

12 September 2019

Sime Darby Berhad

Expanding Australia Luxury Dealerships

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Its wholly-owned Sime Darby Motors SB has entered into an agreement to acquire business assets and properties of three Trivett luxury car dealerships (BMW, MINI, Volkswagen, Jaguar and Land Rover marques) in Paramatta, Sydney, Australia for a cash consideration of AU\$112m (c.RM321m) which could be financed by borrowings. We are neutral on this acquisition as we expect the earnings contribution to be less than 1% at the group level. Maintain MP with a TP of RM2.20.

Buying 3 Trivett luxury dealerships at AU\$112m (c.RM321m). SIME announced the acquisition of the business assets and properties of three luxury car dealerships in Sydney, Australia for a consideration of AU\$112m (c.RM321m on AU\$/MYR2.8624). The three dealerships represent the BMW, MINI, Volkswagen, Jaguar and Land Rover marques. The agreements were entered into by SIME's wholly-owned subsidiaries under Sime Darby Motors SB (SDM), with Trivett, the automotive retail unit of Inchcape Australia Limited, on 10th September 2019. The deal is expected to be completed by early December 2019.

Impact to financials. SIME's Australia division recorded 9,093 units sold in FY19 or RM2.8b in sales (c.11% of total Automotive sales) and EBIT of RM98m (c.16% of total Automotive EBIT, 3.5% EBIT margin). Based on the location of Paramatta (suburbs) compared with SIME's current dealerships at Brisbane (City), we guesstimate the three luxury dealerships to contribute at least 30% of the current revenue/profit at c.AU\$300m (c.RM858m)/net profit of AU\$4m (c.RM11.5m) which works out to an acquisition PER of 28x, and at premium to average Australian automotive players' PER of 15x, which we believe is due to its niche luxury market (dealerships right) and limited target market. Following the acquisition, we expect SIME's net debt to increase to RM1.2b (net gearing at 0.08x) from RM852m (net gearing at 0.06x) as of 31st June 2019. For illustrative purposes, assuming additional finance costs of RM11.6m/year (average at 3.6% rate), the acquisition would have no impact to our FY20E and FY21E CNPs. Nevertheless, the synergy from the expanding dealerships and business assets acquisition could positively contribute to the group earnings in the long-term.

Rationale of the acquisition. The proposed acquisition is aligned to SDM's strategy of expanding its Australian retail luxury segment and will strengthen SDM's presence and brand visibility in Parramatta, which is one of Sydney's most recognised automotive retail locations. Currently, SIME distributed BMW, MINI, PORSCHE, FERRARI, ALFA ROMEO, FIAT, VOLVO, and COREFLEET(rental).

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. In the long term, sales contribution from Gough Group NZ at c.RM1b/year (to be finalized by Sep 2019) could improve order-book. The Motors operation and Port operation will continue to be impacted by strong competition, especially with the China government rationalizing ports operations to create a larger entity. SIME will continue to rationalize its logistics operation (with remaining 4 ports) which could see value unlocking of RM1.2b from its net book value (RM0.18/share).

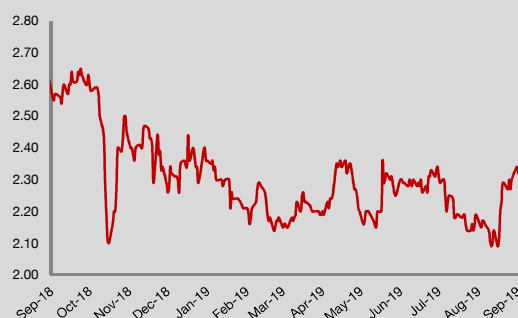
Maintain MARKET PERFORM with unchanged Target Price of RM2.20 based on Sum-of-Parts (SoP) which implied PER of 17.4x on FY20E EPS (at 24% premium to local peers' average PER of 14x due to its large market capitalization and bulk of its earnings coming from industrials, which entailed higher PER valuation).

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 : RM2.32
Target Price : RM2.20 ↔

Share Price Performance



KLCI	1,602.30
YTD KLCI chg	-5.2%
YTD stock price chg	-3.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SIME MK Equity
Market Cap (RM m)	15,777.9
Shares outstanding	6,800.8
52-week range (H)	2.67
52-week range (L)	2.04
3-mth avg daily vol:	5,737,856
Free Float	35%
Beta	1.6

Major Shareholders

Skim Amanah Saham Bumiputera	42.2%
Employees Provident Fund	9.9%
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	1,395	1,564
NP	948	860	993
CNP	950	860	993
Consensus (NP)	-	980	1,044
Earnings Revision	-	-	-
Core EPS (sen)	14.0	12.6	14.6
Core EPS (%)	13.8	-9.5	15.5
NDPS (sen)	10.0	10.0	10.0
BV/Share (RM)	2.22	2.23	2.27
Core PER	16.6	18.4	15.9
Price/BV (x)	1.0	1.0	1.0
Net Gearing (x)	0.1	0.1	0.1
Net Dvd Yield (%)	4.3	4.3	4.3



12 September 2019

Trivett background information and SIME Australia's current dealerships

Trivett is one of Australia's leading prestige automotive groups, representing 19 automotive brands, including some of the world's most esteemed marques. We feature dealerships across Australia in Sydney, Melbourne and North Brisbane and pride ourselves in offering a professional, seamless purchasing experience in our state-of-the-art showrooms. Our extensive range of new and certified approved pre-owned used vehicles, combined with our competitive finance options, mean we can accommodate for almost every customer's individual needs and budget.

At Trivett, we believe that purchasing a vehicle is just the first step of the ownership journey. Our factory-trained, award-winning staff are on hand to service and maintain your vehicle in our world-class servicing facilities. We offer genuine parts and accessories to keep your vehicle in top condition, with our service centres featuring concierge services, coffee bars, wireless internet, and space to relax and unwind.

We offer a complete range of services to meet all your motoring requirements, including:

- Over 1500 new, used and demonstrator vehicles for immediate delivery
- Factory trained vehicle servicing and repairs
- Expert Finance and Insurance at competitive rates
- Tyre and Wheel replacement and repairs
- Genuine Parts & Accessories
- Lifestyle, merchandise and gift vouchers for a range of luxury automotive brands
- State-of-the-art Parts warehouse located in Rydalmere



Australia

Dealer



Rental



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	5,444.0	8	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	116.9		
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			(1,201)		
Sum-Of-Parts (RM m)			18,833		
Holding Co. Discount (10%)			(3,767)		
No of shares (m)			6,800		
TP (RM)			2.20		

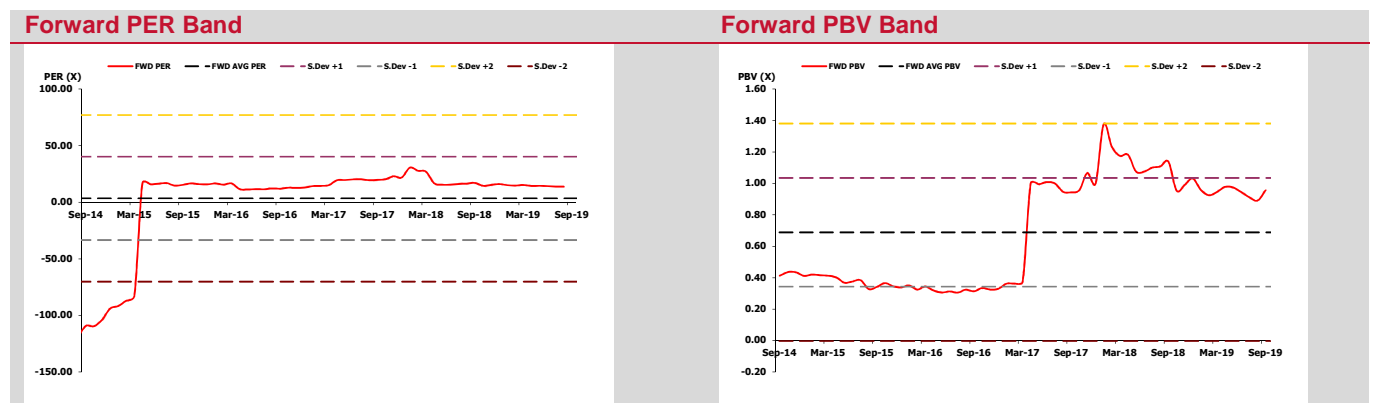
Source: Kenanga Research

Income Statement					Financial Data & Ratios				
FY Jun (RM m)	2018A	2019A	2020E	2021E	FY Jun (RM m)	2018A	2019A	2020E	2021E
Revenue	33,828	36,156	37,629	39,279	Growth				
EBITDA	481	944	906	1,049	Revenue	9%	7%	4%	4%
Depreciation	(621)	(598)	(625)	(688)	EBITDA	206%	96%	-4%	16%
Operating Profit	1,102	1,542	1,531	1,737	Op. Profit	49%	40%	-1%	13%
Total Financial Costs	(9)	(92)	(90)	(95)	PBT	6%	21%	8%	12%
Associate	(28)	(159)	(47)	(78)	CNP	-2%	14%	-10%	16%
PBT	1,065	1,291	1,395	1,564	Profitability				
Taxation	(380)	(281)	(562)	(600)	EBITDA Margin	1%	3%	2%	3%
PATAMI	618	948	860	993	Op. Margin	3%	4%	4%	4%
Core PATAMI	835	950	860	993	PBT Margin	6%	21%	8%	12%
					CNP Margin	2%	3%	2%	3%
					Tax Rate	36%	22%	40%	38%
					ROE	2%	6%	6%	6%
					ROA	1%	4%	3%	4%
					Leverage				
					Debt/Asset (x)	0.1	0.1	0.1	0.1
					Debt/Equity (x)	0.2	0.2	0.2	0.2
					Net Cash/(Debt)	(1,217.0)	(852.0)	(1,200.9)	(1,220.0)
					N.Debt/Equity(x)	0.1	0.1	0.1	0.1
					Valuations				
					EPS (sen)	12.3	14.0	12.6	14.6
					Core EPS (sen)	12.3	14.0	12.6	14.6
					NDPS (sen)	8.00	10.00	10.00	10.00
					BVPS (RM)	2.17	2.22	2.23	2.27
					PER (x)	25.5	16.6	18.4	15.9
					Core PER (x)	18.9	16.6	18.4	15.9
					N.Div. Yield	3.4%	4.3%	4.3%	4.3%
					P/BV (x)	1.1	1.0	1.0	1.0

Balance Sheet				
FY Jun (RM m)	2018A	2019A	2020E	2021E
Fixed Assets	5,152	5,129	5,076	5,018
Intangibles	124	124	124	124
Other FA	5,136	5,097	5,097	5,097
Inventories	7,210	8,538	8,886	9,275
Receivables	4,536	4,162	4,332	4,521
Other CA	1,043	635	635	635
Cash	1,672	1,723	1,530	1,511
Total Assets	24,873	25,408	25,680	26,182
Payables	4,760	4,583	4,546	4,764
ST Borrowings	2,642	2,397	2,553	2,553
Other ST Liability	1,827	2,598	2,598	2,598
LT Borrowings	247	178	178	178
Other LT Liability	638	636	636	636
Min Interest& Sukuk	389	405	276	247
Net Assets	14,370	14,713	14,893	15,206
Share Capital	9,299	9,299	9,299	9,299
Reserves	5,071	5,414	5,594	5,907
Equity	14,370	14,713	14,893	15,206

Cashflow Statement				
FY Jun (RM m)	2018A	2019A	2020E	2021E
Operating CF	1,273	1,334	994	1,386
Investing CF	(858)	(184)	(573)	(630)
Financing CF	(2,527)	(1,163)	(614)	(775)
Change In Cash	(2,112)	(13)	(193)	(19)
Free CF	415	1,150	421	756

Source: Kenanga Research



Source: Bloomberg, 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.				
STOCKS UNDER COVERAGE																		
BERMAZ AUTO BHD	2.30	2,671.7	Y	04/2020	0.6%	0.5%	-16.3%	16.7%	10.1	12.0	10.3	4.4	3.8	34.0%	7.1%	2.75	OP	
DRB-HICOM BHD	2.49	4,813.8	Y	12/2019	-33.3%	63.8%	-4.8%	77.1%	26.3	27.7	15.6	0.7	0.7	2.6%	1.2%	2.60	UP	
MBM RESOURCES BERHAD	4.39	1,716.0	Y	12/2019	-3.7%	0.3%	13.0%	2.5%	10.4	9.2	8.9	1.1	1.0	11.4%	2.7%	4.40	MP	
SIME DARBY BERHAD	2.32	15,777.9	Y	06/2020	4.1%	4.4%	-9.4%	15.4%	16.6	18.3	15.9	1.1	1.1	5.8%	4.3%	2.20	MP	
TAN CHONG MOTOR HOLDINGS BHD	1.36	887.6	Y	12/2019	-13.1%	1.0%	-26.1%	13.4%	8.4	11.4	10.1	0.3	0.3	2.8%	2.9%	1.40	MP	
UMW HOLDINGS BHD	5.12	5,981.7	Y	12/2019	6.0%	7.0%	-1.3%	21.5%	15.8	16.0	13.1	1.8	1.7	10.8%	1.5%	5.45	MP	
Simple Average					-9.1%	14.0%	-8.7%	25.0%	14.4	15.7	12.2	1.5	1.4	11.3%	3.7%			
CONSENSUS NUMBERS																		
APM AUTOMOTIVE HOLDINGS BHD	2.44	477.1	Y	12/2019	-0.3%	3.3%	2.5%	2.2%	12.4	12.1	11.9	0.4	0.4	3.1	0.1	2.45	SELL	
PECCA GROUP BHD	1.11	203.5	Y	06/2020	1.5%	3.5%	5.4%	3.2%	12.2	11.6	11.3	1.2	1.2	10.2	0.1	1.26	SELL	

Source: Bloomberg, Kenanga Research

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12 September 2019

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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