Sime Darby (SIME MK)

1QFY27: Below Expectations; Another Industrial Parts Price Cut

Highlights

- Sime's 1QFY27 earnings came in below expectations due to weaker-than-expected industrial earnings and widened losses in China Motors' operation.
- We foresee a soft near-term earnings outlook as pickup in maintenance demand remains slow; while data centre-related earnings will only be recognised progressively.
- We cut our FY27/28F earnings forecast by 11%/6% respectively. Maintain HOLD with a lower target price of RM2.25 (previously RM2.67).

1QFY27 Results

Year to 30 Jun (RMm)	1QFY27	1QFY26	qoq%	Yoy%
Revenue	16,702	18,031	(0.0)	(7.4)
Industrials	4,543	4,465	(21.3)	1.7
Motors	8,010	9,167	(0.3)	(12.6)
UMW	4,139	4,385	8.8	(5.6)
Core PBIT	731	665	(15.0)	9.9
Industrials	219	293	(47.1)	(25.3)
Motors	100	126	(59.8)	(20.6)
UMW	432	261	97.3	65.5
Net Profit	416	355	29.2	17.2
Core Net Profit	304	335	(41.4)	(9.4)
Margins				
PBIT	4.4	3.7	(0.8)	0.7
Industrials	4.8	6.6	(2.3)	(1.7)
Motors	1.2	1.4	(1.9)	(0.1)
UMW	10.4	6.0	4.7	4.5
Core Net Profit	1.8	1.9	(1.3)	(0.0)

Source: Sime Darby, UOB Kay Hian

Analysis

- **Below expectations.** Sime Darby's (Sime) 1QFY27 core net profit of RM304m (-41.4% qoq, -9.4% yoy), excluding non-recurring profit from sale of property development amounted to RM148m, came in below expectations, accounting for 20%/19% of our and consensus forecasts respectively. The negative deviation was mainly attributable to weaker-than-expected industrial earnings and widened losses in China Motors' operation.

Key Financials

Year to 30 Jun (RMm)	FY25	FY26	FY27F	FY28F	FY29F
Net turnover	70,061	69,467	69,543	70,520	71,427
EBITDA	4,348	3,966	4,074	4,040	4,022
Operating profit	3,079	1,910	2,018	2,149	2,269
Net profit (rep./act.)	2,054	1,178	1,333	1,462	1,556
Net profit (adj.)	1,160	1,547	1,333	1,462	1,556
EPS	17.0	22.7	19.5	21.5	22.8
PE (x)	12.3	9.3	10.8	9.8	9.2
P/B (x)	0.7	0.7	0.7	0.7	0.7
EV/EBITDA (x)	5.7	6.2	5.7	5.3	5.1
Dividend yield (%)	6.7	6.7	6.2	6.7	7.1
Net margin (%)	1.7	1.7	1.9	2.1	2.2
Net debt/(cash) to equity(%)	20.0	20.0	15.9	10.0	8.3
Interest cover (x)	8.0	9.7	10.4	10.5	11.4
ROE (%)	11.0	6.3	7.1	7.6	8.1
Consensus net profit	n.a	n.a	1,684	1,771	1,615
UOBKH/Consensus (x)	n.a	n.a	0.80	0.83	0.96

Source: Sime Darby, Bloomberg, UOB Kay Hian

Analyst(s)

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HOLD (Maintained)

Share Price	RM2.10
Target Price	RM2.25
Upside	7.1%
Previous TP	RM2.67

Stock Data

Sector	Industrials
Bloomberg ticker	SIME MK
Shares issued (m)	6815.6
Market cap (RMm)	14,312.8
Market cap (US$m)	3,477.7
3-mth avg daily t'over (US$m)	2.0

Price Performance (%)

52-week high/low				RM2.68/RM1.84
1mth	**3mth**	**6mth**	**1yr**	**YTD**
(12.1)	(16.3)	0.0	11.1	2.4

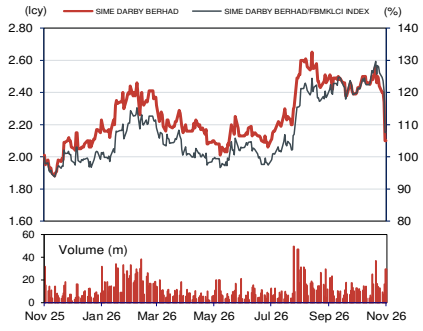
Major Shareholders (%)

Permodalan Nasional Berhad	51.1
Employees Provident Fund	7.3

Balance Sheet Metrics

FY27 NAV/Share (RM)	2.6
FY27 Net Debt/Share (RM)	0.5

Price Chart



Source: Bloomberg

Company Description

A conglomerate company, involved in businesses including motor vehicle and heavy equipment distribution across Asia and Australasia regions.

- **Earnings dragged by industrial segment.** Core net profit declined qoq mainly due to significant dropped in the industrial segment's PBIT (-47% qoq) following: a) negative parts price reduction, b) continued soft demand from miners, and c) lower equipment delivery. In addition, PBIT of the motors division fell 60% qoq due to the absence of BMW dividend and losses in China operations (-RM48m) amid heavy discounting in the local automotive market.
- **Industrial: Margin pressured by lower parts price revision.** Australia industrial margin slipped from 7.6% to 5.2% following Caterpillar's parts price reduction, which took effect in Jul 26. The price revision is determined by several factors, namely operating costs, inflation and foreign exchange movement. The next revision, expected in Jan 27, will be a key factor to watch for potential margin recovery. This quarter also saw demand normalise following the strong sales pickup in 4QFY26, as miners remained cautious amid an elevated cost environment. That said, Sime has observed a slight pickup in maintenance and rental demand, although we remain uncertain on sustained demand recovery.
- **DC-related earnings contribution may take time to materialise.** While Malaysia's industrial orderbook grew 78% qoq to RM2,403m, the orderbook has a lead time of up to 2.5 years, suggesting that earnings contribution will be recognised progressively. We note that most of the orderbook is from Tier 1 US customers, which should limit the risk of project scale-backs following the recent ban on Nvidia chip exports to Malaysia. Separately, Sime guided for a significant increase in power equipment deliveries in 2H26, which should provide near-term support to the segment's earnings.
- **New model launches to support China recovery, while BYD awaits CKD transition.** The introduction of BMW's Neue Klasse lineup in China, comprising the iX3L (deliveries from Dec 26), i3 (Feb 27) and X5 (Apr 27), is expected to drive a modest improvement in China Motors' performance despite continued intense price competition. Meanwhile, BYD sales in Malaysia have softened in recent months amid a lack of new model launches and the transition towards local assembly, which is expected to commence in 1Q27. Nevertheless, we expect sales to recover as local assembly operations should enhance BYD's price competitiveness and support its positioning in the domestic market.

Valuation/Recommendation

- **Maintain HOLD with a lower target price of RM2.25** (previously RM2.67), following the downward revision in our earnings forecast. Our SOTP target price implies 11.5x FY27 PE (slightly above 5-year mean of 11x).
- While management has observed a slight pickup in demand for the industrial division, we prefer to see clearer evidence of a sustained demand recovery before turning more constructive on the stock.

Earnings Revision/Risk

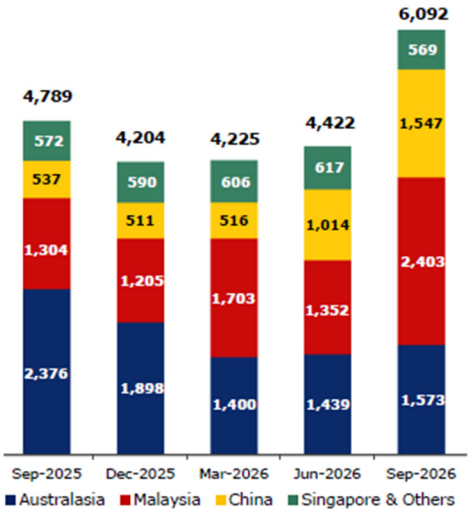
- **We reduce our FY27/28 earnings forecasts by 11%/6% respectively,** as we impute a lower margin assumption for the industrial segment, due to the parts price reduction and subdued near-term outlook.

Key Assumption

Segmental PBIT (RMm)	FY26	FY27F	FY28F
Industrial	1,252	994	1,112
Motors	727	587	607
UMW	945	994	994
Core PBIT	2,924	2,575	2,714
Core Net Profit	1,547	1,333	1,462

Source: Sime Darby, UOB Kay Hian

Industrial Orderbook



Source: Sime Darby, UOB Kay Hian

SOTP Valuation

	Value (RMm)	Description
Industrial	9,598	FY27 PE of 16x
Motors	2,933	FY27 PE of 11x
UMW	6,065	FY27 PE of 13x
MVV Land	1,830	4,200 acres of land valued at RM10 psf
Net cash/(debt)	(3,400)	
Total Valuation	17,026	
	2.50	10% conglomerate discount
Target Price (RM/share)	**2.25**	

Source: UOB Kay Hian

Profit & Loss

Year to 30 Jun (RMm)	FY26	FY27F	FY28F	FY29F
Net turnover	69,467	69,543	70,520	71,427
EBITDA	3,966	4,074	4,040	4,022
Deprec. & amort.	2,056	2,056	1,890	1,753
EBIT	1,910	2,018	2,149	2,269
Associate contributions	584	556	564	571
Net interest income/(expense)	-409	-405	-387	-389
Pre-tax profit	2,085	2,169	2,326	2,451
Tax	-586	-488	-512	-539
Minorities	-251	-278	-282	-286
Net profit	1,178	1,333	1,462	1,556
Net profit (adj.)	1,547	1,333	1,462	1,556

Balance Sheet

Year to 30 Jun (RMm)	FY26	FY27F	FY28F	FY29F
Fixed assets	23,056	23,056	21,899	21,754
Other LT assets	1,737	880	880	880
Cash/ST investment	3,039	4,157	5,286	5,853
Other current assets	1,441	862	862	862
Total assets	47,417	45,634	46,838	47,500
ST debt	2,231	2,031	1,831	1,631
Other current liabilities	3,117	682	682	682
LT debt	4,891	4,391	3,891	3,391
Other LT liabilities	2,787	3,057	4,023	4,404
Shareholders' equity	20,385	20,844	21,352	21,911
Minority interest	2,960	3,238	3,520	3,806
Total liabilities & equity	47,417	45,634	46,838	47,500

Cash Flow

Year to 30 Jun (RMm)	FY26	FY27F	FY28F	FY29F
Operating	4707	4345	4370	3846
Pre-tax profit	2085	2184	2326	2483
Tax	-789	-491	-512	-546
Deprec. & amort.	1269	2056	1909	1788
Working capital changes	1,152	771	831	343
Other operating cashflows	1,574	381	379	349
Investing	-215	-1109	-1129	-1105
Capex (maintenance)	-1088	-1200	-1200	-1200
Investments	-1088	-1200	-1200	-1200
Proceeds from sale of assets	-111	91	71	95
Others	-4970	-2068	-2112	-2174
Financing	-954	-886	-954	-1022
Dividend payments	-215	-1109	-1129	-1105
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	-2722	-700	-700	-700
Others/interest paid	-1294	-482	-458	-452
Net cash inflow (outflow)	-478	1168	1129	566
Beginning cash & cash equivalent	2882	2989	4157	5286
Changes due to forex impact	1	0	0	0
Ending cash & cash equivalent	2405	4157	5286	5853

Key Metric

Year to 30 Jun (%)	FY26	FY27F	FY28F	FY29F
Profitability				
EBITDA margin	5.7	5.9	5.8	5.7
Pre-tax margin	3.0	3.1	3.3	3.5
Net margin	1.7	1.9	2.1	2.2
ROA	2.8	3.3	3.5	3.7
ROE	6.3	7.1	7.6	8.1
Growth				
Turnover	-0.8	0.1	1.4	1.3
EBITDA	4.6	1.8	-0.2	0.1
Pre-tax profit	-12.5	-18.2	6.5	6.7
Net profit	-14.2	-19.7	8.3	7.7
Net profit (adj.)	32.6	-13.1	8.8	8.1
EPS	32.6	-13.1	8.8	8.1
Leverage				
Debt to total capital	30.5	26.7	23.0	19.5
Debt to equity	34.9	30.8	26.8	22.9
Net debt/(cash) to equity	21.3	11.5	2.2	-4.0
Interest cover	9.7	10.4	10.5	11.4

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