



Company report

SIME DARBY

(SIME MK EQUITY, SIME.KL)

22 May 2020

Improved core earnings in motor and industrial divisions

BUY

(Maintained)

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Rationale for report: Company result/update

Price	RM2.01
Fair Value	RM2.21
52-week High/Low	RM2.38/RM1.56

Key Changes

Fair value	↕
EPS	↕

YE to Jun	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	36,156.0	38,245.9	40,400.6	42,722.1
Core net profit (RM mil)	949.0	905.4	1,053.2	1,136.4
FD Core EPS (sen)	14.0	13.3	15.5	16.7
FD Core EPS growth (%)	13.7	(4.6)	16.3	7.9
Consensus Net Profit (RM mil)	-	919.0	1,059.9	1,109.0
DPS (sen)	9.1	8.7	10.1	10.9
PE (x)	14.4	15.1	13.0	12.0
EV/EBITDA (x)	7.3	8.4	7.9	7.8
Div yield (%)	5.3	5.1	5.9	6.4
ROE (%)	6.5	6.1	6.9	7.3
Net Gearing (%)	8.0	8.8	10.1	11.8

Stock and Financial Data

Shares Outstanding (million)	6,801.0
Market Cap (RM mil)	13,670.0
Book Value (RM/share)	2.16
P/BV (x)	0.9
ROE (%)	6.5
Net Gearing (%)	8.0

Major Shareholders	Skim ASB (41.2%) EPF (11.2%) Yayasan Pelaburan Bumiputra (5.1%)
Free Float	2,507.0
Avg Daily Value (RM mil)	15.9

Price performance	3mth	6mth	12mth
Absolute (%)	(6.5)	(14.8)	(8.2)
Relative (%)	-	(5.0)	2.7

**Investment Highlights**

- We maintain our BUY recommendation on Sime Darby with an unchanged SOP-based FV of RM2.21/share, pegged to FY21F PE of 7x to its motor segment.

- Sime Darby's 9MFY20 core net profit of RM717.0mil was in line with our expectations, accounting for 79% of ours and 78% of consensus forecasts respectively. 9MFY20 core earnings improved a significant 13% YoY, backed by a 5% revenue growth.

- Sime Darby's motor segment recorded a slightly higher 9MFY20 top line of RM16.2bil (+0.5% YoY) due to higher vehicle car sales from the Australia region, attributed to contributions from the recently acquired three luxury dealership business from Inchcape in September 2019.

Overall, the motor division registered a 9MFY20 core PBIT of RM380.0mil (+13% YoY), largely supported by an impressive improvement in PBIT margins in the group's China market to 2.7% from 1.6%. The group said that the competitive discounting in the China region has subsided, hence contributed to the margin recovery in the region.

- Sime Darby's industrial segment posted an impressive 9MFY20 PBIT of RM774.0mil (+26% YoY) on improved PBIT contributions from 3 core regions – Australia, Malaysia and Southeast Asia. We understand that the mining sector is considered an essential industry in Australia. Activities for mining were not halted by the Covid-19 lockdown.

Notably, the Australasia's industrial segment registered a compelling 9MFY20 core PBIT of RM571.0mil (+35% YoY) and this can be attributed to higher Caterpillar equipment deliveries to the mining and construction sectors in Australasia. On the other hand, China's Industrial segment recorded a slightly lower 9MFY20 core PBIT of RM129.0mil (-4% YoY) and we believe that this was due to the extended Lunar New Year holidays in the region.

- Australasia's Industrial 9MFY20 PBIT margins continued to improve to 7.6% compared to 6.8% in 9MFY19. This was likely to have been contributed by the group's efforts in expanding its after-sales services of Caterpillar equipment which provides more lucrative profit margins compared to just sales and distribution of heavy equipment.

- Sime Darby's industrial order book remains healthy at RM2.4bil, where the major bulk (68%) of it comes from the Australasia region.

- We are slightly wary about the declining metallurgical coal prices, which our records showed has averaged at US\$155/MT for 9MFY20, 24% lower compared to US\$205/MT in 9MFY19. It last traded at US\$119/MT. Note that the miner's breakeven point is at US\$80/MT as per previously guided during a meeting with the group.

EXHIBIT 1: RESULTS SUMMARY

(RM mil)	3Q19	2Q20	3Q20	QoQ	YoY	9M19	9M20	YoY
Revenue	8,565.0	10,209.0	8,428.0	-17%	-2%	26,833.0	28,113.0	5%
Other operating income	25.0	44.0	37.0	-16%	48%	84.0	108.0	29%
Operating expenses	(8,263.0)	(9,820.0)	(8,170.0)	-17%	-1%	(25,925.0)	(27,099.0)	5%
Other gains	24.0	(1.0)	(4.0)	300%	-117%	66.0	(16.0)	-124%
Operating profit	351.0	432.0	291.0	-33%	-17%	1,058.0	1,106.0	5%
Share of results of joint ventures	13.0	13.0	10.0	-23%	-23%	47.0	34.0	-28%
Share of results of associates	(33.0)	2.0	(36.0)	-1900%	9%	(90.0)	(48.0)	-47%
PBIT	331.0	447.0	265.0	-41%	-20%	1,015.0	1,092.0	8%
Finance income	8.0	12.0	10.0	-17%	25%	25.0	33.0	32%
Finance costs	(31.0)	(46.0)	(36.0)	-22%	16%	(93.0)	(121.0)	30%
PBT	308.0	413.0	239.0	-42%	-22%	947.0	1,004.0	6%
Tax expense	(75.0)	(116.0)	(96.0)	-17%	28%	(139.0)	(305.0)	119%
Profit from continuing operations	233.0	297.0	143.0	-52%	-39%	808.0	699.0	-13%
Profit from discontinuing operations	0.0	0.0	0.0	NA	NA	0.0	0.0	NA
Profit for the period	233.0	297.0	143.0	-52%	-39%	808.0	699.0	-13%
Attributable to owners of the co:								
From continuing co	222.0	282.0	115.0	-59%	-48%	764.0	643.0	-16%
From discontinuing co	0.0	0.0	0.0	NA	NA	0.0	0.0	NA
Perpetual sukuk	0.0	0.0	0.0	0%	0%	0.0	0.0	NA
Non-controlling interests	11.0	15.0	13.0	-13%	18%	44.0	41.0	-7%
Profit for the period	233.0	297.0	128.0	-57%	-45%	808.0	684.0	-15%
Reported PBIT	331.0	447.0	265.0	-41%	-20%	1,015.0	1,092.0	8%
Core PBIT	335.0	455.0	307.0	-33%	-8%	1,001.0	1,166.0	16%
Core Net Profit	225.0	290.0	157.0	-46%	-30%	635.0	717.0	13%
Margins								
EBIT	4.1%	4.2%	3.5%			3.9%	3.9%	
PBIT	3.9%	4.4%	3.1%			3.8%	3.9%	
PBT	3.6%	4.0%	2.8%			3.5%	3.6%	
Core PBIT	3.9%	4.5%	3.6%			3.7%	4.1%	
Net profit	2.6%	2.8%	1.4%			2.8%	2.3%	
Core net profit	2.6%	2.8%	1.9%			2.4%	2.6%	
Segmental Breakdown								
Revenue								
Industrial	3,515.0	3,975.0	3,722.0	-6%	6%	10,347.0	11,693.0	13%
Motors	4,945.0	6,161.0	4,641.0	-25%	-6%	16,135.0	16,210.0	0%
Logistics	64.0	57.0	49.0	-14%	-23%	214.0	168.0	-21%
Healthcare	0.0	0.0	0.0	NA	NA	0.0	0.0	NA
Others	41.0	16.0	16.0	0%	-61%	137.0	42.0	-69%
Total	8,565.0	10,209.0	8,428.0	-17%	-2%	26,833.0	28,113.0	5%
PBIT								
Industrial	210.0	287.0	216.0	-25%	3%	586.0	763.0	30%
Motors	112.0	143.0	103.0	-28%	-8%	352.0	380.0	8%
Logistics	11.0	7.0	(6.0)	-186%	-155%	115.0	7.0	-94%
Healthcare	12.0	17.0	13.0	-24%	8%	42.0	45.0	7%
Others	(3.0)	4.0	(50.0)	-1350%	1567%	(39.0)	(62.0)	59%
Corporate/Elimination	(10.0)	(11.0)	(11.0)	0%	10%	(40.0)	(41.0)	2%
Total	332.0	447.0	265.0	-41%	-20%	1,016.0	1,092.0	7%
Core PBIT								
Industrial	208.0	292.0	218.0	-25%	5%	616.0	774.0	26%
Motors	111.0	143.0	103.0	-28%	-7%	336.0	380.0	13%
Logistics	11.0	7.0	-6.0	-186%	-155%	37.0	7.0	-81%
Healthcare	12.0	17.0	13.0	-24%	8%	42.0	45.0	7%
Others	7.0	10.0	-10.0	-200%	-243%	17.0	0.0	-100%
Corporate/Elimination	(13.0)	(15.0)	-10.0	-33%	-23%	(46.0)	(40.0)	-13%
Forex/YSD	0.0	0.0	0.0	NA	NA	0.0	0.0	NA
Total	336.0	454.0	308.0	-32%	-8%	1,002.0	1,166.0	16%

Source: AmlInvestment Bank Bhd, Company

EXHIBIT 2: SEGMENTAL BREAKDOWN

<u>Deeper segmental breakdown</u>	9M19	9M20	YoY
<u>Industrial segment</u>			
Revenue			
Australasia	6,191.0	7,500.0	21%
China	2,736.0	2,849.0	4%
Malaysia	853.0	760.0	-11%
SEA	567.0	584.0	3%
Total	10,347.0	11,693.0	13%
Core PBIT			
Australasia	423.0	571.0	35%
China	135.0	129.0	-4%
Malaysia	15.0	23.0	53%
SEA	43.0	51.0	19%
Total	616.0	774.0	26%
PBIT margin by market			
Australasia	6.8%	7.6%	
China	4.9%	4.5%	
Malaysia	1.8%	3.0%	
SEA	7.6%	8.7%	
YTD order book by market (RM mil)			
Australasia	1,663.0	1,652.0	-1%
China	311.0	339.0	9%
Malaysia	403.0	253.0	-37%
SEA	271.0	197.0	-27%
Total	2,549.0	2,441.0	-4%
<u>Motors segment</u>			
Revenue			
China, HK, Macau & Taiwan	7,552.0	7,374.0	-2%
Singapore & Thailand	3,501.0	3,618.0	3%
Malaysia	2,983.0	2,692.0	-10%
Australia & NZ	2,099.0	2,526.0	20%
Vietnam	0.0	0.0	NA
Total	16,135.0	16,210.0	0%
Core PBIT			
China, HK, Macau & Taiwan	120.0	200.0	67%
Singapore & Thailand	52.0	27.0	-48%
Malaysia	93.0	89.0	-4%
Australia & NZ	71.0	64.0	-10%
Total	336.0	380.0	13%
PBIT margin by market			
China, HK, Macau & Taiwan	1.6%	2.7%	
Singapore & Thailand	1.5%	0.7%	
Malaysia	3.1%	3.3%	
Australia & NZ	3.4%	2.5%	
Sales volume by market			
China, HK, Macau & Taiwan	32,440	30,800	-5%
Singapore & Thailand	13,437	11,350	-16%
Malaysia	12,762	10,706	-16%
Australia & NZ	6,804	7,477	10%
Vietnam	0	0	NA
Total	65,443	60,333	-8%

Source: AmInvestment Bank Bhd, Company

EXHIBIT 3: SEGMENTAL BREAKDOWN (CONTINUED)

Logistics segment	9M19	9M20	YoY
Revenue			
Ports	195.0	168.0	-14%
Water	19.0	0.0	-100%
Total	214.0	168.0	-21%
Core PBIT			
Ports	30.0	10.0	-67%
Water	9.0	0.0	-100%
Forex	(2.0)	(3.0)	50%
Total	37.0	7.0	-81%
PBIT margin by sub-segment			
Ports	15%	6%	
Water	47%	0%	
General cargo throughput (mil MT)	22.3	18.9	-15%
Container throughput (TEU)	200,041	131,187	-34%

Source: Company, AmInvestment Bank Bhd

EXHIBIT 4: SIME DARBY VALUATION MATRIX

Segment	SOP				
	PAT	PE Multiple	Value	Value per share	No of Shares
Motors	533.8	7	3,736	0.55	6,801
Industrial	558.0	16	8,929	1.31	
Logistics	55.6	15	835	0.12	
Healthcare	48.9	20	978	0.14	
E&O (CP of RM0.40 on 11.6% stake)			62	0.01	
Value of MVV Land (0.9x transacted value)			2,250	0.33	
			16,789	2.47	
Net Debt			(1,745)	(0.26)	
Fair Value				2.21	

Source: AmInvestment Bank Bhd

EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 30 Jun)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	33,828.0	36,156.0	38,245.9	40,400.6	42,722.1
EBITDA	1,723.0	2,038.1	1,794.9	1,931.0	1,994.6
Depreciation/Amortisation	(621.0)	(497.1)	(420.7)	(361.0)	(314.4)
Operating income (EBIT)	1,102.0	1,541.0	1,374.2	1,569.9	1,680.2
Other income & associates	(28.0)	(159.0)	45.0	47.5	49.7
Net interest	(9.0)	(91.0)	(37.3)	(39.7)	(42.7)
Exceptional items	-	-	-	-	-
Pretax profit	1,065.0	1,291.0	1,382.0	1,577.7	1,687.1
Taxation	(380.0)	(281.0)	(331.4)	(378.1)	(404.3)
Minorities/pref dividends	144.0	144.0	144.0	144.0	144.0
Net profit	618.0	949.0	905.4	1,053.2	1,136.4
Core net profit	835.0	949.0	905.4	1,053.2	1,136.4
Balance Sheet (RMmil, YE 30 Jun)	FY18	FY19	FY20F	FY21F	FY22F
Fixed assets	5,773.0	5,709.8	5,748.0	5,871.8	6,070.0
Intangible assets	-	-	-	-	-
Other long-term assets	4,979.0	4,799.0	4,823.0	4,849.5	4,878.2
Total non-current assets	10,752.0	10,508.8	10,571.0	10,721.3	10,948.2
Cash & equivalent	1,672.0	1,965.6	2,054.0	2,081.3	2,013.5
Stock	7,210.0	7,158.6	7,018.5	6,834.5	6,620.5
Trade debtors	4,536.0	5,222.0	5,919.4	6,670.6	7,495.7
Other current assets	703.0	703.0	703.0	703.0	703.0
Total current assets	14,121.0	15,049.3	15,694.9	16,289.5	16,832.7
Trade creditors	4,760.0	4,856.9	4,908.9	4,946.1	4,979.5
Short-term borrowings	2,642.0	2,954.0	3,266.0	3,578.0	3,890.0
Other current liabilities	1,784.0	1,784.0	1,784.0	1,784.0	1,784.0
Total current liabilities	9,186.0	9,594.9	9,958.9	10,308.1	10,653.5
Long-term borrowings	247.0	182.0	117.0	52.0	(13.0)
Other long-term liabilities	681.0	681.0	681.0	681.0	681.0
Total long-term liabilities	928.0	863.0	798.0	733.0	668.0
Shareholders' funds	14,370.0	14,702.2	15,019.0	15,387.7	15,785.4
Minority interests	389.0	481.0	573.0	665.0	757.0
BV/share (RM)	2.11	2.16	2.21	2.26	2.32
Cash Flow (RMmil, YE 30 Jun)	FY18	FY19	FY20F	FY21F	FY22F
Pretax profit	1,065.0	1,291.0	1,382.0	1,577.7	1,687.1
Depreciation/Amortisation	621.0	497.1	420.7	361.0	314.4
Net change in working capital	(1,061.0)	(537.8)	(505.2)	(530.1)	(577.6)
Others	648.0	(202.2)	(328.9)	(386.5)	(412.0)
Cash flow from operations	1,273.0	1,048.1	968.5	1,022.1	1,011.9
Capital expenditure	(517.0)	(433.9)	(459.0)	(484.8)	(512.7)
Net investments & sale of fixed assets	419.0	-	-	-	-
Others	(760.0)	192.1	83.6	98.3	102.7
Cash flow from investing	(858.0)	(241.8)	(375.4)	(386.5)	(410.0)
Debt raised/(repaid)	(146.0)	247.0	247.0	247.0	247.0
Equity raised/(repaid)	5.0	-	-	-	-
Dividends paid	(1,292.0)	(616.9)	(588.5)	(684.6)	(738.7)
Others	(1,094.0)	(142.9)	(163.3)	(170.7)	(178.1)
Cash flow from financing	(2,527.0)	(512.7)	(504.8)	(608.3)	(669.8)
Net cash flow	(2,112.0)	293.6	88.4	27.3	(67.8)
Net cash/(debt) b/f	3,842.0	1,672.0	1,965.6	2,054.0	2,081.3
Net cash/(debt) c/f	1,629.0	1,965.6	2,054.0	2,081.3	2,013.5
Key Ratios (YE 30 Jun)	FY18	FY19	FY20F	FY21F	FY22F
Revenue growth (%)	8.8	6.9	5.8	5.6	5.7
EBITDA growth (%)	30.6	18.3	(11.9)	7.6	3.3
Pretax margin (%)	3.1	3.6	3.6	3.9	3.9
Net profit margin (%)	1.8	2.6	2.4	2.6	2.7
Interest cover (x)	122.4	16.9	36.9	39.5	39.3
Effective tax rate (%)	35.7	21.8	24.0	24.0	24.0
Dividend payout (%)	156.8	48.8	48.8	48.8	48.8
Debtors turnover (days)	60	49	53	57	61
Stock turnover (days)	90	73	68	63	57
Creditors turnover (days)	68	49	47	45	42

Source: Company, AmInvestment Bank Bhd estimates

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