	12/2019	-2.7%	12.5%	-8.5%	10.6%	13.4	14.7	13.3	0.9	0.9	6.3%	3.6%	1.60	MP	
UEM SUNRISE BHD	0.660	2,994.7	Y	12/2019	37.0%	-14.3%	5.9%	-18.1%	9.2	8.7	10.6	0.5	0.4	4.8%	1.5%	0.835	OP	
UOA DEVELOPMENT BHD	2.03	3,991.0	Y	12/2019	0.6%	-0.4%	4.4%	0.8%	11.2	10.8	10.7	0.8	0.8	7.4%	6.9%	2.15	MP	
Simple Average					8.8%	8.5%	523.5%	192.5%	79.0	80.8	14.7	0.6	0.6	4.5%	2.5%			
*SIMEPROP change of FY-end from 30-Jun to 31-Dec. Out historical numbers are based on FY18A while 1-Yr and 2-Yr Fwd are based on FY19E and FY20E figures																		
CONSENSUS NUMBERS																		
GLOMAC BHD	0.370	288.1	Y	04/2020	12.9%	38.7%	25.7%	90.1%	21.2	16.8	8.9	0.3	N.A.	1.6%	2.4%	0.405	N.A	
MATRIX CONCEPTS HOLDINGS BHD	1.90	1,494.9	Y	03/2020	3.0%	9.6%	3.8%	9.3%	6.8	6.6	6.0	1.1	1.1	16.3%	6.8%	2.36	BUY	
PARAMOUNT CORP BHD	1.29	782.6	Y	12/2019	-1.4%	8.4%	2.4%	5.3%	8.5	8.3	7.9	0.7	N.A.	7.2%	5.0%	1.83	BUY	
TAMBUN INDAH LAND BHD	0.765	331.6	Y	12/2019	-11.1%	1.5%	-21.2%	1.9%	6.0	7.6	7.5	0.5	0.5	6.7%	5.9%	0.863	BUY	
TITIJAYA LAND BHD	0.305	386.6	Y	06/2019	-14.3%	13.9%	-36.3%	19.5%	5.3	8.4	7.0	0.3	0.3	3.5%	42.0%	0.310	BUY	
YONG TAI BHD	0.215	116.7	Y	06/2020	132.7%	8.3%	-3768.9%	-134.2%	N.A.	N.A.	N.A.	0.3	0.3	-0.3%	0.0%	0.230	N.A	

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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Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

