PP14767/09/2012(030761)

Market Access

Thursday, August 27, 2015

Sime Darby Berhad

“Tough Business Conditions”

Results Review

- **Actual vs. expectations.** SIME Darby Berhad (SIME) FY15 earnings performance came in within our estimates. PBT and net profit slid by 24% and 31% respectively to RM3.0 billion and RM2.3 billion, missing the Group’s KPI net profit target by 7.5% of RM2.5 billion. Disappointing net profit was caused by weaker-than-expected PBIT contribution from all divisions except for property division (+48% y-o-y) and energy and utilities division (+511% y-o-y), impacted by 1) weak CPO and PK prices; 2) declining profit from midstream and downstream business due to lower sales volume and margin; and 4) lower equipment deliveries and margin realisation in the product support segment in Australasia as well as lower equipment and engine sales to the construction, mining and shipyard sectors. The Group made slightly lower revenue of RM43.73 billion during the period compared to RM43.91 billion in FY14.

- **Dividend.** The Group has proposed a final dividend of 19sen per share for financial year ended June 2015, bringing the total dividend for the year to 25sen per share (FY14: 36sen).

- **Plantation division.** Plantation division posted lower revenue of RM10.3 billion in FY15 (FY14: RM10.9 billion) due to lower average CPO and PK price realised of RM2,193/MT (-10.5% y-o-y) and RM1,382/MT (11% y-o-y) respectively combined with lower FFB production mainly in Indonesia due to a change in crop pattern as a result of delayed impact of adverse weather condition in Malaysia and Indonesia last year coupled with the dry weather pattern during early 2015 in East Malaysia. However, SIME’s FFB production has started to pick-up in 4Q15 as the sector moves into the up cycle production seasons that normally experience in the month of April till October (4Q15 FFB production increase 5% y-o-y). Of note, Malaysian estates recorded a slightly lower FFB

HOLD (TP: RM7.43)

Current Price (RM)	RM7.44
New Target Price (RM)	**RM7.43**
Previous Target Price (RM)	RM9.00
Previous Recommend.	HOLD
Upside To Target Price	**-0.2%**
Dividend Yield (FY16F)	**4.8%**

Stock Code

Bloomberg	Sime MK

Stock & Market Data

Listing		MAIN MARKET
Sector		CONGLOMERATE
Shariah Compliance		YES
Issued Shares (mn)		6,211
Market Cap (RM mn)		46,211
YTD Chg In Share Price		-19.0%
Beta (x)		0.92
52-week Hi/Lo (RM)	RM9.77	RM6.70
3M Average Volume (‘000 shares)		3,580.9
Estimated Free Float		27.4%

Major Shareholders

Skim ASB	39.6%
EPF	13.4%
PNB	8.45%

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production of 5.94 million MT (-0.8% y-o-y) compared to Indonesian estates that made a bigger drop in FFB production that dipped by 11% y-o-y to 3.05 million MT. On the other hand, NBPOL which the Group acquired in March 2015 produced 650k MT of FFB, representing 6.7% of the Group's FFB production in FY15. As such, plantation division PBT declined by 39% y-o-y to RM1.15 billion from RM1.87 billion in FY14 impacted by 1) lower CPO price realised of RM2,193/MT against RM2,451/MT in FY14; 2) lower FFB production in Malaysia and Indonesia in FY15 by 5% y-o-y; 3) and 3) lower profit from midstream and downstream business of RM55.7 million (FY14: RM98.4 million) due to lower off-take of biodiesel from petroleum companies due to the drop in crude oil prices and lower sales volume and margins of differentiated products. This has squeezed plantation's total margin to 11% from 17% a year before.

- **Property division.** In FY15, the group's profit increased by 48% y-o-y to RM889.4 million on the back of 29% increase in revenue of RM3.63 billion (FY14: RM2.82 billion). This was boosted by 1) higher earnings contributions from Elmina township and Bandar Bukit Raja township 2) gains from compulsory land acquisition in Ampar Tenang by the government, 3) gains on disposal of 50% equity interest in Sime Darby SunSuria Development Sdn Bhd of RM157.2 million, 4) gains of RM55.5 million on the disposal of 9.9% equity interest in Eastern & Oriental Berhad and Subang Avenue of RM55.2 million. Of note, in FY15, the group's sold 1,659 units of properties with gross sales value of RM2.14 billion while unbilled sales reached RM1.3 billion as at 30th June 2015.

- **Motor Division**. Although revenue increased by 5% y-o-y to RM18.65 billion but profit in FY15 declined 25% y-o-y to RM473.6 million due to 1) lower sales and margins from all brands recorded from Malaysian operations that declined by 39% y-o-y to RM203.6 million mainly impacted by customers holding back purchases due to the implementation of GST coupled with tighter credit from financial institutions and weakening of MYR against USD; 2) a drop in China's profit contribution by 50% y-o-y to RM124.0 million resultant from the slowdown in China economy as well as stiff competition in the luxury sector; and 3) a lower profit contribution from SEA especially in Singapore by 17% y-o-y to RM28.2 million resulting from higher cost of Certificate of Entitlement in Singapore. Lower contribution from China and Malaysia was mitigated by improving performance from Australia, Vietnam and New Zealand, benefitting from the newly acquired BMW operations in April 2014 (Australia) and November 2013 (Vietnam), as well as improving contribution from trucks operations in New Zealand.

- **Industrial division.** Industrial division recorded a lower profit of RM521.2 million (-49% y-o-y) in FY15 due to lower equipment deliveries and product support sales in Australia as mining players margin was squeezed, attributable to their cost savings measure as well as persistent weak coal prices. Malaysia, China/HK and SE Asia's industrial division also recorded lower performance of RM87.7 million (-37\% y-o-y), RM111.7 million (-22% y-o-y) and RM129.7 million (-41% y-o-y) respectively in FY15 underpinned by lower equipment and engine sales as slowdown in demand from the construction, mining, shipyard and electric power generation sectors.

- **Energy and Utilities division.** Profit from this division rose to RM125.8 million (+511% y-o-y) in FY15 resulting from higher profit from ports and water operations in China on account of an increase in throughput and high average tariff rate achieved. Ports' throughput by general cargo increased by 12% y-o-y to 32.46 million tonnes while Weifang port's container throughput jumped by 88% y-o-y to 193,340 TEUs. According to the management, higher container throughput in FY15 was due to higher demand for coal cargo and usage of land transit facilities. Of note, the higher profit was also contributed by the write-back of provision amounting to RM77.1 million. Excluding the write back of provision, the profit actually increased by 136% to RM48.7 million.

- **Sector Outlook.** At this junction we maintain our **NEUTRAL** call on plantation sector but if the landscapes changes, we may review our call on the sector. As such, we stick to our CPO price assumption that is expected to average at RM2,300/MT in 2015 and RM2,400 in 2016. As we mentioned in recent report, the weak sentiment on plantation sector is not really or totally a fundamental issue but more related to macro issues weighed by uncertainty of the world economy. Until then, global commodities prices movement i.e. palm oil may suffer volatility, pushing importing countries like China and India to wait at the side-lines until asset prices stabilise. In the past 10 years, the CPO price (MPOB) has been averaging at RM2,441/MT and we expect probability of price to go bottom to RM1,805/MT (based on 1-SD below its 10-yrs average price) could materialise if demand continued to be slow dampen further by burgeoning global soybean supplies with slumping global crude oil prices.

- **Change forecast.** Looking at the current scenario of the global economy that is weighed by uncertainties, we are of the view that plantation sector may continue to be soft with no strong catalyst seen to chart higher CPO price this year and next year. As such, we have tweaked our FY16 and FY17 earnings forecast to RM2,745 million and introduced FY17 earnings forecast of RM3,265 million after imputing our view on the challenging business conditions moving forward given sluggish demand, slower CPO price recovery, lower crude oil and coal prices, stronger US Dollar as well as stiff competition from other edibles oil.

- **Valuation & recommendation.** Based on earnings revision in FY16 and FY17, we have a new target price of RM7.43 that is derived from sum-of-parts valuation methodology which implies FY15 PER of 20x compared to 5-years average PER of 21x.

Table 1: Results Review - Quarterly figures

FYE 30 June (RM'm)	4Q14	3Q15	4Q15	q-o-q	y-o-y	FY14	FY15	y-o-y
Revenue	12,513.6	9,997.8	12,864.5	28.7%	2.8%	43,908.0	43,728.7	-0.4%
PBIT	1,431.1	679.6	1,195.0	75.8%	-16.5%	4,218.8	3,277.0	-22.3%
Pretax profit	1,380.6	595.2	1,139.9	91.5%	-17.4%	3,964.6	3,002.7	-24.3%
Taxation	-277.1	-166.8	-124.0	-25.7%	-55.3%	-707.5	-567.0	-19.9%
Net Profit	1,192.9	386.0	988.7	>100%	-17.1%	3,352.7	2,312.8	-31.0%
EPS (sen)	19.65	6.21	15.92	>100%	-19.0%	55.50	37.68	-32.1%
Net gearing (x)	0.24	0.49	0.47	-3.1%	97.9%	0.24	0.47	97.9%
EBIT margin (%)	11.4	6.8	9.3			9.6	7.5	
PBT margin (%)	11.0	6.0	8.9			9.0	6.9	
Net margin (%)	9.5	3.9	7.7			7.6	5.3	

Table 2: Financial Summary

YE: June (RM MN)	2012	2013	2014	2015	2016F	2017F
Revenue	47,255	46,109	43,908	43,729	44,830	45,710
Operating profit	5408	4357	3892	3399	4059	4496
EBIT	5831	4624	3999	3277	4111	4617
PBT	5695	4314	3965	3003	3782	4390
Net profit	4150	3701	3353	2313	2745	3265
EPS (sen)	66.8	59.6	54.0	37.7	44.2	52.6
Pre-tax margin	12%	9%	9%	7%	8%	10%
Net profit margin	9%	8%	8%	5%	6%	7%
PER (x)	11.1	12.5	13.8	19.7	16.8	14.2
P/BV (x)	1.7	1.7	1.6	1.5	1.5	1.5
ROE	17%	14%	12%	8%	9%	11%
ROA	9%	8%	7%	4%	5%	6%
Dividend (RM)	0.35	0.34	0.36	0.25	0.36	0.43
Dividend Yield	4.7	4.6	4.8	3.3	4.8	5.7

Source: Bursa Malaysia, M&A Securities

Table 3: Results Analysis - Segmental Results

FYE: June (RM'MN)	4Q14	3Q15	4Q15	q-o-q	y-o-y	FY14	FY15	y-o-y
Plantation	657.7	99.6	489.4	>100%	-26%	1,874.6	1,148.1	-39%
Motor	231.6	83.0	142.4	72%	-39%	634.5	473.6	-25%
Industrial	202.5	79.2	125.8	59%	-38%	1,011.8	521.2	-48%
Property	356.5	273.8	416.4	52%	17%	599.7	889.4	48%
Energy & Utilities	-127.8	19.0	37.3	96%	>100%	20.6	125.8	511%
Others	3.3	-53.9	12.7	>100%	>100%	52.7	-35.8	-<100%

Source: Bursa Malaysia, M&A Securities

Table 4: Plantation Statistics

FYE: June (tonne)	FY15	FY14	y-o-y
FFB Production (MN MT)	9.64	9.42	2.3%
FFB Yield per mature hectare	20.41	20.39	0.1%
CPO Production (MN MT)	2.36	2.30	2.6%
PK Production (MN MT)	0.55	0.52	5.8%
CPO Extraction Rate (%)	21.71	21.86	-0.7%
Palm Kernel Extraction Rate (%)	5.04	4.96	1.6%
Average selling price - CPO (RM/MT)	2,193	2,451	-10.5%
Average selling price - PK (RM/MT)	1,382	1,553	-11.0%

Source: Company, M&A Securities

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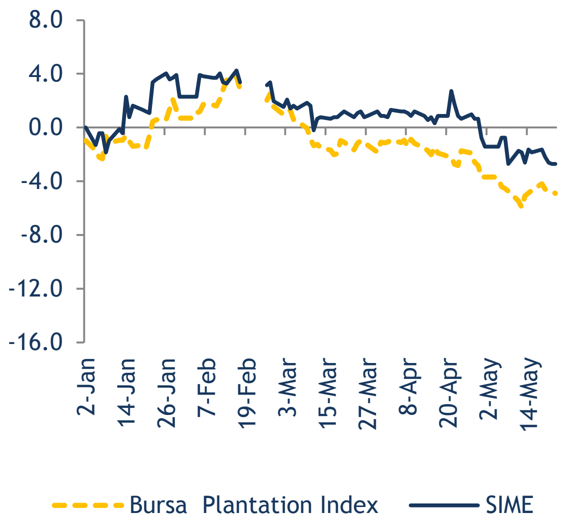
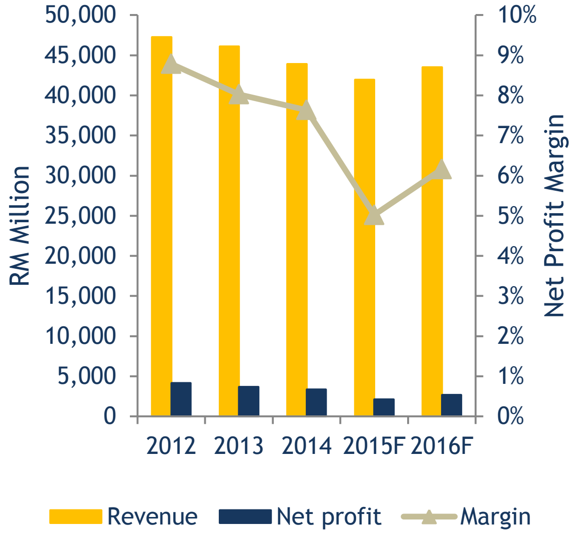
Table 5: Sum-of-parts Derived TP

Division	NBV	CY16 Earnings	PER (x)	Value (RM'Mil)
Plantation (21x CY16 PER)		1,632.0	21	34,271.2
Property (15x PER)	436	654.4	15	9,815.4
Industrial (13x CY15 PER)		668.3	13	8,554.5
Motors (11x CY15 PER)		631.0	11	6,815.3
Energy & Utilities (1x P/B)	1,243	20.8		1,242.8
Net Cash				(14,564.1)
Cash				3,644.9
Total Borrowings				(18,209.0)
Total Equity Value				46,135.1
Share base				6,211.2
Fair Value (RM)				**7.43**

KLCI Plantation Index vs. Sime Darby (YTD Performance)



Revenue and Net Profit (FY12-FY16F)



Source: Bursa Malaysia, M&A Securities

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STOCK RECOMMENDATIONS

BUY	*Share price is expected to be ≥+10% over the next 12 months.*
TRADING BUY	*Share price is expected to be ≥+10% within 3-months due to positive newsflow.*
HOLD	*Share price is expected to be between -10% and +10% over the next 12 months.*
SELL	*Share price is expected to be ≥-10% over the next 12 months.*

SECTOR RECOMMENDATIONS

OVERWEIGHT	*The sector is expected to outperform the FBM KLCI over the next 12 months.*
NEUTRAL	*The sector is expected to perform in line with the FBM KLCI over the next 12 months.*
UNDERWEIGHT	*The sector is expected to underperform the FBM KLCI over the next 12 months.*

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