Sime Darby (SIME MK)

FY26: Above Expectations

Highlights

- Sime's FY26 core net profit rose 33% yoy to RM1,547m, beating our expectations, driven by BMW's dividend and stronger Malaysia Industrial earnings.
- Management expects a gradual recovery in mining-related maintenance activities to drive FY27 Industrial earnings. However, we await clearer signs of a sustained recovery.
- Downgrade to HOLD but raise our SOTP-based target price to RM2.67 (from RM2.55) on higher earnings forecasts, with limited upside following the recent share price appreciation.

FY26 Results

Year to 30 Jun (RMm)	4QFY26	4QFY25	qoq%	Yoy%	FY26	yoy%
Revenue	16,710	17,758	6.1	(5.9)	69,467	(0.8)
Industrials	5,775	4,909	50.9	17.6	18,787	(1.1)
Motors	8,036	8,603	2.4	(6.6)	34,859	1.1
UMW	3,803	4,231	20.7	(10.1)	15,775	(4.4)
Core PBIT	860	694	12.1	23.9	2,858	9.7
Industrials	414	425	69.0	(2.6)	1,252	(4.3)
Motors	249	9.0	74.1	>100	727	76.5
UMW	219	279	11.7	(21.5)	945	(1.5)
Net Profit	322	763	(50.8)	(57.8)	1,762	(14.2)
Core Net Profit	518	334	96.7	55.1	1,547	32.6
Margins						
PBIT	5.1	3.9	5.7	31.7	4.1	39.5
Industrials	7.2	8.7	12.0	(17.2)	6.7	(21.9)
Motors	3.1	0.1	70.1	>100	2.1	89.1
UMW	5.8	6.6	(7.4)	(12.7)	6.0	17.9
Core Net Profit	3.1	1.9	85.4	64.8	2.2	56.1

Source: Sime Darby, UOB Kay Hian

Analysis

- **Above expectations.** Sime Darby's (Sime) FY26 core net profit of RM1,547m (+33% yoy) excluding impairments of RM194m for its China motor segment's operations and RM66m for the industrial division, came in above our expectation, accounting for 111%/118% of our and consensus forecasts respectively. The positive deviation was mainly attributable to: a) stronger earnings from the motors division underpinned by a RM116m dividend from BMW Malaysia; and b) improved performance of the industrial division, supported by higher deliveries of power systems for DC projects in Malaysia.

Key Financials

Year to 30 Jun (RMm)	FY25	FY26	FY27F	FY28F	FY29F
Net turnover	70,061	69,467	69,526	70,508	71,420
EBITDA	4,348	3,966	4,256	4,128	4,043
Operating profit	3,079	1,910	2,200	2,238	2,290
Net profit (rep./act.)	2,054	1,762	1,499	1,547	1,589
Net profit (adj.)	1,160	1,547	1,499	1,547	1,589
EPS	17.0	22.7	22.0	22.7	23.3
PE (x)	14.7	11.1	11.4	11.1	10.8
P/B (x)	0.8	0.8	0.8	0.8	0.8
EV/EBITDA (x)	5.7	6.2	5.0	5.0	5.0
Dividend yield (%)	5.6	5.6	5.6	6.0	6.0
Net margin (%)	1.7	1.7	2.2	2.2	2.2
Net debt/(cash) to equity(%)	27.2	25.3	22.6	24.0	22.1
Interest cover (x)	8.0	9.7	10.5	10.7	10.4
ROE (%)	11.0	6.3	7.9	8.1	8.2
Consensus net profit	n.a	n.a	1,455	1,507	n.a
UOBKH/Consensus (x)	n.a	n.a	1.03	1.03	-

Source: Sime Darby, Bloomberg, UOB Kay Hian

Analyst(s)

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HOLD (Downgraded)

Share Price	RM2.51
Target Price	RM2.67
Upside	6.4%
Previous TP	RM2.55

Stock Data

Sector	Industrials
Bloomberg ticker	SIME MK
Shares issued (m)	6,815.6
Market cap (RMm)	17,107.2
Market cap (US$m)	4242.5
3-mth avg daily t'over (US$m)	2.0

Price Performance (%)

52-week high/low				RM2.58/RM1.62
1mth	3mth	6mth	1yr	YTD
19.5	20.1	2.9	32.1	22.4

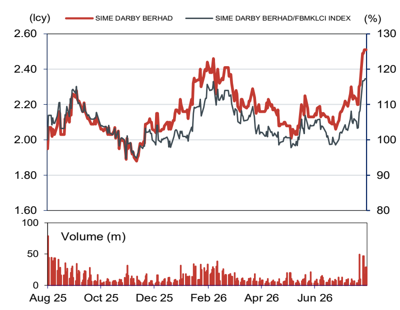
Major Shareholders (%)

Permodalan Nasional Berhad	55.1
Employees Provident Fund Board	8.1

Balance Sheet Metrics

FY26 NAV/Share (RM)	2.80
FY26 Net Debt/Share (RM)	0.50

Price Chart



Source: Bloomberg

Company Description

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

- **4QFY26 earnings rose qoq and yoy.** 4QFY26 core net profit surged 55% yoy to RM518m, driven by higher contributions from the motors division, underpinned by: a) dividends received from BMW, and b) higher earnings from its Singapore operations on stronger EV sales. This more than offset weaker contributions from the industrial and UMW divisions.
- On a qoq basis, core net profit doubled, supported by broad-based improvements across all segments. The industrial division was the key driver, benefitting from a slight margin recovery in Australia and higher power systems deliveries in Malaysia. Meanwhile, UMW's earnings also recovered from the seasonal dip in vehicles sales during 3QFY26.
- **Industrial: Australia recovery in sight.** After nearly two years of subdued maintenance activity among mining customers, Sime has started to see a slight recovery in demand, particularly in South Australia. Management expects the industrial division to improve in FY27, driven by a recovery in after-sales and rental services. However, the orderbook for new equipment remained soft at RM1.5b, below the previous year's level. Meanwhile, Malaysia's orderbook, largely comprising DC-related equipment, continued to grow mom, pointing to sustained demand for Caterpillar gensets.
- **Motors: BYD retains strong foothold in Singapore; China remains challenging.** Motor vehicle sales grew 2% yoy to 134,523 units, driven mainly by stronger BYD sales in Singapore and Malaysia. Nonetheless, operations in China continued to face challenges and still incurred losses during this quarter, with industry sales declining 20% yoy in 1H26, alongside a recent resurgence in price discounting among automakers. Against this backdrop, Sime is looking to BMW's Neue Klasse line-up to strengthen its EV offering and regain market share. According to management, the new models have received encouraging customer response since launch.

Valuation/Recommendation

- **Downgrade to HOLD; raise target price to RM2.67 (previously RM2.55).** We lift our SOTP-based target price to RM2.67, which implies 12x FY27PE (close to +0.5SD of five-year mean) after the upwards revision in our earnings forecast.
- While management expects a recovery in the industrial division, we prefer to see clearer evidence of a sustained pick-up in mining-related maintenance activities, given the prolonged recovery. Following the recent share price appreciation, with the stock currently trading close to its historical average of 11.5x FY27F PE, we believe the risk-reward has become more balanced, warranting a downgrade to HOLD.

Earnings Revision/Risk

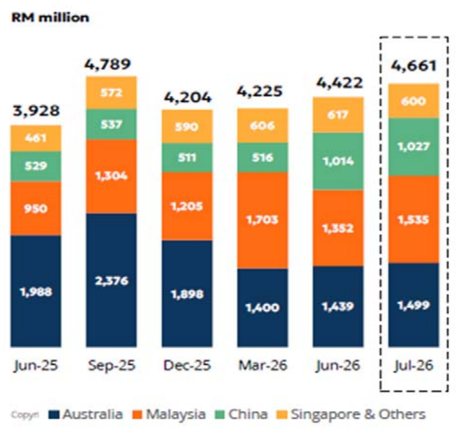
- **Raise FY27/28 earnings forecasts by 7%.** We raise our FY27/28 earnings forecasts by 7%, mainly to reflect a conservative assumption of RM50m annual dividends from BMW and higher earnings contribution from its industrial operations in Malaysia.

Key Assumption

Segmental PBIT (RMm)	FY26	FY27F	FY28F
Industrial	1,252	1,290	1,316
Motors	727	637	657
UMW	945	829	829
Core PBIT	2,924	2,756	2,802
Core Net Profit	1,547	1,499	1,547

Source: Sime Darby, UOB Kay Hian

Industrial Orderbook



Source: Sime Darby

SOTP Valuation

	Value (RMm)	Description
Industrial	12,742	FY27 PE of 17x
Motors	3,793	FY27 PE of 11x
UMW	5,262	FY27 PE of 13x
MVV Land	1,830	4,200 acres of land valued at RM10 psf
Net cash/(debt)	(3,400)	
Total Valuation	20,266	
	2.97	10% conglomerate discount
Target Price (RM/share)	2.67	

Source: UOB Kay Hian

Profit & Loss

Year to 30 Jun (RMm)	FY26	FY27F	FY28F	FY29F
Net turnover	69,467	69,526	70,508	71,420
EBITDA	3,966	4,256	4,128	4,043
Deprec. & amort.	2,056	2,056	1,890	1,753
EBIT	1,910	2,200	2,238	2,290
Associate contributions	584	556	564	571
Net interest income/(expense)	(409)	(405)	(386)	(387)
Pre-tax profit	2,085	2,350	2,416	2,474
Tax	(586)	(517)	(532)	(544)
Minorities	(251)	(264)	(268)	(271)
Net profit	1,178	1,499	1,547	1,589
Net profit (adj.)	1,547	1,499	1,547	1,589

Balance Sheet

Year to 30 Jun (RMm)	FY26	FY27F	FY28F	FY29F
Fixed assets	23,056	23,056	21,787	21,549
Other LT assets	1,737	880	880	880
Cash/ST investment	3,039	6,109	6,615	7,056
Other current assets	1,441	862	862	862
Total assets	47,180	47,472	47,960	48,420
ST debt	2,231	2,031	1,831	1,631
Other current liabilities	3,117	682	682	682
LT debt	4,891	4,591	4,291	3,991
Other LT liabilities	2,787	2,787	2,787	2,787
Shareholders' equity	20,385	20,930	21,454	22,021
Minority interest	2,960	3,224	3,492	3,764
Total liabilities & equity	47,180	47,472	47,960	48,420

Cash Flow

Year to 30 Jun (RMm)	FY26	FY27F	FY28F	FY29F
Operating	4,707	6,068	3,502	3,438
Pre-tax profit	2,085	2,350	2,416	2,474
Tax	-789	-517	-532	-544
Deprec. & amort.	1,269	2,056	1,890	1,753
Working capital changes	-584	-556	-564	-571
Other operating cashflows	1,574	1,044	1,046	1,069
Investing	-215	-997	-984	-969
Capex (maintenance)	-1,088	-1,088	-1,088	-1,088
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	-111	91	104	119
Financing	-4,970	-1,951	-2,012	-2,028
Dividend payments	-954	-954	-1,022	-1,022
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	500	300	300	300
Loan repayment	-2,722	-500	-500	-500
Others/interest paid	-1,294	-497	-490	-506
Net cash inflow (outflow)	-478	3,120	506	441
Beginning cash & cash equivalent	2,882	2,989	6,109	6,615
Changes due to forex impact	1	0	0	0
Ending cash & cash equivalent	2,405	6,109	6,615	7,056

Key Metric

Year to 30 Jun (%)	FY26	FY27F	FY28F	FY29F
Profitability				
EBITDA margin	5.7	6.1	5.9	5.7
Pre-tax margin	3.0	3.4	3.4	3.5
Net margin	1.7	2.2	2.2	2.2
ROA	2.8	3.5	3.6	3.7
ROE	6.3	7.9	8.1	8.2
Growth				
Turnover	(0.8)	0.1	1.4	1.3
EBITDA	4.6	5.7	(2.5)	(1.7)
Pre-tax profit	(12.5)	(11.9)	2.8	2.4
Net profit	(14.2)	(10.9)	3.0	2.6
Net profit (adj.)	32.5	(3.1)	3.2	2.7
EPS	32.5	(3.1)	3.2	2.7
Leverage				
Debt to total capital	30.5	27.4	24.5	21.8
Debt to equity	34.9	31.6	28.5	25.5
Net debt/(cash) to equity	25.3	22.6	24.0	22.1
Interest cover	9.7	10.5	10.7	10.4