

Sime Darby Bhd (SIME MK)

1HFY6/22 results in line

Maintain BUY and MYR2.70 TP

1HFYE6/22 core net profit of MYR581m (-5% YoY) made up 46% of our FY estimate and we expect a stronger 2H ahead, led by the revival at its Australian industrial ops. Sime is leveraged to ride on the commodity cycle, infrastructure capex spending, consumer recovery and the EV agenda. It offers earnings growth and dividend yield upside. Our TP is SOP-based.

Snapshot of 1HFY22; declared 4 sen interim DPS

Sime reported softer YoY core net profit (-5%) in 1HFY6/22, mainly on lower core PBIT at its industrial ops (-18%), which negated the improved operations elsewhere (autos, logistics). The China/ Australasia industrial ops posted a 58%/ 5% YoY drop in core PBIT. The former was disrupted by the slowdown in construction activities, and lower sales, margins and utilisation rates from its rental business while the latter was affected by higher opex/ lower margins. Salmon Earthmoving (acquired in Oct 2021) contributed MYR7m. In the auto division, the Greater China market continued to drive growth (50% of motor's PBIT), fuelled by resilient sales from the super luxury segment despite supply constraint issues.

Commodity, infrastructure and EV push growth

We expect stronger 2H performance ahead, as it capitalises on the commodity cycle and infrastructure capex plays. Sime will continue to benefit from its motor (resilient orders, higher margins) & industrial (margins recovery, higher order backlog, Australia) ops, as it gains strength post pandemic. It is readily embracing the EV transition agenda, with a pipeline of EV models. We do not rule out Sime expanding its CKD assembly operations and sign up new franchises to grow its motor ops.

To continue to unlock values, ESG updates

We remain positive on Sime's concerted effort to divest its non-core assets, monetise and recycle its capital effectively. Constantly disposing the MVV land (8,036 acres) is a positive. Meanwhile, in its ESG framework update, Sime targets to: (i) reduce emissions (Scope 1 & 2) by 30% by 2030, (ii) invest MYR250m (minimum) in ESG innovations by 2025 and (iii) have >50% of its products in portfolio be more energy efficient by 2025.

FYE Jun (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	36,934	44,483	45,920	46,910	47,795
EBITDA	2,566	3,322	3,244	3,298	3,338
Core net profit	1,031	1,212	1,250	1,305	1,347
Core EPS (sen)	15.2	17.8	18.4	19.2	19.8
Core EPS growth (%)	10.3	17.5	3.2	4.4	3.2
Net DPS (sen)	10.0	15.0	15.0	15.1	15.1
Core P/E (x)	14.2	12.2	12.3	11.8	11.4
P/BV (x)	1.0	0.9	1.0	0.9	0.9
Net dividend yield (%)	4.7	6.9	6.6	6.7	6.7
ROAE (%)	5.5	9.2	7.8	8.0	8.1
ROAA (%)	3.9	4.3	4.3	4.4	4.5
EV/EBITDA (x)	6.1	4.4	4.2	3.9	3.5
Net gearing (%) (incl perps)	3.5	net cash	net cash	net cash	net cash
Consensus net profit	-	-	1,236	1,310	1,405
MKE vs. Consensus (%)	-	-	1.1	(0.4)	(4.1)

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BUY

Share Price	MYR 2.26
12m Price Target	MYR 2.70 (+19%)
Previous Price Target	MYR 2.70

Company Description

Sime Darby is a conglomerate engaged in three core businesses - industrial equipment, motors, ports & utilities.

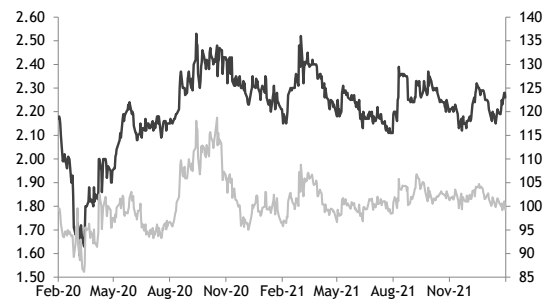
Statistics

52w high/low (MYR)	2.52/2.11
3m avg turnover (USDm)	2.7
Free float (%)	84.0
Issued shares (m)	6,803
Market capitalisation	MYR15.4B USD3.7B

Major shareholders:

Permodalan Nasional Bhd.	41.6%
Employees Provident Fund	9.6%
Kumpulan Wang Persaraan	7.1%

Price Performance



— Sime Darby - (LHS, MYR) — Sime Darby / Kuala Lumpur Composite Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	0	3	2
Relative to index (%)	(2)	(2)	3

Source: FactSet

Summary Results Table

FY June (MYR m)	Quarterly results					Cumulative		
	2QFY6/22	1QFY6/22	%QoQ	2QFY6/21	%YoY	6MFY22	6MFY21	% YoY
Turnover	10,536	10,673	(1.3)	10,844	(2.8)	21,209	21,721	(2.4)
EBIT	480	372	29.0	408	17.6	852	834	2.2
JV	12	14	(14.3)	12	0.0	26	28	(7.1)
Associates	11	8	37.5	24	(54.2)	19	29	(34.5)
PBIT	503	394	27.7	444	13.3	897	891	0.7
Finance income	11	13	(15.4)	9	22.2	24	21	14.3
Finance cost	(33)	(33)	0.0	(28)	17.9	(66)	(61)	8.2
Pre-tax profit	481	374	28.6	824	(41.6)	855	1,250	(31.6)
Taxation	(106)	(107)	(0.9)	(156)	(32.1)	(213)	(276)	(22.8)
Minority interest	(30)	(31)	(3.2)	(35)	(14.3)	(61)	(60)	1.7
Net profit	345	236	46.2	633	(45.5)	581	914	(36.4)
El	0	0	NM	(295)	NM	0	(304)	NM
Recurring net profit	345	236	46.2	338	2.1	581	610	(4.8)
	2QFY6/22	1QFY6/22	%QoQ	2QFY6/21	%YoY	6MFY22	6MFY21	% YoY
EBIT margin (%)	4.6	3.5	1.1	3.8	0.8	4.0	3.8	0.2
PBIT margin (%)	4.8	3.7	1.1	4.1	0.7	4.2	4.1	0.1
Tax rate (%)	22.0	28.6	(6.6)	18.9	3.1	24.9	22.1	2.8
	2QFY6/22	1QFY6/22	%QoQ	2QFY6/21	%YoY	6MFY22	6MFY21	% YoY
Revenue	10,536	10,673	(1.3)	10,844	(2.8)	21,209	21,721	(2.4)
Industrial	3,729	3,759	(0.8)	3,690	1.1	7,488	7,415	1.0
Motors	6,749	6,862	(1.6)	7,102	(5.0)	13,611	14,198	(4.1)
Logistics	44	38	15.8	44	0.0	82	88	(6.8)
Others	14	14	0.0	8	75.0	28	20	40.0
PBIT	503	393	28.0	843	(40.3)	897	1,290	(30.5)
Industrial	213	160	33.1	256	(16.8)	373	452	(17.5)
Motors	284	227	25.1	282	0.7	511	505	1.2
Logistics	9	3	>100	3	>100	12	9	33.3
Healthcare	11	13	(15.4)	11	0.0	24	25	(4.0)
Others	7	4	75.0	319	(97.8)	11	332	(96.7)
Elimination/Corporate expense	(21)	(13)	61.5	(28)	(25.0)	(34)	(33)	3.0
PBIT ex El	503	394	27.7	839	(40.0)	897	986	(9.0)
Industrial	213	160	33.1	254	(16.1)	373	454	(17.8)
Motors	284	227	25.1	282	0.7	511	505	1.2
Logistics	9	3	>100	1	>100	12	11	9.1
Healthcare	11	13	(15.4)	11	0.0	24	25	(4.0)
Others	7	4	75.0	319	(97.8)	11	26	(57.7)
Elimination/Corporate expense	(21)	(13)	61.5	(28)	(25.0)	(34)	(35)	(2.9)
	2QFY6/22	1QFY6/22	%QoQ	2QFY6/21	%YoY	6MFY22	6MFY21	% YoY
PBIT ex El margins (%)	4.8	3.7	1.1	7.7	(3.0)	4.2	4.5	(0.3)
Industrial	5.7	4.3	1.5	6.9	(1.2)	5.0	6.1	(1.1)
Motors	4.2	3.3	0.9	4.0	0.2	3.8	3.6	0.2
Logistics	20.5	7.9	12.6	2.3	18.2	14.6	12.5	2.1

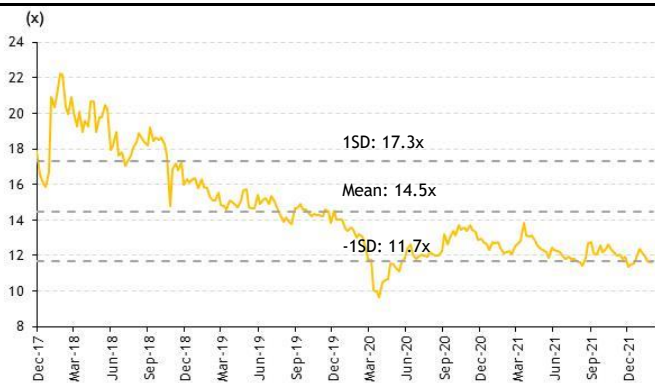
Source: Company, Maybank IBG Research

SOP valuation

Division	Effective Interest (%)	* Valuation Method	Value (MYR m)	Per share (MYR)
Motor				
Multi-marque distributorships and dealerships	100.0%	12x FY6/21 PER	3,275	0.48
Inokom	53.6%	12x FY6/21 PER	146	0.02
BMW Malaysia	49.0%	12x FY6/21 PER	989	0.15
Industrial	100.0%	15x FY6/21 PER	8,245	1.21
Logistics	100.0%	0.8x NBV	1,802	0.27
Others				
Sime Darby Lockton Insurance Brokers	60.0%	15x FY6/21 PER	239	0.04
Ramsay Sime Darby Health Care	50.0%	30x FY6/21 PER	1,810	0.27
Land assets				
Malaysia Vision Valley, Labu	100.0%	MV	1,656	0.24
Ara Damansara, Petaling Jaya	100.0%	NBV	243	0.04
Less: Net debt			-127	-0.02
SOP / Ex-dividend TP (MYR)			18,340	2.70

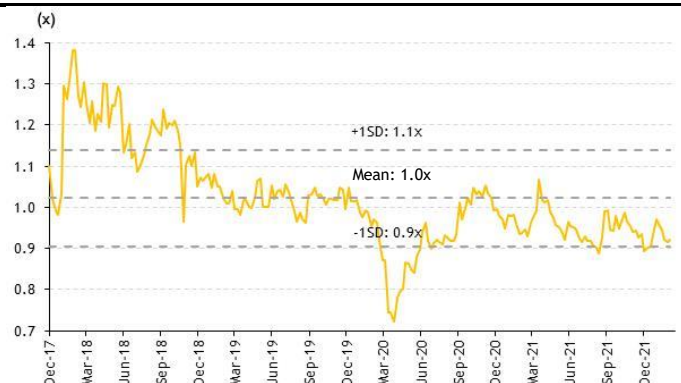
Source: Maybank IBG Research, Company

1-year forward PER



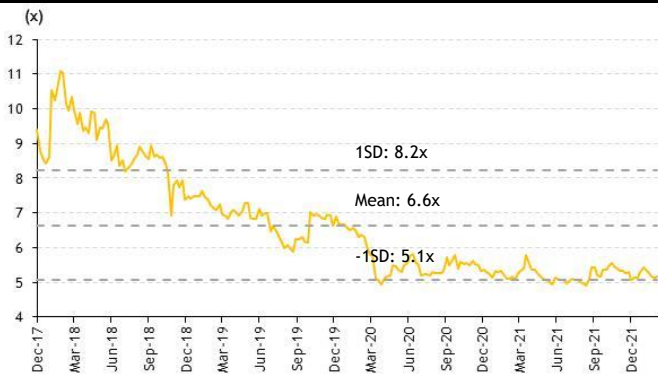
Source: Company, Maybank IBG Research

1-year forward PBV



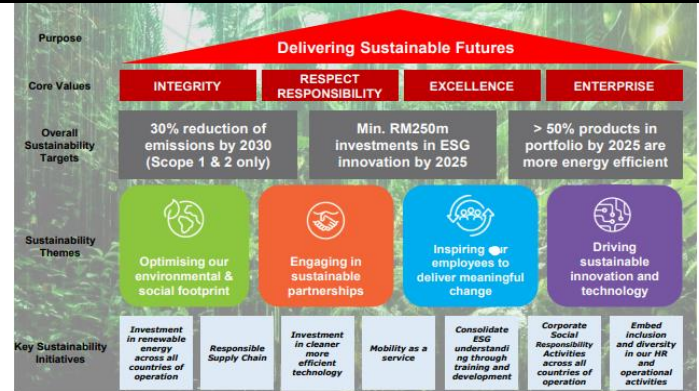
Source: Company, Maybank IBG Research

1-year forward EV/ EBITDA



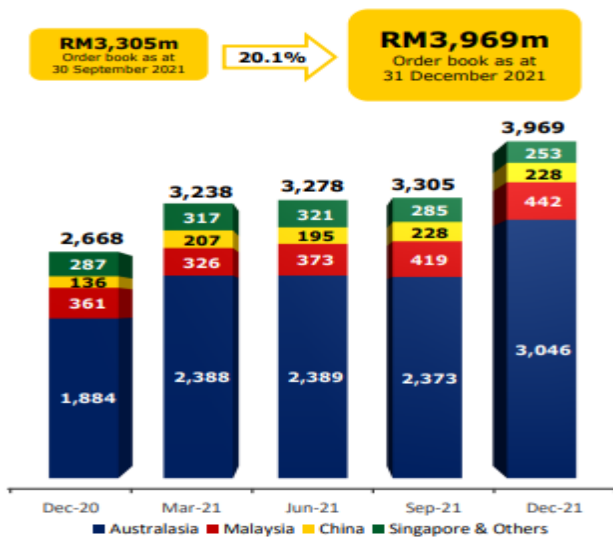
Source: Company, Maybank IBG Research

ESG Framework



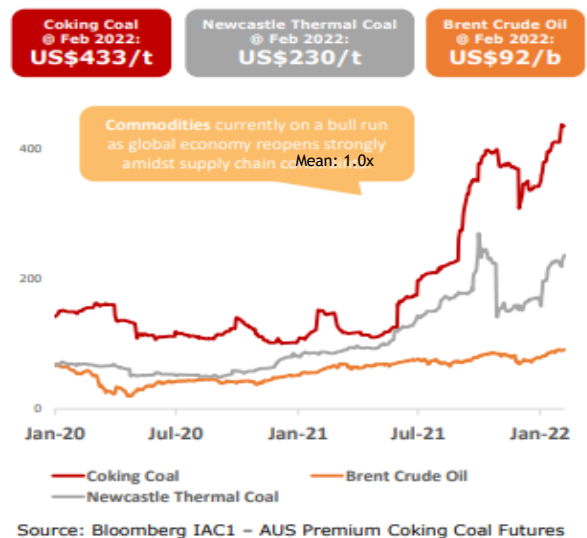
Source: Company

Rising industrial orderbook



Source: Company

Commodities upcycle



Source: Company

FYE 30 Jun	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	17.8	10.9	12.3	11.8	11.4
Core P/E (x)	14.2	12.2	12.3	11.8	11.4
P/BV (x)	1.0	0.9	1.0	0.9	0.9
P/NTA (x)	1.1	1.0	1.1	1.0	1.0
Net dividend yield (%)	4.7	6.9	6.6	6.7	6.7
FCF yield (%)	16.8	15.1	17.4	14.0	14.3
EV/EBITDA (x)	6.1	4.4	4.2	3.9	3.5
EV/EBIT (x)	9.0	7.5	6.5	5.9	5.4
INCOME STATEMENT (MYR m)					
Revenue	36,934.0	44,483.0	45,919.6	46,909.9	47,794.9
EBITDA	2,566.0	3,322.0	3,243.5	3,298.0	3,337.6
Depreciation	(979.0)	(1,081.0)	(1,080.0)	(1,083.8)	(1,083.1)
Amortisation	(74.0)	(74.0)	(74.0)	(74.0)	(74.0)
EBIT	1,724.0	1,954.0	2,089.5	2,140.2	2,180.5
Net interest income / (exp)	(132.0)	(76.0)	(73.2)	(35.6)	(7.8)
Associates & JV	(106.0)	14.0	0.3	0.3	0.0
Exceptionals	(211.0)	213.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	1,275.0	2,105.0	2,016.6	2,105.0	2,172.7
Income tax	(402.0)	(575.0)	(625.1)	(652.5)	(673.5)
Minorities	(53.0)	(105.0)	(141.2)	(147.3)	(152.1)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	820.0	1,425.0	1,250.3	1,305.1	1,347.1
Core net profit	1,031.0	1,212.0	1,250.3	1,305.1	1,347.1
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	1,694.0	2,473.0	3,948.7	4,944.3	6,000.3
Accounts receivable	4,096.0	4,388.0	4,410.6	4,486.6	4,554.5
Inventory	8,346.0	8,316.0	8,431.1	8,614.7	8,780.7
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	6,010.0	6,225.0	5,645.0	5,061.1	4,478.0
Intangible assets	1,596.0	1,629.0	1,555.0	1,481.0	1,407.0
Investment in Associates & JVs	1,344.0	1,236.0	1,111.3	986.7	861.7
Other assets	4,187.0	4,188.0	4,188.0	4,188.0	4,188.0
Total assets	27,273.0	28,455.0	29,289.8	29,762.4	30,270.2
ST interest bearing debt	2,121.0	1,454.0	1,354.0	1,254.0	1,154.0
Accounts payable	4,317.0	5,253.0	5,796.4	5,922.6	6,036.7
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	110.0	373.0	373.0	373.0	373.0
Other liabilities	5,312.0	5,115.0	5,135.0	5,156.0	5,178.0
Total Liabilities	11,860.0	12,195.0	12,658.6	12,705.8	12,741.7
Shareholders Equity	14,997.0	15,883.0	16,113.1	16,391.0	16,711.0
Minority Interest	416.0	377.0	518.2	665.5	817.6
Total shareholder equity	15,413.0	16,260.0	16,631.2	17,056.5	17,528.6
Total liabilities and equity	27,273.0	28,455.0	29,289.8	29,762.4	30,270.2
CASH FLOW (MYR m)					
Pretax profit	1,275.0	2,105.0	2,016.6	2,105.0	2,172.7
Depreciation & amortisation	1,053.0	1,155.0	1,154.0	1,157.8	1,157.1
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	215.0	107.0	405.7	(133.3)	(119.8)
Cash taxes paid	(269.0)	(616.0)	(605.0)	(631.5)	(651.8)
Other operating cash flow	498.0	(236.0)	72.9	35.2	7.8
Cash flow from operations	3,012.0	2,753.0	3,169.2	2,658.2	2,691.0
Capex	(556.0)	(510.0)	(500.0)	(500.0)	(500.0)
Free cash flow	2,456.0	2,243.0	2,669.2	2,158.2	2,191.0
Dividends paid	(707.0)	(998.0)	(1,020.2)	(1,027.1)	(1,027.1)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(577.0)	(186.0)	(100.0)	(100.0)	(100.0)
Other invest/financing cash flow	(996.0)	472.0	(73.2)	(35.6)	(7.8)
Effect of exch rate changes	30.0	27.0	0.0	0.0	0.0
Net cash flow	206.0	1,558.0	1,475.7	995.5	1,056.1

FYE 30 Jun	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	2.2	20.4	3.2	2.2	1.9
EBITDA growth	19.9	29.5	(2.4)	1.7	1.2
EBIT growth	12.8	13.3	6.9	2.4	1.9
Pretax growth	(1.2)	65.1	(4.2)	4.4	3.2
Reported net profit growth	(13.5)	73.8	(12.3)	4.4	3.2
Core net profit growth	10.3	17.6	3.2	4.4	3.2
Profitability ratios (%)					
EBITDA margin	6.9	7.5	7.1	7.0	7.0
EBIT margin	4.7	4.4	4.6	4.6	4.6
Pretax profit margin	3.5	4.7	4.4	4.5	4.5
Payout ratio	82.9	71.6	81.6	78.7	76.2
DuPont analysis					
Net profit margin (%)	2.2	3.2	2.7	2.8	2.8
Revenue/Assets (x)	1.4	1.6	1.6	1.6	1.6
Assets/Equity (x)	1.8	1.8	1.8	1.8	1.8
ROAE (%)	5.5	9.2	7.8	8.0	8.1
ROAA (%)	3.9	4.3	4.3	4.4	4.5
Liquidity & Efficiency					
Cash conversion cycle	86.5	69.1	61.2	58.5	58.5
Days receivable outstanding	40.0	34.3	34.5	34.1	34.0
Days inventory outstanding	99.0	81.7	78.4	78.1	78.2
Days payables outstanding	52.5	46.9	51.7	53.7	53.7
Dividend cover (x)	1.2	1.4	1.2	1.3	1.3
Current ratio (x)	1.5	1.6	1.7	1.8	2.0
Leverage & Expense Analysis					
Asset/Liability (x)	2.3	2.3	2.3	2.3	2.4
Net gearing (%) (incl perps)	3.5	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	3.5	net cash	net cash	net cash	net cash
Net interest cover (x)	13.1	25.7	28.5	60.2	nm
Debt/EBITDA (x)	0.9	0.5	0.5	0.5	0.5
Capex/revenue (%)	1.5	1.1	1.1	1.1	1.0
Net debt/ (net cash)	537.0	(646.0)	(2,221.7)	(3,317.3)	(4,473.3)

Source: Company; Maybank

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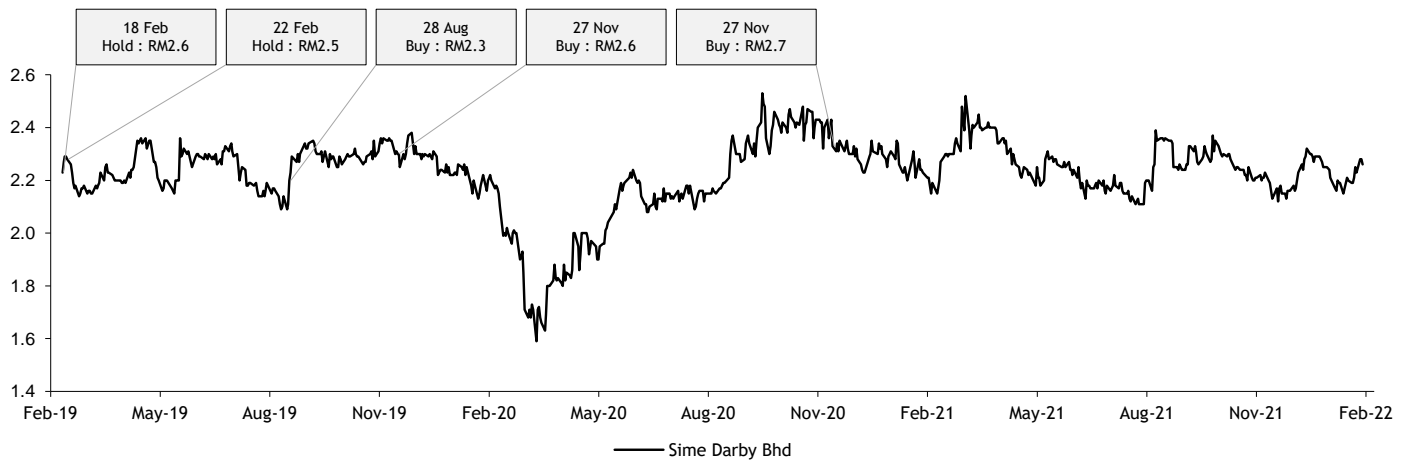
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