A good end to the year

Sime Darby's (SIME) FY17 core net profit of RM2.69bn (+1.4% yoy) came in above expectations. The variance was mainly due to higher-than-expected contribution from the plantation and motor divisions. SIME's proposed listing of its plantation and property businesses is on-track and expected to be completed by end-2017. We have tweaked our FY18-19 core EPS forecast by +0.2%/-7% to account for the FY17 results. Our SOTP derived 12-month target price on SIME is revised slightly higher to RM9.06, after taking into account our new forecast. Maintain HOLD rating on the stock.

Update on proposed listing of plantation and property businesses

To recap, SIME announced its plan to create three iconic stand-alone businesses which are plantation, property and industrial, motors & logistics. The proposed listing of the plantation and property businesses is progressing on schedule and is expected to be completed by end-2017. The distribution of the prospectus is likely to be as soon as September. To note, the results of the plantation and property businesses have been classified as discontinuing operations. Upon completion of the listing, both Sime Darby Plantation Berhad and Sime Darby Property Berhad would be deconsolidated from the Sime Darby Berhad Group.

FY17 results above expectations

SIME's FY17 revenue from continuing operations increased by 5.6% yoy to RM31.1bn. The net profit, inclusive of profit from discontinuing operations, was up marginally by 0.7% yoy to RM2.4bn. The increase in profit was mainly due to higher contribution from plantations (higher CPO ASP of RM2,848/MT vs RM2,242/MT in FY16 and higher FFB production by 1.7% yoy to 9.8m MT) and motors (higher contribution from Malaysia, China/HK and New Zealand). Meanwhile, lower profit contribution were seen from industrial (due to lower engine deliveries to O&G and marine sectors in Singapore, project delays in HK and intense competition in Australasia), property (lower gains from asset monetisation and compulsory land acquisition) and logistics (due to lower throughput at Jining ports as a result of tighter environmental control by Jining authority but partially mitigated by higher water consumption and higher average tariff in Weifang port). After excluding one-off items, FY17 core net profit increased by 1.4% yoy to RM2.69bn, this came in above expectations. The variance was mainly due to higher-than-expected contribution from plantation and motor divisions. SIME declared a final DPS of 17 sen, bringing total FY17 DPS to 23 sen (FY16: 27 sen).

Earnings & Valuation Summary

FYE 30 Jun	2016	2017	2018E	2019E	2020E
Revenue (RMm)	29,452.0	31,087.0	32,291.7	33,390.7	34,530.2
EBITDA (RMm)	1,698.0	1,567.0	1,592.0	1,667.0	1,743.0
Pretax profit (RMm)	1,046.0	1,007.0	1,087.0	1,177.8	1,253.8
Net profit (RMm)	2,422.0	2,438.0	2,708.8	2,767.3	2,825.3
EPS (sen)	38.6	36.7	39.8	40.7	41.5
PER (x)	23.6	24.9	22.9	22.4	22.0
Core net profit (RMm)	2,649.0	2,686.0	2,708.8	2,767.3	2,825.3
Core EPS (sen)	42.3	40.5	39.8	40.7	41.5
Core EPS growth (%)	19.5	(4.3)	(1.5)	2.2	2.1
Core PER (x)	21.6	22.6	22.9	22.4	22.0
Net DPS (sen)	27.0	23.0	25.0	25.0	25.0
Dividend Yield (%)	3.0	2.5	2.7	2.7	2.7
EV/EBITDA (x)	41.0	39.4	39.4	37.2	35.0
Chg in EPS (%)			+0.2	(7.0)	-
Affin/Consensus (x)			1.1	1.0	-

Source: Company, Affin Hwang estimates, Bloomberg

Results Note

Sime Darby

SIME MK
Sector: Plantation

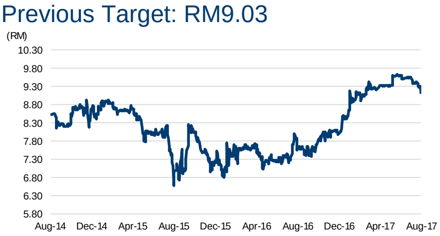
RM9.13 @ 25 August 2017

HOLD (maintain)

Downside: 1%

Price Target: RM9.06

Previous Target: RM9.03



Price Performance

	1M	3M	12M
Absolute	-4.4%	-1.8%	15.6%
Rel to KLCI	-4.7%	-1.6%	9.8%

Stock Data

Issued shares (m)	6,800.8
Mkt cap (RMm)/(US$m)	62091.7/14536.3
Avg daily vol - 6mth (m)	8.1
52-wk range (RM)	7.56-9.7
Est free float	28.8%
BV per share (RM)	5.48
P/BV (x)	1.67
Net cash/ (debt) (RMm) (4Q17)	(1,122)
ROE (FY18E)	7.2%
Derivatives	No
Shariah Compliant	Yes

Key Shareholders

Skim ASB	41.8%
EPF	10.5%
KWAP	5.9%

Source: Affin Hwang, Bloomberg

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Lower yoy core net profit of RM838m in 4QFY17

SIME's 4QFY17 revenue was higher by 6.1% yoy to RM8.2bn on the back of stronger contribution from the motor (+7.3% yoy), industrial (+5.6% yoy) and logistics (+5.2% yoy). However, PBT from continuing operations declined by 69.2% yoy to RM98m, largely attributable to impairment of the Bucyrus distribution rights and provision for contracts totalling to RM257m. After including profits from discounting operations and excluding one-off items, SIME's core net profit, declined by 36% yoy to RM838m.

Maintain HOLD rating with a new TP of RM9.06

We have tweaked our FY18-19E core EPS forecast by +0.2%/-7% to account for the FY17 results. We have revised our SOTP derived 12-month target price on SIME to RM9.06 (from RM9.03) after taking into account our revised forecasts. This is based on an unchanged 25x 2018E EPS for its plantation division, 14x for its property division, 24x for its industrial division, 10x for its motor distribution division and 10x for its logistics division. We maintain a HOLD rating on SIME.

Key risks

Key upside risks to our HOLD rating include: (i) a significant recovery in global economic growth and/or favourable policies in its key markets boosting demand for core products and services; and (ii) lower-than-expected production of vegetable oils and/or changes in regulations boosting CPO prices. Key downside risks include deterioration in global economic outlook, and a significant decline in CPO and crude oil prices.

Fig 1: Results comparison

FYE 30 June (RMm)	4QFY17	*YoY % chg*	*FY17*	*YoY % chg*	Comment
Revenue	8,200.0	*6.1*	31,087.0	*5.6*	**4QFY17**: stronger yoy contribution from the industrial, logistics and motors
Op costs	(7,708.0)	*6.6*	(29,520.0)	*6.4*	
EBITDA	492.0	*(0.6)*	1,567.0	*(7.7)*	
EBITDA margin (%)	*6.0*	*-0.4ppt*	*5.0*	*-0.7ppt*	
Depn and amort	(167.0)	*14.4*	(581.0)	*3.0*	
EBIT	325.0	*(6.9)*	986.0	*(13.1)*	
Int expense	(98.0)	*10.1*	(289.0)	*(32.6)*	
Int and other inc	128.0	*(3.8)*	512.0	*(3.8)*	
Associates	10.0	*11.1*	46.0	*27.8*	
Exceptional items	(267.0)	*>100*	(248.0)	*9.3*	Mainly attributable to impairments, write down on inventories, forex gain and gain on disposal of subsidiaries and investment properties
Pretax profit	**98.0**	***(69.2)***	**1,007.0**	***(3.7)***	
Core pretax	**365.0**	***(9.2)***	**1,255.0**	***(1.4)***	
Tax	(14.0)	*(56.3)*	(212.0)	*16.5*	
Tax rate (%)	*14.3*	*4.2ppt*	*21.1*	*3.7ppt*	Lower than the statutory rate due to gain on disposal of E&O that is not subjected to tax and the utilisation of unrecognised tax losses from previous years
MI	(54.0)	*(32.5)*	(243.0)	*27.9*	
Net profit	**571.0**	***(53.4)***	**2,438.0**	***0.7***	**FY17**: Increase in profit was mainly due to higher contribution from plantation (higher CPO ASP of RM2,848/MT vs RM2,242/MT in FY16 and higher FFB production by 1.7% yoy to 9.8m MT) and motors (higher contribution from Malaysia, China/HK and New Zealand). Meanwhile, lower profit contribution were seen from industrial (due to lower engine deliveries to O&G and marine sectors in Singapore, project delays in HK and intense competition in Australasia), property (lower gains from asset monetisation and compulsory land acquisition) and logistics (due to lower throughput at Jining ports as a result of tighter environmental control by Jining authority but partially mitigated by higher water consumption and higher average tariff in Weifang port)
EPS (sen)	8.4	*(56.7)*	36.7	*(4.9)*	
Core net profit	**838.0**	***(36.0)***	**2,686.0**	***1.4***	Adjusted for exceptional items – above expectations

Source: Company data, Affin Hwang estimates

Fig 2: Revenue breakdown

FYE 30 June (RMm)	FY2016	FY2017
Continuing operations:		
Industrial	9,946.0	10,127.0
Motors	19,155.0	20,602.0
Logistics	294.0	303.0
Others	11.0	55.0
Discontinuing operations:		
Plantation	11,877.0	14,765.0
Property	3,163.0	2,193.0
Total	**44,492.0**	**48,045.0**

Source: Company data

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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