

11 November 2015 | 1QFY16 Results Preview

Sime Darby Berhad

1QFY16 earnings to be supported by 12% FFB growth

Maintain BUY

Unchanged Target Price: RM9.10

INVESTMENT HIGHLIGHTS

- **1QFY16 earnings should meet consensus estimate.**
- **Strongest FFB growth among peers in 1QFY16.**
- **Non plantation division earnings likely to be unexciting.**
- **Final dividend of 19.0 sen likely to be announced soon.**
- **Maintain BUY with unchanged TP of RM9.10.**

1QFY16 earnings should meet consensus estimate. Sime Darby Berhad (SIME) is expected to release its 1QFY16 earnings on 26th Nov. We expect the core net income (CNI) to be in the range of RM490m to RM500m. Overall, SIME CNI is expected to meet consensus estimate as 1QFY16 should make up 22% of consensus FY16 full year forecast of RM2.27b.

FFB growth of 12%yoy in 1QFY16 the strongest among peers. SIME registered strong FFB volume of 2.82m MT in 1QFY16 and its 12% FFB growth has outperformed all other planters under our coverage which registered, on average, only 1% FFB growth. We believe that majority of SIME's FFB growth is caused by new contribution from New Britain Palm Oil Limited (NBPOL). Recall that SIME completed NBPOL acquisition in March-2015. Overall, the high FFB growth should be supportive of the plantation division earnings despite 7% CPO price decline to RM2058/MT.

Non-plantation division earnings likely to be unexciting. Industrial division earnings is likely to decline year-on-year in line with low coal price which resulted in lower equipment deliveries and product support sales. Property segment may register lower profit in line with lower unbilled sales at RM1.28b as of end-FY15 (vs RM2.30b at end-FY14). We expect better outlook for motor with flattish earnings growth. Malaysia operation should improve in line with better Total Industry Volume seen but overseas operations should remain challenging.

Final dividend of 19.0 sen likely to be received by end of year. In the upcoming AGM on 23-Nov, we expect a final dividend of 19.0 sen to be approved with the payment date by end of Dec-2015.

Maintain BUY with unchanged TP of RM9.10: Among the three big capitalized planters, SIME's FY16 FFB growth of 9.0%yoy for FY16 is the highest (against IOICORP's 2.5% and KLK's 4.7%). Valuation wise, SIME's forward PE is the lowest at 20.2x (against IOICORP's 23.3x and KLK's 23.5x). Its dividend yield of 3.2% is also decent (against IOICORP's 3.6% and KLK's 2.5%). Our Target Price is based on Sum-Of-Parts valuation.



RETURN STATS	
Price (9 Nov 2015)	RM8.30
Target Price	RM9.10
Expected Share Price Return	+9.7%
Expected Dividend Yield	+3.2%
Expected Total Return	+12.9%

STOCK INFO	
KLCI	1,686.11
Bursa / Bloomberg	4197 / SIME MK
Board / Sector	Main / Plantation
Syariah Compliant	Yes
Issued shares (mil)	6,211.16
Par Value (RM)	1.00
Market cap. (RM'm)	51,552.61
Price over NA	1.69
52-wk price Range	RM6.7 - RM9.77
Beta (against KLCI)	0.93
3-mth Avg Daily Vol	4.71m
3-mth Avg Daily Value	RM37.7m

Major Shareholders	
SKIM AMANAH SAHAM BUMIPUTERA	40.0%
EPF	13.8%
PNB	7.7%

INVESTMENT STATISTICS

FYE Jun (RM m)	FY13A	FY14A	FY15A	FY16F	FY17F
Revenue	46,109	43,908	43,729	47,057	49,148
EBIT	4,493	4,219	3,277	3,908	4,229
PBT	4,314	3,965	3,003	3,457	3,745
Net Income	3,701	3,353	2,313	2,522	2,761
Core Net Income	2,995	3,270	2,071	2,522	2,761
EPS (sen)	61.58	55.50	37.68	41.08	44.98
Core EPS (sen)	49.83	54.13	33.74	41.08	44.98
Net DPS (sen)	34.0	36.0	25.0	26.7	29.2
Net Dvd Yield	4.1%	4.3%	3.0%	3.2%	3.5%
Core PER	16.7	15.3	24.6	20.2	18.5
NTA/share (RM)	4.36	4.53	4.29	4.29	4.45
P/NTA	1.91	1.83	1.93	1.93	1.87
ROE	13.7%	11.7%	7.6%	8.3%	8.8%
ROA	7.6%	6.6%	3.8%	4.5%	4.8%

Source: Company, MIDF Research Forecast

SIME FFB Growth is the strongest among peers in 3QCY15 or 1QFY16 for SIME

Company	FFB Volume (MT)		FFB growth
	3QCY14	3QCY15	%
SIME	2,524,437	2,817,435	12%
IOICORP	967,203	967,406	0%
KLK	1,013,980	1,043,973	3%
FGV	1,340,298	1,306,435	-3%
GENP	431,207	468,727	9%
IJMP	244,754	235,166	-4%
TAANN	178,826	193,025	8%
TSH	163,646	152,768	-7%

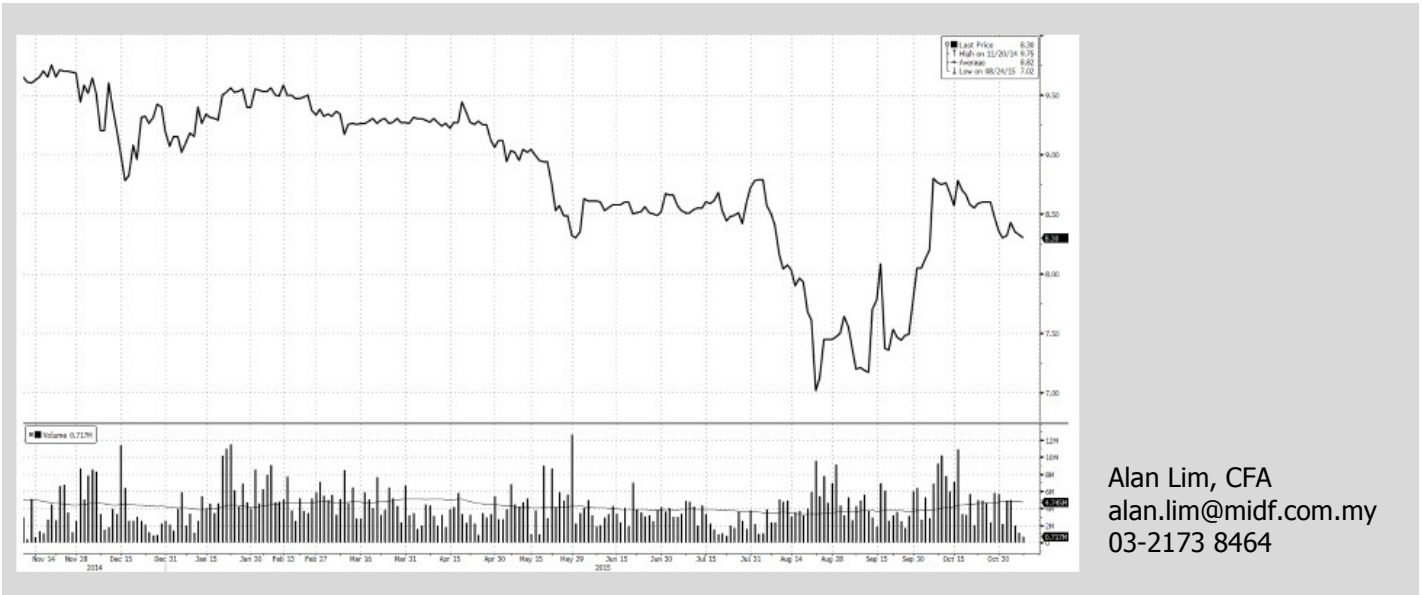
Source: Company

SUM OF PARTS VALUATION

Divisions	Valuation	Note	Fair Value (RM 'm)
Plantation	23.2x FY16E earnings	Average of IOICORP and KLK Target PE	32,278
Industrial	17.0x FY16E earnings	In line with Caterpillar Fwd PE	6,792
Motors	10.0x CY16E earnings	In line with average PE for motor companies in China	3,572
Property	15.0x CY16E earnings	In line with other big cap property company valuation	12,450
Energy and Utilities	10.0x CY16E earnings	In line with average PE for utilities	780
Sum-Of-Parts (RM m)			55,872
No of shares (m)			6,138
TP (RM)			9.10

Source: MIDF Research

DAILY PRICE CHART



Alan Lim, CFA
alan.lim@midf.com.my
03-2173 8464

Source: Company

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	<i>Negative</i> total return is expected to be -15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.