

# Sime Darby Bhd (SIME MK)

## Porsche partners Sime to CKD vehicles in Malaysia

### Maintain BUY and MYR2.70 TP

We are positive but not entirely surprised with Sime's partnership with Porsche to set up the latter's first assembly plant outside of Europe, commencing in 2022. There are strong push (tighter CO<sup>2</sup> regulations & phasing out of ICEVs in EU) and pull (ASEAN: a big potential market) factors driving this. Our estimates are unchanged. Our TP is SOP-based.

### Porsche's first assembly plant outside Europe

Sime has announced its partnership with Porsche AG to assemble sports cars for the Malaysian market. This is Porsche's first assembly plant outside Europe, with production to begin in 2022. Every Porsche assembled by Sime will go through the same rigorous standards and processes as its European counterparts. Sime has been a partner of choice for Porsche in Malaysia for the last 11 years, representing Porsche as its exclusive distributor and retailer.

### A positive but not entirely a surprise

We have highlighted this possibility in the past [LINK: Porsche pick MY?](#) We posit that: (i) the Inokom plant has been identified (Sime has a 53.6% stake) for the contract assembly works (a new facility will likely be constructed specially for this), (ii) 1-2 models will be CKD-ed here, most likely to be the SUVs Cayenne first, and Macan later. These models are arguably the best-selling ones (volume-wise) here, and (iii) the CKD-ed models will be the internal combustion engine vehicles (ICEVs). Porsche's decision to expand its assembly ops outside Europe is not entirely a surprise, for this move has been exacerbated by the tightening of regulations in EU, with regards to CO<sup>2</sup> emissions and the phasing out of ICEVs by 2035.

### Low volume, big quality addition

We do not rule out Porsche (in its next growth phase) using the Malaysia facility for its ASEAN/ Asia export market. Our back-of-envelope calculation conservatively suggests that Sime could add MYR2.8m p.a. in net profit from this venture, based on 1k units and MYR5k contract assembly margins estimates.

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	12.8	12.3	11.9
P/BV (x)	1.0	0.9	1.0	1.0	1.0
Net dividend yield (%)	4.7	6.9	6.4	6.4	6.4
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	4.4	4.1	3.7
Net gearing (%) (incl perps)	3.5	net cash	net cash	net cash	net cash
Consensus net profit	-	-	1,286	1,337	1,340
MKE vs. Consensus (%)	-	-	(2.7)	(2.4)	0.5

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# BUY

Share Price	MYR 2.36
12m Price Target	MYR 2.70 (+14%)
Previous Price Target	MYR 2.70

### Company Description

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

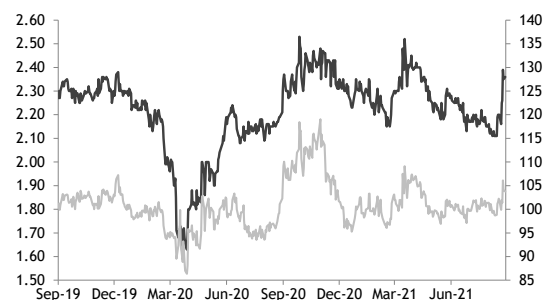
### Statistics

52w high/low (MYR)	2.53/2.11
3m avg turnover (USDm)	2.9
Free float (%)	84.0
Issued shares (m)	6,803
Market capitalisation	MYR16.1B USD3.9B

### 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 (%)	10	4	8
Relative to index (%)	3	4	3

Source: FactSet

**ESG@MKE**  
 Tear Sheet Insert

## Value Proposition

- A conglomerate (post the de-merger exercise in Nov 2017), engaged in three core businesses, namely: (i) industrial, (ii) motor and (iii) others (i.e. healthcare, logistics).
- High volume, low margin businesses with significant footprint across Australasia. China & Australia/NZ consistently account for over 70% of the Group's earnings.
- Exposure to megatrends - business is proxy to commodity price cycle (industrial) and growing Asian affluence (motors & healthcare).
- Holds 8,800 acres of land at Malaysia Vision Valley (MVV), acquired in FY17 for MYR2.5b and has the option to sell to Sime Darby Property.

### Highlights of Malaysia Vision Valley land

MVV is a large scale project announced by the Malaysian Prime Minister during his 2016 Budget speech, and is a component of the Government's 11th Malaysia Plan and the National Transformation Plan.

Tenure of development  
**30-year project**

Total development area  
**379,000 acres**

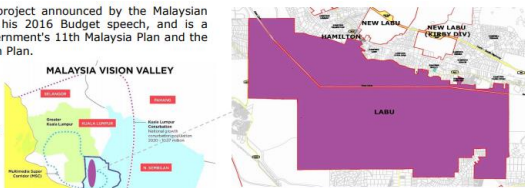
Coverage area  
**Seremban and Port Dickson in Negeri Sembilan**

The area is intended to focus on **4 key development drivers:**

- High-technology manufacturing
- Tourism
- Skill-based education and research
- Specialised services

MVV development is expected to:

- ✓ **Attract investments of RM290bn by 2045**
- ✓ **Create 1.38 million new job opportunities**



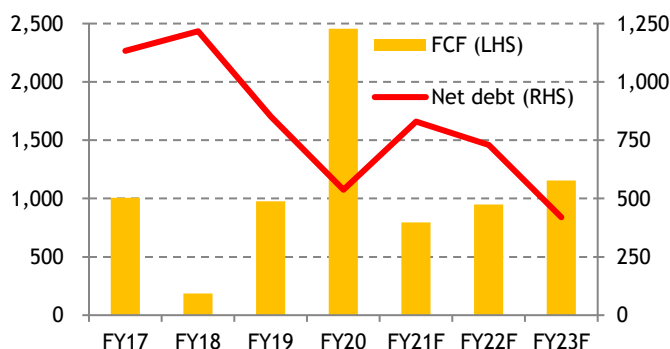
- Sime Darby Berhad holds c.8,800 acres of land in MVV area, acquired for **RM2.5 bn** in FY17
- Signed **29 option agreements** with SD Property for the potential sale of 29 parcels
- The options are valid for a **5-year period** (plus 3 years extension option)
- The timing of exercise of the option by Property will be dependent on the MVV development plan which is currently being developed
- Transfer value will be based on market price at the point of exercise

Source: Company

## Financial Metrics

- Order backlog/ replenishment, ASP, vehicle sales volume, margins, forex and opex are Sime's key earnings drivers for its operations. Variation in any of these parameters will impact profitability.
- Nimble balance sheet with low gearing level, which offers ample headroom for strategic expansion and M&As.
- Disposal of non-core assets and/ or strategic M&As will improve its operating focus/ integration and cost management.

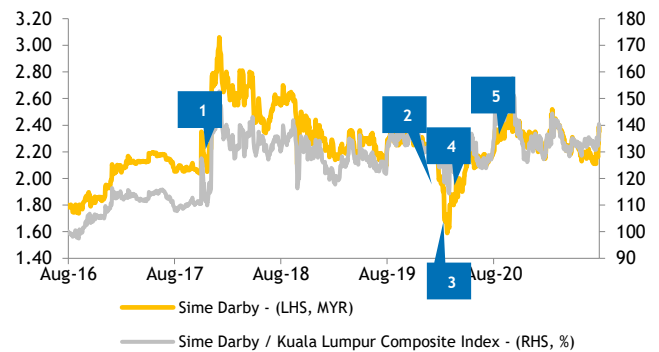
### FCF and net debt trend (MYR'm)



Source: Company

## Price Drivers

### Historical share price trend



Source: Company, Maybank Kim Eng

1. De-merger of the conglomerate into 3 separate listed PLCs, namely: (i) Sime Darby Plantation, (ii) Sime Darby Property and (iii) Sime Darby Group.
2. Sale of a 30% stake in Tesco (MY) to the CP Group.
3. MCO started in Mar 2020, affecting vehicle sales & production in Apr, May & Jun 2020.
4. SST exemption policy from mid-Jun 2020.
5. Mulls listing of its healthcare unit; 50%-owned Ramsay Sime Darby Healthcare.

## Swing Factors

### Upside

- Recovery in order replenishment and margin expansion are key catalysts.
- A successful corporate exercise (i.e. IPO, divestment, privatisation) would likely generate excitement.
- Higher/ special dividend payment serves as a potential positive.
- A successful development/ production of an effective Covid-19 vaccine.

### Downside

- Weak commodity prices, especially in the mining sector and slower construction works will negatively impact demand in its industrial division.
- Soft consumer sentiment and unattractive model launches are risks to its motor division.
- Forex volatility will affect its profitability and operational planning.

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## ESG@MKE

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Risk Rating & Score <sup>1</sup>	Medium & 25.2
Score Momentum <sup>2</sup>	-0.4
Last Updated	15 Apr 2021
Controversy Score <sup>3</sup> (Updated: 13 Jan 2021)	2

## Business Model & Industry Issues

- Sime Darby Berhad (Sime) has 4 key divisions, namely: (i) industrial, (ii) motors, (iii) healthcare & others and (iv) logistics. It is committed to: (i) reducing its carbon and energy footprint by 5% in 2023, and (ii) managing its waste and effluent production through various ongoing energy-saving and environmentally-efficient initiatives & potential JVs or investments.
- It has won multiple awards for Best Overall Sustainability Reporting by ACCA Malaysia.
- We are positive on Sime, given its strong, improving record across ESG parameters & compliance with international standards.

### Material E issues

- Targets to reduce its carbon and energy footprint to 121,560 tonnes and 871,764 GJ by 2023.
- Generated 6,321 tonnes of scheduled waste and consumed 1,195,552m<sup>3</sup> of water across the Group (ex-overseas ops) in FY19 - baseline data.
- Implemented some waste reduction initiatives; (i) recycling 60% of hazardous waste generated at its Industrial Australia operations, (ii) digitalising documents to reduce printing, and (iii) installed closed conveyor systems at 3 ports in Jining to reduce coal dust.
- (i) Motors operations sells Electric Vehicle (EV) and Plug-In Electric Vehicle (PHEV) as part of its product offerings, (ii) Solar PV systems in its Industrial operations across Australia and China, (iii) LED Lighting at its Inokom Assembly plant, Industrial-Tractors Singapore Limited operations and Industrial- Hasting Deering Mackay operations and (iv) replaced its coal-fired boiler at Jining Yuejin Port, to minimise its environmental impacts.
- Its new SD Motors HQ received provisional GBI certification mid-construction, and its 3 ports in Jining are awarded Green Port status.

### Material S issues

- Has a diversified workforce (19,909 staff in FY19) across 18 countries.
- 65% of its workforce is <40 years old, 30% between ages 41-57, and 5% above 58. Female representation in the top/ senior/ middle levels of management: 22%/ 17%/ 22%.
- Reported 91 Loss-Time Injury (LTI) cases in FY19 (unchanged YoY) but reported lower Lost-Time Injury Frequency (LTIFR) of 1.87/m man-hours worked (-3% YoY).
- There were 2 fatalities and 1 LTI resulting in permanent disability in FY19. The Group's safety policies have been enhanced through programmes such as Felt Leadership programme and Occupational Health and Safety (OHS) Training, just to name a few.
- Contributes MYR20m p.a. to Yayasan Sime Darby (YSD).

### Key G metrics and issues

- Its board comprised of 11 directors - 6 independent non-executive directors (NINEDs), 4 non-independent non-executive directors (INEDs) and 1 Group CEO.
- A very experienced, and diverse board - 91% are above 50 years old, 27% of the board are female.
- The BODs total remuneration packages of MYR4.2m for FY19 accounted for 0.3% of the Group's PBTt of MYR1,291m.
- Group CEO was granted 497,700 performance shares (PS) and 124,400 restricted shares (RS) in FY19.
- Its Governance & Audit Committee is made up of 4 independent non-executive directors (INEDs).
- Its: (i) Nomination & Remuneration Committee is made up of 3 NINEDs and (ii) Board Risk Management Committee (RMC) is made up of 4 INEDs.
- Permodalan Nasional Berhad (PNB) is the major shareholder. 27%, or 3 board members are nominee directors of PNB.
- Sime was audited by PricewaterhouseCoopers (PwC), the world's second largest network of professional firms since 2018. The BODs re-appointed PwC as their external auditor for FY20.
- The internal restructuring of the Group in 2017 resulted in the de-merger and creation of stand-alone pure-play companies; Sime Darby Plantation and Sime Darby Property. Part of the internal restructuring involved the restructuring of the Group's borrowings and transfer of assets within these entities as part/ full settlement of inter-company balances. These RPTs were approved by the shareholders as part and parcel of the overall de-merger exercise.
- Tesco Plc sold Tesco Stores (Malaysia) to CP Group at an enterprise value of USD0.7b. This equates to 7.4x EV/ EBITDA, fair in our view. Sime, which has a 30% stake in Tesco Malaysia will report a net gain of MYR270m from this disposal.
- The Court of Cassation, in Dec 2019 had dismissed the material litigation against Sime Darby Engineering Sdn Bhd (SDE) by Emirates International Energy Services (EMAS) for USD178m.

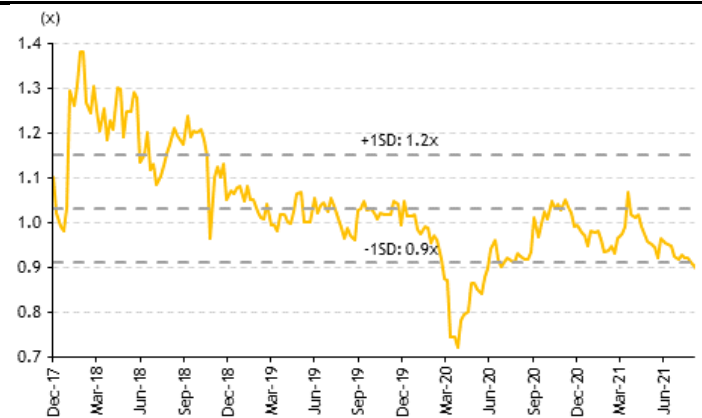
<sup>1</sup>**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <sup>2</sup>**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. <sup>3</sup>**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

## 1-year forward PER



Source: Company, Maybank KE

## 1-year forward PBV



Source: Company, Maybank KE

## 1-year forward EV/ EBITDA



Source: Company, Maybank KE

## SOP valuation

Division	Effective Interest (%)	* Valuation Method	Value (MYR m)	Per share (MYR)
<b>Motor</b>				
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
<b>Industrial</b>	100.0%	15x FY6/21 PER	8,245	1.21
<b>Logistics</b>	100.0%	0.8x NBV	1,802	0.27
<b>Others</b>				
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
<b>Land assets</b>				
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
<b>SOP / Ex-dividend TP (MYR)</b>			<b>18,340</b>	<b>2.70</b>

Source: Maybank Kim Eng, Company

FYE 30 Jun	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
P/E (reported) (x)	17.8	10.9	12.8	12.3	11.9
Core P/E (x)	14.2	12.2	12.8	12.3	11.9
P/BV (x)	1.0	0.9	1.0	1.0	1.0
P/NTA (x)	1.1	1.0	1.1	1.1	1.0
Net dividend yield (%)	4.7	6.9	6.4	6.4	6.4
FCF yield (%)	16.8	15.1	16.6	13.4	13.6
EV/EBITDA (x)	6.1	4.4	4.4	4.1	3.7
EV/EBIT (x)	9.0	7.5	6.9	6.3	5.7
<b>INCOME STATEMENT (MYR m)</b>					
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
<b>BALANCE SHEET (MYR m)</b>					
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
<b>Total assets</b>	<b>27,273.0</b>	<b>28,455.0</b>	<b>29,289.8</b>	<b>29,762.4</b>	<b>30,270.2</b>
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
<b>Total Liabilities</b>	<b>11,860.0</b>	<b>12,195.0</b>	<b>12,658.6</b>	<b>12,705.8</b>	<b>12,741.7</b>
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
<b>Total shareholder equity</b>	<b>15,413.0</b>	<b>16,260.0</b>	<b>16,631.2</b>	<b>17,056.5</b>	<b>17,528.6</b>
<b>Total liabilities and equity</b>	<b>27,273.0</b>	<b>28,455.0</b>	<b>29,289.8</b>	<b>29,762.4</b>	<b>30,270.2</b>
<b>CASH FLOW (MYR m)</b>					
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
<b>Net cash flow</b>	<b>206.0</b>	<b>1,558.0</b>	<b>1,475.7</b>	<b>995.5</b>	<b>1,056.1</b>

FYE 30 Jun	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
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
<b>Profitability ratios (%)</b>					
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
<b>DuPont analysis</b>					
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
<b>Liquidity &amp; Efficiency</b>					
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
<b>Leverage &amp; Expense Analysis</b>					
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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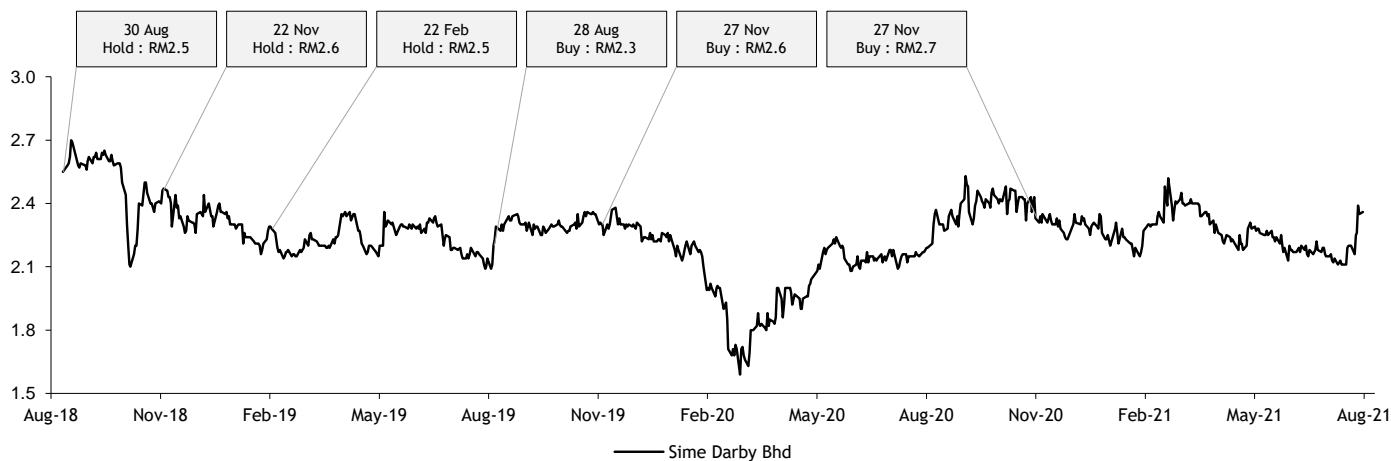
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