

25 May 2015 | 3QFY15 Results Review

Sime Darby Berhad

*NBPOL may generate positive bias to earnings prospects*

*Upgrade to TRADING BUY*

*Revised Target Price (TP): RM10.15*

*(Previously: RM10.24)*

### INVESTMENT HIGHLIGHTS

- **3QFY15 revenue declined slightly on lower commodity prices.**
- **3QFY15 earnings fell sharply by -54.7%yoy to RM386m on lower profit margin.**
- **9MFY15 cumulative earnings dropped -38.7%yoy and failed to meet ours and consensus estimates.**
- **No significant improvement is expected for the remainder of FY15.**
- **However, the full consolidation of New Britain Palm Oil Ltd (NBPOL) in the next financial year is expected to elevate Sime's earnings moving forward.**
- **Upgrade to TRADING BUY with revised TP of RM 10.15 per share**

**Earnings below ours and consensus expectations.** Sime Darby's nine-month earnings fell -38.7%yoy to RM1.32b. This accounted for only 58.6% and 50.7% of ours and consensus full year estimates respectively. For 3QFY15, earnings fell by a sharper -54.7%yoy to RM386m due higher effective tax rate.

**Major decline in plantation segment.** For 3QFY15, plantation's profit fell by -78.1%yoy to RM99.6m. This was attributable to lower CPO sales volume of -20.2%yoy and exacerbated by the decline in FFB production in Malaysia (-6%yoy) and Indonesia (-19%yoy). The midstream and downstream operations however showed an improvement due to favorable results in the oils and fats segment. This, however, was insufficient to offset the weak performance of upstream operation.

**Industrial segment remained depressed.** The prolonged fall in coal prices have significantly affect the mining sector, particularly its Australasia operation, which is the major contributor to Sime Darby's industrial division. For 3QFY15, profit from the Australasia operation declined -85%yoy due to lower equipment deliveries and product support sales. Meanwhile in China/Hong Kong, Malaysia and Singapore, the operations were affected by weaker market demand from the construction, mining, marine and Electric Power Generation sectors. Overall, the industrial segment results in 3QFY15 contracted by -64.1%yoy to RM79.2m.

### RETURN STATS

Price (22 May 2015)	RM8.75
Target Price	RM10.15
Expected Share Price Return	+16.00%
Expected Dividend Yield	+3.43%
<b>Expected Total Return</b>	<b>+19.43%</b>

### STOCK INFO

KLCI	1787.50
Bursa / Bloomberg	4197/ SIME MK
Board / Sector	Main/ Plantation
Syariah Compliant	Yes
Issued shares (mil)	6,221.2m
Par Value (RM)	0.50
Market cap. (RM'm)	54347
Price over NA	2.21x
52-wk price Range	RM8.65 – RM9.79
Beta (against KLCI)	0.78
3-mth Avg Daily Vol	4.21m
3-mth Avg Daily Value	RM38.85m
Major Shareholders (%)	
Skim ASB	40.02
EPF	13.41
PNB	7.71

### Key terms:


CPO – Crude Palm Oil  
FFB – Fresh Fruit Bunches

**Motors segment also weakened.** Motors' profit in 3QFY15 deteriorated due to lower profit recorded from Malaysia and Singapore operations. In Malaysia, sales and margin were negatively impacted by the subdued consumer sentiment resulted from the uncertainty in the market over the implementation of Goods and Services Tax (GST) on 1 April 2015. Meanwhile, profit from Singapore operations lower due to higher Certificate of Entitlement (CoE) premiums. The implementation of CoE increased the cost owning a car as it aims to peg long-term vehicle population growth in Singapore at 3 percent per year and to promote the usage of public transport.

**Property segment performed exceptionally.** In contrast to the other major segments, profit from property segment in 3QFY15 surged by more than 100% to RM273.8m. The increase in earnings was mainly bolstered by the proceeds from the sale of land to Sime Darby Sunsuria Development of RM64.4m and the gain of RM55.2m on the disposal of Subang Avenue. Moreover, higher contributions from various property developments, i.e. Elmina East, Taman Pasir Putih, and Pagoh education hub, also contributed to the rise in profit during the quarter.

**Energy & Utilities (E&U) segment improved.** Profit from E&U segment – the least contributor to the Group's earnings – for 3QFY15 increased by more than 100%yoy to RM19m. The surge in E&U profit was contributed by (i) higher throughput and average tariffs in all ports and higher water consumption in China operation, (ii) net gain on the disposal of wave-breaker in Weifang Port to a joint venture company, and higher profit from Chubb companies, Sime Darby Joy Industries and Sime Engineering.

**Muted earnings growth for FY15.** As the commodity prices are expected to linger at the current levels, we anticipate that Sime Darby's performance to remain muted for the remainder of FY15. Additionally, the year-on-year decline in crop production due to the impact of unfavorable weather during the second half of 2014 will continue to put pressure on Sime Darby Plantations. In view of this scenario, we revised our FY15 and FY16 earnings forecasts by -4.8% and -1.6% respectively.

**Upgrade to TRADING BUY.** However, we expect that the full consolidation of NPBOL in the following financial year to elevate Sime Darby's earnings moving forward (note that the acquisition of NBPOL was completed in early March 2015). With 62% of NBPOL's planted area are within the age of 0-12 years old, the earnings prospects of Sime Darby's plantation arm is expected to be brighter. Sime Darby's share price has plunged to RM8.75 on last Friday. This is the lowest level since the last three years. We view that Sime Darby's share price retracement as an opportunity to accumulate. Therefore, we upgrade our NEUTRAL call on Sime Darby to TRADING BUY with revised TP of RM10.15 per share, derived by sum-of-parts valuation. 

## INVESTMENT STATISTICS

FYE 30 June	FY11	FY12	FY13	FY14	FY15F	FY16F
Revenue (RM'm)	41,858.8	47,254.5	46,812.3	43,908.0	41,354.3	45,391.2
EBIT (RM'm)	5,601.7	5,901.4	4,782.2	4,218.8	3,132.5	4,181.3
Pre-tax Profit (RM'm)	5,449.2	5,694.5	4,462.2	3,964.6	2,828.2	3,743.0
Net Profit (RM'm)	3,664.5	4,150.2	3,700.6	3,352.7	2,149.4	2,769.8
EPS (sen)	59.0	66.8	59.6	54.0	34.6	44.6
EPS growth (%)	388.00%	13.25%	-10.83%	-9.40%	-35.89%	28.86%
PER(x)	14.83	13.10	14.69	16.21	25.28	19.62
Net Dividend (sen)	30.00	35.00	34.00	36.00	20.00	30.00
Net Dividend Yield (%)	3.43	4.00	3.89	4.11	2.29	3.43

Source: Company, Forecasts by MIDFR

FYE June (RM m)	Quarterly Results			Cumulative			Comments
	3Q15	YoY (%)	QoQ (%)	9MFY15	9MFY14	YoY (%)	
Revenue	9,997.8	-1.0	-6.9	30,864.2	31,394.4	-1.7	
Op profit	795.9	-16.6	12.8	2,257.9	2,685.5	-15.9	
Finance Income	375.0	839.8	733.3	128.3	113.1	13.4	
Finance Costs	-121.9	9.9	11.1	-347.5	-316.8	9.7	
Pre-tax profit	595.2	-38.0	0.4	1,862.8	2,584.0	-27.9	
Tax	-166.8	52.9	30.4	-443.0	-430.4	2.9	Adjustment for deferred tax asset, following the changes in RPGT rate
Net Profit	386.0	-54.7	-11.8	1,324.1	2,159.8	-38.7	
EPS (sen)	6.2	-55.8	-13.7	21.7	35.8	-39.5	
		<b>+/- ppts</b>	<b>+/- ppts</b>			<b>+/- ppts</b>	
Op margin	8.0%	-1.5	1.4	7.3%	8.6%	-1.2	
Tax rate	28.0%	-52.4	-20.9	23.8%	16.7%	9.4	
<u>Segmental Revenue</u>							
Plantation	2,158.5	-15.8	-13.5	6,849.7	7,670.4	-10.7	
Property	1,054.6	114.7	66.5	2,113.9	1,391.1	52.0	Higher property sales and gain on land sales
Industrial	2,219.4	-12.5	13.7	7,565.3	9,012.4	-16.1	Lower equipment deliveries and product support sales to the mining sector in Australia
Motors	4,414.3	1.1	-16.8	13,826.0	12,846.0	7.6	
Energy and Utilities	178.7	-49.9	229.7	583.2	517.3	12.7	
Other	17.3	5.5	-36.2	62.9	65.2	-3.5	
<u>Pre-tax profit</u>							
Plantation	99.6	-78.1	-63.1	658.7	1,216.9	-45.9	Lower crop production and lower CPO prices
Property	273.8	159.5	340.9	473.0	243.2	94.5	
Industrial	79.2	-64.1	-37.2	395.4	809.3	-51.1	
Motors	83.0	-41.9	-39.9	331.2	402.9	-17.8	Subdued consumer sentiment in Malaysia and implementation of CoE in Singapore
Energy and Utilities	19.0	>+100	n.a	88.5	13.7	>+100	Lower throughput from port operations
Other	-53.9	>-100	1,758.6	-48.5	49.4	>-100	Share of losses from Tesco Stores (M) Sdn Bhd.

	Quarterly Results			Cumulative		Comments
FYE June (RM m)	3Q15	YoY (%)	QoQ (%)	9MFY15	9MFY14	YoY (%)
		+/- ppts	+/- ppts			+/- ppts
<u>Operating margin</u>						
Plantation	4.7%	-13.7	-6.3	10.0%	16.2%	-6.2
Property	31.2%	22.2	17.2	26.6%	12.3%	14.3
Industrial	7.4%	-1.1	1.1	5.1%	8.9%	-3.7
Motors	7.7%	4.4	5.1	2.4%	3.1%	-0.8
Energy and Utilities	1.8%	-7.1	-109.2	17.1%	0.8%	16.3
Other	0.7%	-37.7	-17.8	22.1%	30.4%	-8.3

Source: Company, MIDFR

## DAILY PRICE CHART



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#### 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	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.