

Sime Darby Berhad

More Listing Details Unveiled

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Sime Darby Berhad (SIME) FY17 Core Net Profit (CNP*) came in at RM2.35b (with discontinuing ops in Plantation and Property), meeting estimates at 104% of consensus and 101% of our forecast. A final dividend of 17.0 sen was declared for FY17 DPS of 23.0 sen, or 82% of our estimated 28.0 sen. No changes to FY18 estimates. Reiterate MARKET PERFORM with unchanged TP of RM9.50 as we believe the spin-offs of its property and plantation units have been fully priced-in.

FY17 within expectations. SIME recorded FY17 CNP of RM2.35b including discontinuing Plantation and Property earnings, in line with consensus' RM2.26b at 104% and our RM2.33b estimate at 101%. Note that our CNP calculation excludes one-off asset impairments, including Plantation's Liberia ops (RM202m), Industrial's Bucyrus (RM257m) and Property's unsold stocks (RM149m). FFB production at 9.78m metric tons (MT) was in line at 102% of our forecast. A final dividend of 17.0 sen was declared for full-year dividend of 23.0 sen, below our forecasted 28.0 sen at 82% and implying a dividend payout ratio of 63% - lower than FY16's 72%, but in line with the 5-year hist.avg of 62% and 50% dividend policy.

Separately, SIME also announced further details on its Plantation and Property listing exercise, such as (i) restructuring of borrowings, (ii) transfer of assets and settlement of intercompany balances, (iii) proposed share split in the Plantation and Property businesses, followed by equal distribution to existing shareholders and listing on the Main Market, and (iv) option agreements between SIME, Plantation and Property businesses (*refer overleaf for details*).

Plantation jumps. YoY, FY17E CNP rose 20% on higher Plantation core PBIT (ex-impairment) of RM2.2b (+124%) due to higher CPO prices (+27%) and FFB growth (+2%), offsetting lower core PBIT from Industrial (-41% to RM226m) on lower Malaysia contribution, and softer Property core PBIT (-48% to RM400m) on lower Pagoh contribution. Motors core PBIT improved 30% to RM653m on higher local assembly and luxury demand. QoQ, CNP rose 16% on higher Motors core PBIT (+107%) as noted and stronger Property core PBIT of RM142m, reversing from core loss of RM17m, due to higher Battersea deliveries (RM53m) and stronger earnings at Elmina West. However, Plantation core PBIT fell 17% to RM593m on lower CPO prices (-9%).

Awaiting spinoff. Management noted that they are on track for listing of their Plantation and Property arms by end-2017 (*refer overleaf for timeline guidance*). With the deconsolidation, we expect Motors and Industrial segments to drive earnings going forward. Management is hopeful of stronger Motors performance on new launches and reorganization in overseas divisions. Industrial prospects are gradually recovering as coal and iron ore prices pick up. Meanwhile, Plantation prospects are bright given its status as the world's largest certified palm oil producer with integrated supply chain, and Property outlook is long-term sustainable thanks to its substantial strategic land bank and overseas projects in UK and Australia.

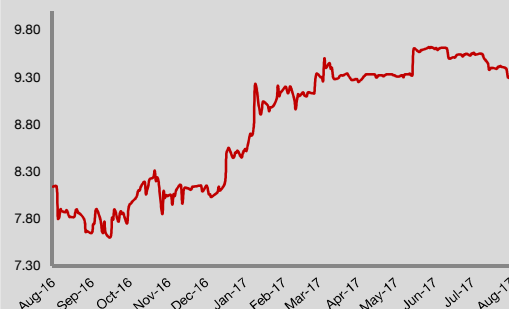
Maintain FY18E CNP at RM2.29b, while introducing FY19E CNP of RM2.34b (RM642-839b excluding discontinuing segments). No change to FY18E forecasts as FY17 numbers are in line with our estimates.

Reiterate MARKET PERFORM with unchanged TP of RM9.50 based on Sum-of-Parts, as we roll forward our valuation base year to CY18E (from FY18E). Our Plantation segment valuation is unchanged at 26x, implying a 5% premium to average big-cap PER of 25.0x. As we believe the market has already fully priced in the proposed listing structure of the Plantation and Property divisions based on our SoP valuations, we maintain our MARKET PERFORM view on the stock.

MARKET PERFORM ↔

Price: RM9.13
Target Price: RM9.50 ↔

Share Price Performance



KLCI	1,769.17
YTD KLCI chg	7.8%
YTD stock price chg	12.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SIME MK Equity
Market Cap (RM m)	62,091.7
Issued shares	6,800.8
52-week range (H)	9.70
52-week range (L)	7.56
3-mth avg daily vol:	7,319,060
Free Float	42%
Beta	1.3

Major Shareholders

Skim Amanah Saham Bumiputera	41.9%
Employees Provident Fund Board	10.5%
Kumpulan Wang Persaraan	5.8%

Summary Earnings Table

FYE Jun (RM m)	2017A	2018E	2019E
Turnover	31,087	30,799	31,556
EBIT	738	1,296	1,417
PBT	1,007	1,122	1,373
PAT – disc. ops	1,886	1,829	1,499
Net Profit (NP)	2,438	2,470	2,338
Core NP	2,346	2,289	2,338
Consensus (CNP)	N.A.	2,255	2,468
Earnings Revision	N.A.	0%	N.A.
Core EPS (sen)	34.5	33.7	34.3
Core EPS grwth (%)	19.8	-2.4	2.0
NDPS (sen)	23.0	24.0	22.0
BV/Share (RM)	5.26	5.38	5.50
Core PER	26.5	27.1	26.6
Price/BV (x)	1.7	1.7	1.7
Net Gearing (x)	0.3	0.3	0.2
Net Dvd Yield (%)	2.5	2.6	2.4

* 4Q17 CNP excludes impairments on PP&E (RM10m), intangibles (RM231m), receivables (RM5m); inventory write-down (RM78m); gain on disposal of subsidiary (RM30m), associate interest (RM10m) and others (RM5m); forex gain (RM20m); and Plantation & Property one-offs (RM30m).

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OTHER DETAILS

The proposals for internal restructuring and listing of SIME and its subsidiaries involve:

- i. **Restructuring of Group borrowings whereby** SIME has novated to its Plantation business USD1.5b of multi-currency sukuk and the outstanding USD172m and RM3.0b perpetual sukuk and the outstanding RM2.2b. SIME has also completed the early redemption of RM700m of Islamic Medium Term Notes (iMTN) and proposed to novate to its Property business RM4.5b of iMTN.
- ii. **Transfer of assets** whereby Plantation is to transfer land related to the Malaysian Vision Valley (MVV) project amounting to 8,793 acres to SIME at a consideration of RM2.5b (or RM6.53 psf) and 1,944 acres to Property at RM713m (or RM8.41 psf) pending which Plantation will continue maintaining the plantation estates at the location via tenancy agreements.
- iii. **Redemption of redeemable preference shares (RPS)** whereby Property would redeem RM89.2m of RPS for RM1.41b via issuance of 1.41b new shares at an issue price of RM1.00 each.
- iv. **Settlement of intercompany balances** in the following manner, whereby any increase in intercompany balances after 30-Jun-17 would be settled in cash:

Timeline of Listing		
	<u>SD Plantation</u>	<u>SD Property</u>
	RM'million	RM'million
Balance as at 30 June 2017	1,523 ⁽¹⁾	4,266 ⁽¹⁾⁽²⁾
Settlement pursuant to the Acquisition of MVV Land by SD Property	(713)	713
Waiver of debt by the Sime Darby Group	-	(159)
Net amount owing	810	4,820
To be settled via the following:		
Issuance of new ordinary shares at an issue price of RM1.00 each to Sime Darby ("Proposed Capitalisation") ⁽³⁾	(500)	(4,396)
Cash	310 ⁽¹⁾	424 ⁽¹⁾

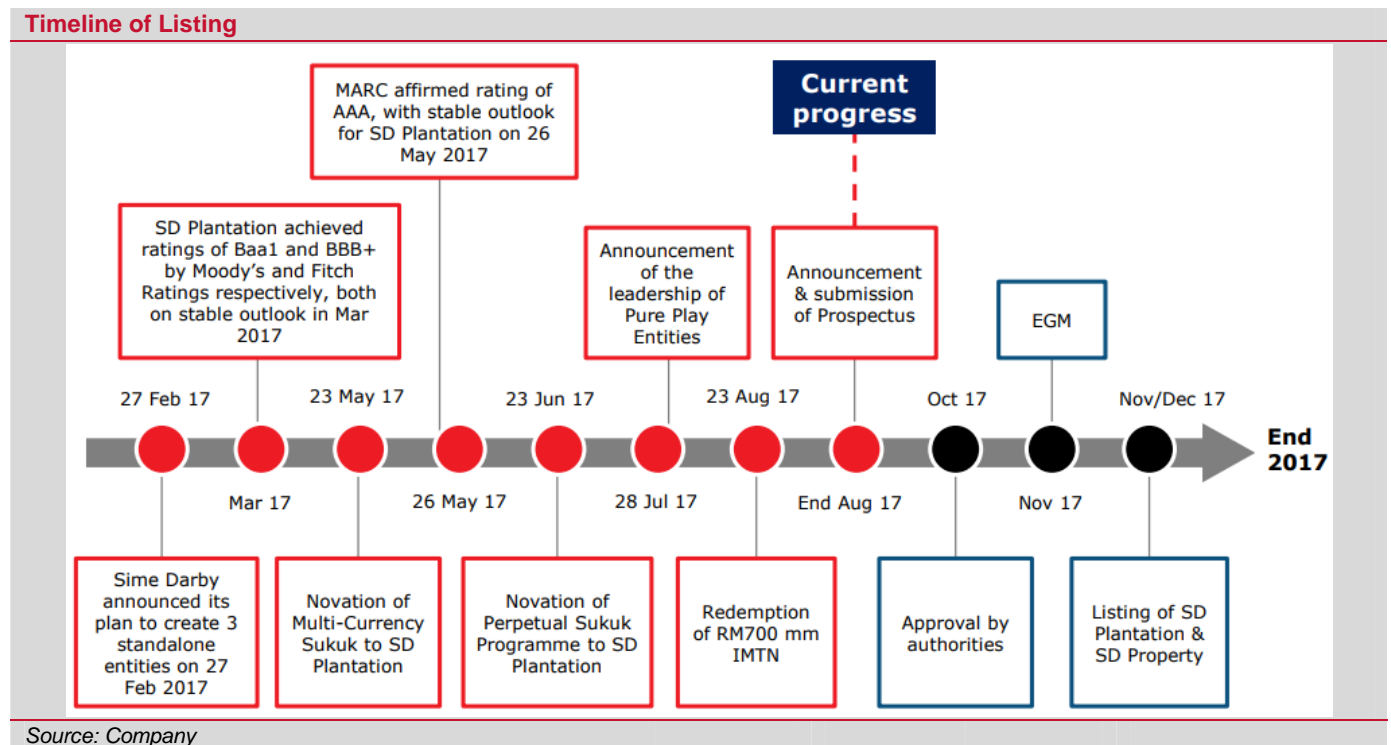
1. including amount owed by Property to Plantation to be settled by Property for RM40m
2. includes capital contribution of RM1.5b
3. proposed capitalisation to be effected before proposed share split
Source: Company

- v. **Proposed share split** whereby Plantation will increase its share capital from 600m to 1.10b post the proposed capitalization, then subdivide, via share split, to 6.80b shares, the same number as SIME, thus minimizing the incidence of odd lots prior to the proposed distribution on the basis of 1 Plantation and 1 Property share for every 1 SIME share.

Other agreements include: (i) option agreements between SIME and Property to purchase the MVV land of 8,793 acres for a period of 5 years (extendable another 3 years), subject to shareholder approval if required, with the market value of the land to be determined by an independent valuer. (ii) option agreements between Plantation and Property with the same terms, for the following parcels of land:

- i. 1,862 acres in Kulai A estate and 3,186 acres in Kulai B estate in Johor
- ii. 2,000 acres in Sepang estate, Selangor
- iii. 993 acres in West Estate, Carey Island and Jugra, Kuala Langat, in Selangor
- iv. 485 acres in Lothian estate, Selangor
- v. 864 acres in Byram estate, Pulau Pinang
- vi. 268 acres in Ainsdale West estate, Negeri Sembilan
- vii. 268 acres in Bukit Selarong estate, Kedah

As well as (iii) master services agreements between SIME, Plantation and Property for administrative services, (iv) trademark and brand license agreements, (v) charitable donation agreements to Yayasan Sime Darby, and (vi) insurance broker services agreements with Sime Darby Lockton (held under SIME).



Sum-of-Parts Valuation

Segment	Valuation	Note	Fair Value (RM'm)	PE/RNAV discount	Net Income/RNAV (RM'm)
Plantations	26.0x CY18E earnings	5% premium to big cap planters' average Fwd. PER of 25.0x	37,336	26.0	1,436.0
Industries	15.0x CY18E earnings	50% discount to Caterpillar's Fwd. PER (29.4x)	6,110	15.0	407.4
Motors	8.0x CY18E earnings	20% discount to average PE for motor companies in China	5,232	8.0	653.9
Properties	40% RNAV discount	Slightly above IOIPG listing RNAV discount of 35%	15,949	40%	26,581.4
Sum-Of-Parts (RM m)			64,627		
No of shares (m)			6,801		
TP (RM)			9.50		

Source: Kenanga Research

Results Highlights

	4Q17	3Q17	QoQ %	4Q16	YoY%	FY17	FY16	YoY%
FY June Revenue	8,200	7,788	5%	7,728	6%	31,087	29,452	6%
Op Profit	58	994	-94%	265	-78%	738	907	-19%
Pretax Profit	98	1,007	-90%	318	-69%	1,007	1,046	-4%
Tax	(14)	(234)	-94%	(32)	-56%	(212)	(182)	16%
MI	(23)	(44)	-48%	(49)	-53%	(119)	(157)	-24%
Net Profit	571	699	-18%	1,226	-53%	2,438	2,422	1%
Core Net Profit	800	687	16%	1,108	-28%	2,346	1,959	20%
EPS (sen)	8.4	10.3	-18%	18.0	-53%	38.6	36.7	5%
Net DPS (sen)	17.0	0.0	N.M.	21.0	-19%	23.0	27.0	-15%
EBIT %	0.7%	12.8%		3.4%		2.4%	3.1%	
PBT%	1.2%	12.9%		4.1%		3.2%	3.6%	
Tax %	14.3%	23.2%		10.1%		21.1%	17.4%	
CPO Avg	2,813	3,088	-9%	2,636	7%	2,848	2,242	27%
FFB Prod ('000 mt)	2,450	2,459	0%	2,103	17%	9,782	9,618	2%

Source: Company, Kenanga Research

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Segmental Breakdown								
FY June	4Q17	3Q17	QoQ %	4Q16	YoY%	FY17	FY16	YoY%
Segmental Revenue								
- Industrial	2,882	2,727	6%	2,729	6%	10,127	9,946	2%
- Motor Vehicles	5,440	4,974	9%	5,072	7%	20,602	19,155	8%
- Logistics	81	77	5%	77	5%	303	294	3%
- Others	21	10	110%	18	17%	55	57	-4%
- Plantation*	3,994	4,070	-2%	3,098	29%	14,765	11,877	24%
- Property*	750	588	28%	1,268	-41%	2,193	3,163	-31%
Total Group	13,168	12,446	6%	12,262	7%	48,045	44,492	8%
Segmental Profit	4Q17	3Q17	QoQ %	4Q16	YoY%	FY17	FY16	YoY%
- Industrial	(192)	82	-334%	129	-249%	(4)	341	-101%
- Motor Vehicles	241	126	91%	198	22%	633	503	26%
- Logistics	28	13	115%	34	-18%	64	103	-38%
- Others	40	25	60%	13	208%	78	23	239%
- Plantation*	352	714	-51%	502	-30%	1,977	1,031	92%
- Property*	413	67	516%	493	-16%	801	1,179	-32%
Unallocated exp& income	0	0	N.M.	0	N.M.	0	0	N.M.
Total Op Profit	882	1,027	-14%	1,369	-36%	3,549	3,180	12%

* Discontinuing operations

Source: Company, Kenanga Research

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Peer Comparison

NAME	Price (25- Aug- 2017) (RM)	Mkt Cap (RMm)	Core PER (x)			Est. Net Div. Yld. (%)	Historical ROE (%)	P/BV (x)	Core Net Profit (RMm)			FY17/18 NP Growth (%)	FY18/19 NP Growth (%)	Target Price (RM)	Rating
			FY16/17A	FY17/18F	FY18/19F				FY16/17A	FY17/18F	FY18/19F				
Core Coverage															
SIME	9.13	59,193	26.5	27.1	26.6	2.6%	6.6%	1.7	2,346.0	2,289.0	2,338.0	-2%	2%	9.50	MARKET PERFORM
IOICORP	4.55	29,080	31.8	24.9	21.7	2.2%	12.6%	4.0	900.6	1,166.4	1,342.1	30%	15%	5.50	OUTPERFORM
KLK	24.44	26,028	25.0	21.7	21.5	2.5%	10.0%	2.5	1,041.4	1,200.8	1,213.0	15%	1%	26.40	MARKET PERFORM
PPB	16.70	19,798	19.1	19.3	16.9	1.6%	4.9%	0.9	1,037.3	1,027.8	1,168.9	-1%	14%	18.90	OUTPERFORM
GENP	10.54	8,250	27.7	27.2	24.3	0.9%	6.4%	1.8	300.0	313.0	356.0	4%	14%	11.00	MARKET PERFORM
FGV	1.64	5,983	N.M.	140.2	66.9	1.2%	-2.7%	1.0	(157.2)	42.7	89.4	N.M.	109%	1.85	MARKET PERFORM
IJMLNT	3.04	2,677	23.6	24.9	20.7	2.0%	6.3%	1.5	113.3	107.4	129.4	-5%	20%	3.30	OUTPERFORM
TSH	1.70	2,287	28.9	19.1	16.2	1.3%	5.7%	1.7	79.3	120.5	142.8	52%	19%	2.20	OUTPERFORM
HSPLANT	2.61	2,087	16.7	16.1	15.4	4.2%	6.0%	1.0	125.0	127.0	130.0	2%	2%	3.00	OUTPERFORM
TAANN	3.54	1,574	12.7	12.5	12.2	4.2%	9.4%	1.2	123.6	125.8	128.9	2%	2%	3.65	MARKET PERFORM
UMCCA	6.38	1,335	17.6	17.2	16.8	3.8%	4.3%	0.8	75.9	77.7	79.5	2%	2%	7.60	OUTPERFORM
CBIP	2.00	1,063	11.6	11.0	10.3	3.7%	12.5%	1.4	90.0	95.3	102.2	6%	7%	2.20	OUTPERFORM

Source: Bloomberg, Kenanga Research



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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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