



Sime Darby Berhad

“Paving the electrification way”

Bloomberg: SIME MK | Reuters: SIME.KL | Stock Code: 4197

Main Board
Industrial
Buy
TP : RM2.71
Price : RM2.31

Valuation / Recommendation

Based on an SOTP-derived target price of RM2.71, arriving mainly from a P/E valuation of 10x for its motor division, a P/E of 11x for its industrial division, a 50% discount of the RNAV of its landbank, and a P/E of 35x for its 50% stake in Ramsay Sime Darby Health Care Group, we initiate a Buy call on Sime Darby against the current market price of RM2.31.

Investment Highlights

EVs are expected to boost sales. In Malaysia, the car sales is expected to drop in 2023 with the expiration of the SST exemption in March 2023. However, Sime Darby is spending RM500 million as an exclusive BYD distributor to establish 40 BYD showrooms by 2024, with the first one opening in December 2022 to showcase BYD’s EV marque. In China, strong car sales volumes can be expected in 2023 with the conclusion of COVID-19 lockdown and the easing of supply chain constraints, with car sales dominated by EV cars. In FY22, Sime Darby managed to sell 3,000 units of EV cars, making up 4.5% of Sime Motor revenue. We expect Sime to do 4,500 EV cars in FY23 and more than 9,000 units in FY24.

Industrial to do well. The Chinese government is implementing measures to rejuvenate the ailing property and construction sectors, together with the easing of the lockdown, Sime Darby should be able to capture the recovery momentum in sales. In Australasia, with sustainable commodity prices especially coal prices, the demand for industrial products should remain strong in 2023. As a result, the industrial division's margin should be maintained, if not improved. The healthcare division, headed by Ramsay Sime Darby, should continue with a stable contribution of EBIT of RM19 m per quarter.

Sime Darby is a buy for (i) the recovery play in China and Australia (ii) aggressive EV and premium marques offerings that should gain significant market share at a better margin (iii) a good dividend payout of > 50% and a potential special dividend resulting from the sale of non-core assets, and (iv) a low FY23 P/E of 10.3x with EPS growth of 29.8%.

Risk factors. Key risks include (i) easing Chinese lockdown and supply chain constraints, which should improve sales (ii) a worse-than-expected slowdown in Malaysia and Australasia and (iii) even higher global interest rates in response to runaway inflation.

INVESTMENT STATISTICS	FY20	FY21	FY22F	FY23F	FY24F
Revenue (RM m)	36,715	44,302	42,502	48,737	51,976
EBITDA (RM m)	2,566	3,264	2,863	3,387	3,638
EBITDA Margin (%)	7.0%	7.4%	6.7%	7.0%	7.0%
Net profit (RM m)	873	1,586	1,258	1,552	1,683
EPS (sen)	12.1	21.7	17.2	22.3	24.2
EPS growth (%)	n.m	80.2	-20.8	29.8	8.4
DPS (sen)	10.0	15.0	11.5	15.0	15.0
Dividend Yield (%)	4.3%	6.5%	5.0%	6.5%	6.5%
BVPS (sen)	220.4	233.2	235.1	242.4	251.6
P/E (X)	19.2	10.6	13.4	10.3	9.5
P/BV (X)	1.05	0.99	0.98	0.95	0.92
Net gearing (%)	-15.7%	-7.9%	-20.3%	-5.9%	-4.7%
ROE (%)	5.8%	10.0%	7.9%	9.4%	9.8%
ROA (%)	3.2%	5.6%	4.2%	5.1%	5.4%

Sources: Mercury Securities, Company

Business Overview

Sime is a Malaysia-based investment holding company. Its segments include Industrial, Motors, Healthcare and Others. Industrial is engaged in the sales, rental, and servicing of equipment and engineering services. Motors encompasses vehicle assembly, sale, and rental, as well as the provision of after-sales services. The healthcare segment is engaged in a 50% investment in the Ramsay Sime Darby Health Care Group. Main markets are Australia, China, and Malaysia.

Stock Return Information

FBM KLCI (pts)	1,487.87
Expected Share Return (%)	17.4%
Expected Dividend Yield (%)	6.5%
Expected Total Return (%)	23.8%

Share Information

Market Cap (RM m)	15,731
Issued Shares (m)	6,810
52W High (RM)	2.54
52W Low (RM)	2.09
Estimated Free Float (%)	25.2
Beta vs FBM KLCI	0.8
3-month Average Vol. (m)	6.5

Top 3 Shareholders (%)

Amanah Saham Bumiputera	41.4
EPF	7.0
Kumpulan Wang Persaraan	6.7

Price Performance	1M	3M	12M
Absolute (%)	5.5	7.8	6.1
Relative to Index (%)	4.8	1.0	11.6



Source: Bloomberg

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Earnings Forecast (RM m) Jun	FY20	FY21	FY22	FY23F	FY24F
Industrial	15,794	16,004	15,099	16,852	17,863
Motors	20,852	28,235	27,337	31,820	34,047
Others	69	63	66	65	65
Revenue	36,715	44,302	42,502	48,737	51,976
Adjusted EBITDA	2,626	3,086	2,973	3,387	3,638
Discontinuing Operations	0	58	83	0	0
Other Losses	60	(236)	27	0	0
EBITDA	2,566	3,264	2,863	3,387	3,638
Depreciation & Amortisation	(1,053)	(1,101)	(1,113)	(1,200)	(1,300)
EBIT	1,513	2,163	1,750	2,187	2,338
Interest income	51	35	39	44	46
Interest expenses	(183)	(121)	(148)	(200)	(180)
Share of results in JV	(62)	24	54	55	56
Share of results in Associate	(44)	58	37	40	45
Pre-tax profit	1,275	2,159	1,732	2,126	2,305
Taxation	(402)	(573)	(474)	(574)	(622)
Net Profit	873	1,586	1,258	1,552	1,683
Net Profit after MI	820	1,479	1,172	1,521	1,649
Enlarged Shares (m)	6,803	6,810	6,810	6,810	6,810
EPS (sen)	12.1	21.7	17.2	22.3	24.2
DPS (sen)	10.0	15.0	11.5	15.0	15.0
BVPS (sen)	220.4	233.2	235.1	242.4	251.6

Source: Mercury Securities, Company

Sum-of-Parts Valuation (SOP Valuation)

Segment	Method (CY23)	Value (RM m)	Value / Share
Motor	NP X P/E of 10 X	8,700	1.28
Industrial	NP X P/E of 11X	7,425	1.09
Landbank	50% or RNAV	936	0.14
Healthcare - 50% stake	NP X P/E of 35X X 50%	1,400	0.21
SOP Value		18,461	2.71
Number of Shares (m)		6,810	
Intrinsic value/share		2.71	

Sources: Mercury Securities, Company and Bloomberg

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Published and printed by:

MERCURY SECURITIES SDN BHD

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