Sime Darby SIME.KL SIME MK

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A good proxy to emerging market growth

Not just a palm oil play — all divisions full speed ahead

May 18, 2011

Rating Remains	**Buy**
Target price Remains	MYR 12.15
Closing price May 13, 2011	MYR 9.08
Potential upside	+33.8%

Action: A good proxy to emerging market growth — BUY

It is often overlooked that Sime is a global player in each of its segments — the world's largest listed palm oil producer, the world's third-largest BMW dealer, the world's fifth-largest Caterpillar dealer, Malaysia's largest property landbank owner, and Malaysia's largest fabrication yard operator. Sime is poised to benefit from strong performance in these sectors and is a good proxy to the growth in emerging markets (Asia), we think.

Catalyst: Autos and industrials hidden gems; further opportunities

BMW sales in China have grown at a 146% CAGR since 2005. Sime has managed to leverage on this, we think, impressively growing its market share in China to ~15% and looking to expand its outlets to 20 (from 14). Motors now contributes the most in revenue (1HFY11: 35%). Elsewhere, the group's industrial's division continues to lead the market for Australian heavy machinery (70-80% market share in mining since 2009; orderbook: RM3.7bn). Despite criticism on the group's execution post the large energy losses last year, we consider both achievements a testament to the division's ability to perform and drive growth. We also see upside potential at its plantations, property and energy divisions.

Valuations: Below-market P/E compelling; supported by rising ROEs

We value Sime on a sum-of-the-parts basis using P/E methodology for all divisions apart from property (where we use RNAV). We think the current valuation of 13.0x CY12F P/E (below the market's 13.5x CY12F) is compelling for a large-cap planter in a high CPO price environment and a favourable outlook for its other core businesses. Improving ROEs support reasonable P/B valuation of 2.2x FY12F and 4.1% dividend yield appeals.

30 Jun	FY10	FY11F		FY12F		FY13F	
Currency (MYR)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	32,952	37,379	37,379	41,915	41,915	46,809	46,809
Reported net profit (mn)	2,775	3,508	3,508	4,000	4,000	4,372	4,372
Normalised net profit (mn)	727	3,508	3,508	4,000	4,000	4,372	4,372
Normalised EPS	0.1	0.6	0.6	0.7	0.7	0.7	0.7
Norm. EPS growth (%)	-68.1	382.7	382.7	14.0	14.0	9.3	9.3
Norm. P/E (x)	74.2	N/A	15.4	N/A	13.5	N/A	12.3
EV/EBITDA	19.6	N/A	8.8	N/A	7.9	N/A	7.3
Price/book (x)	2.6	N/A	2.4	N/A	2.2	N/A	2.1
Dividend yield (%)	0.7	N/A	3.3	N/A	4.1	N/A	4.5
ROE (%)	13.3	16.4	16.4	17.3	17.3	17.5	17.5
Net debt/equity (%)	12.5	15.6	15.6	17.1	17.1	17.0	17.0

Source: Nomura estimates

Key company data: *See page 2 for company data, and detailed price/index chart.*
Rating: *See report end for details of Nomura's rating system.*

Anchor themes

A positive outlook for the sectors that the group is exposed to makes Sime Darby a good proxy to emerging market growth and Asia's consumption boom. Our bullish outlook for palm oil price also adds appeal.

Nomura vs consensus

We are more bullish on FY11-12 forecasts for CPO prices, which translates into higher earnings forecasts for plantation companies under our coverage.

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Key data on Sime Darby

Income statement (MYRmn)

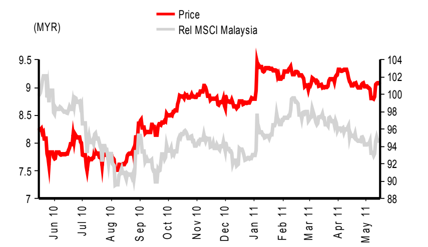
Year-end 30 Jun	FY09	FY10	FY11F	FY12F	FY13F
Revenue	**31,014**	**32,952**	**37,379**	**41,915**	**46,809**
Cost of goods sold	-27,045	-29,709	-30,970	-34,676	-38,915
Gross profit	**3,969**	**3,243**	**6,409**	**7,239**	**7,893**
SG&A	-818	-967	-1,256	-1,386	-1,516
Employee share expense					
Operating profit	**3,151**	**2,276**	**5,152**	**5,852**	**6,377**
EBITDA	**3,969**	**3,243**	**6,409**	**7,239**	**7,893**
Depreciation	-818	-967	-1,256	-1,386	-1,516
Amortisation					
EBIT	3,151	2,276	5,152	5,852	6,377
Net interest expense	-94	-170	-194	-193	-191
Associates & JCEs	15	-364	106	113	121
Other income					
Earnings before tax	**3,072**	**1,742**	**5,064**	**5,772**	**6,307**
Income tax	-731	-887	-1,266	-1,443	-1,577
Net profit after tax	**2,341**	**855**	**3,798**	**4,329**	**4,730**
Minority interests	-61	-128	-290	-329	-359
Other items	0	0	0	0	0
Preferred dividends					
Normalised NPAT	**2,280**	**727**	**3,508**	**4,000**	**4,372**
Extraordinary items		2,048			
Reported NPAT	**2,280**	**2,775**	**3,508**	**4,000**	**4,372**
Dividends	-1,145	-363	-1,754	-2,200	-2,404
Transfer to reserves	**1,135**	**2,411**	**1,754**	**1,800**	**1,967**
Valuation and ratio analysis					
FD normalised P/E (x)	23.6	74.2	15.4	13.5	12.3
FD normalised P/E at price target (x)	32.0	100.5	20.8	18.3	16.7
Reported P/E (x)	23.6	19.4	15.4	13.5	12.3
Dividend yield (%)	2.1	0.7	3.3	4.1	4.5
Price/cashflow (x)	57.0	14.8	18.1	11.5	9.7
Price/book (x)	2.5	2.6	2.4	2.2	2.1
EV/EBITDA (x)	14.0	19.6	8.8	7.9	7.3
EV/EBIT (x)	17.7	29.5	10.9	9.7	9.0
Gross margin (%)	12.8	9.8	17.1	17.3	16.9
EBITDA margin (%)	12.8	9.8	17.1	17.3	16.9
EBIT margin (%)	10.2	6.9	13.8	14.0	13.6
Net margin (%)	7.4	8.4	9.4	9.5	9.3
Effective tax rate (%)	23.8	50.9	25.0	25.0	25.0
Dividend payout (%)	50.2	13.1	50.0	55.0	55.0
Capex to sales (%)	6.8	9.1	8.0	7.2	6.4
Capex to depreciation (x)	2.6	3.1	2.4	2.2	2.0
ROE (%)	10.6	13.3	16.4	17.3	17.5
ROA (pretax %)	10.3	5.9	15.0	15.3	15.2
Growth (%)					
Revenue	-8.9	6.2	13.4	12.1	11.7
EBITDA	-32.9	-18.3	97.7	12.9	9.0
EBIT	-38.3	-27.8	126.4	13.6	9.0
Normalised EPS	-35.1	-68.1	382.7	14.0	9.3
Normalised FDEPS	-35.1	-68.1	382.7	14.0	9.3
Per share					
Reported EPS (MYR)	0.38	0.46	0.58	0.67	0.73
Norm EPS (MYR)	0.38	0.12	0.58	0.67	0.73
Fully diluted norm EPS (MYR)	0.38	0.12	0.58	0.67	0.73
Book value per share (MYR)	3.56	3.40	3.69	3.99	4.32
DPS (MYR)	0.19	0.06	0.29	0.37	0.40

Source: Nomura estimates

Notes

EPS growth set to moderate in FY12-13F due to the relatively stable outlook for CPO prices, in our view

Price and price relative chart (one year)



(%)	1M	3M	12M
Absolute (MYR)	-3.5	-3.4	3.9
Absolute (USD)	-2.6	-2.4	12.0
Relative to index	-1.4	-2.7	-11.1
Market cap (USDmn)	17,983.3		
Estimated free float (%)	28.6		
52-week range (MYR)	9.49/7.47		
3-mth avg daily turnover (USDmn)	26.69		
Major shareholders (%)			
Permodalan Nasional Bhd	56.1		
Employees Provident Fund	15.3		

Cashflow (MYRmn)

Year-end 30 Jun	FY09	FY10	FY11F	FY12F	FY13F
EBITDA	3,969	3,243	6,409	7,239	7,893
Change in working capital	-1,735	1,786	-802	-899	-705
Other operating cashflow	-1,288	-1,398	-2,635	-1,665	-1,602
Cashflow from operations	**946**	**3,631**	**2,971**	**4,674**	**5,586**
Capital expenditure	-2,123	-2,993	-3,000	-3,000	-3,000
Free cashflow	**-1,178**	**637**	**-29**	**1,674**	**2,586**
Reduction in investments	-201	124	-138	-142	-146
Net acquisitions	87	162	-101	-101	-101
Reduction in other LT assets	125	-273	-359	-395	-435
Addition in other LT liabilities	-457	5	62	-20	-54
Adjustments	645	603	714	808	732
Cashflow after investing acts	**-978**	**1,258**	**149**	**1,825**	**2,581**
Cash dividends	-2,366	-1,145	-363	-1,754	-2,200
Equity issue	0	0	1	2	3
Debt issue	778	1,983	251	261	271
Convertible debt issue					
Others	-270	-700	-700	-700	-699
Cashflow from financial acts	**-1,858**	**138**	**-812**	**-2,191**	**-2,625**
Net cashflow	**-2,836**	**1,396**	**-662**	**-366**	**-43**
Beginning cash	6,474	3,638	5,033	4,371	4,005
Ending cash	3,638	5,033	4,371	4,005	3,961
Ending net debt	1,970	2,556	3,470	4,097	4,411

Source: Nomura estimates

Notes

Strong cashflow generation to support its dividend policy

Balance sheet (MYRmn)

As at 30 Jun	FY09	FY10	FY11F	FY12F	FY13F
Cash & equivalents	3,638	5,033	4,371	4,005	3,961
Marketable securities	0	0	0	0	0
Accounts receivable	5,875	5,263	5,970	6,695	7,476
Inventories	5,627	5,217	5,917	6,635	7,410
Other current assets	2,665	3,275	3,750	4,325	4,683
Total current assets	**17,804**	**18,787**	**20,008**	**21,659**	**23,530**
LT investments	4,718	4,595	4,732	4,874	5,021
Fixed assets	9,470	10,844	12,564	13,864	15,164
Goodwill	129	109	109	109	109
Other intangible assets	0	0	0	0	0
Other LT assets	3,318	3,591	3,950	4,345	4,780
Total assets	**35,440**	**37,926**	**41,364**	**44,852**	**48,603**
Short-term debt	3,594	3,302	3,467	3,641	3,823
Accounts payable	6,421	7,056	8,004	8,975	10,023
Other current liabilities	593	1,331	1,464	1,610	1,771
Total current liabilities	**10,607**	**11,689**	**12,935**	**14,226**	**15,617**
Long-term debt	2,013	4,287	4,373	4,461	4,550
Convertible debt	0	0	0	0	0
Other LT liabilities	814	819	881	861	807
Total liabilities	**13,434**	**16,795**	**18,189**	**19,548**	**20,974**
Minority interest	621	681	971	1,300	1,658
Preferred stock	0	0	0	0	0
Common stock	3,005	3,005	3,005	3,005	3,005
Retained earnings	10,683	10,060	11,814	13,614	15,581
Proposed dividends	0	0	0	0	0
Other equity and reserves	7,698	7,385	7,385	7,385	7,385
Total shareholders' equity	**21,385**	**20,450**	**22,204**	**24,004**	**25,971**
Total equity & liabilities	**35,440**	**37,926**	**41,364**	**44,852**	**48,603**
Liquidity (x)					
Current ratio	1.68	1.61	1.55	1.52	1.51
Interest cover	33.6	13.4	26.5	30.3	33.4
Leverage					
Net debt/EBITDA (x)	0.50	0.79	0.54	0.57	0.56
Net debt/equity (%)	9.2	12.5	15.6	17.1	17.0
Activity (days)					
Days receivable	68.9	61.7	54.8	55.3	55.2
Days inventory	72.2	66.6	65.6	66.2	65.9
Days payable	90.8	82.8	88.7	89.6	89.1
Cash cycle	50.2	45.5	31.7	31.9	32.0

Source: Nomura estimates

Notes

We assume the company will look to increase gearing in an effort to improve balance sheet efficiency

Contents

5 **Don't write Sime Darby off just yet**

7 **Autos & Heavy Industrials: Hidden Gems**

7 **Autos division– growing significantly in China**

9 **Heavy Industries continues strength; China the new frontier**

12 **Other divisions offer opportunities**

12 **Plantations – offer easy wins**

15 **Property – strong unbilled sales, large landbank to support growth**

16 **Energy & Utilities starting to pull its weight again – going back to basics**

18 **Why does Sime Darby deserve another look now?**

19 **Return on assets analysis– where do opportunities lie?**

20 **Pros and cons of spinning-off assets**

21 **Running the numbers – Earnings growth in-line with peers, strong balance sheet and cashflows support dividend yield**

22 **Valuations**

26 **Valuation methodology and investment risks**

28 **Appendix**

28 **Plantations – largest palm oil planter in the world**

32 **Motors – China and SE Asia key drivers**

33 **Heavy Industries – largest Caterpillar dealership in Asia**

35 **Property – well respected developer**

38 **Energy & Utilities**

42 **Healthcare**

43 **Other businesses**

44 **Company Background**

48 **Appendix A-1**

Don't write Sime Darby off just yet

Sime Darby does have successes … Sime Darby has shown strong execution skills in its autos and industrials divisions, having grown its market share at its BMW distributorship in China to 15%, while seeking further expansion in China with the opening of more outlets (from 14 to 20). Elsewhere, Sime Darby's ability to maintain its leading market position (70-80% since 2009) in the Australian heavy machinery (mining) space (ie, Caterpillar heavy machinery) is admirable, in our view, and demonstrates the division's ability to execute its strategy well.

… and opportunities for upside. Within its plantation division, management realises that it has areas to improve, including moving up its oil extraction rate and improving yields in Indonesia. Admittedly, it is an uphill battle which was further exacerbated by the weak production in 2010, but we think the company's efforts — including refreshing its palm oil mills to increase OER — will show results. We estimate that by moving up its yields in Indonesia to match industry peers and increasing OERs by 1% could add 5-6% to earnings (FY11F). Elsewhere, the property division, with the largest landbank in Malaysia, would benefit from quicker project turnaround times, we expect, while at its energy & utilities division, the group's strategy to focus on projects where it has strong expertise (ie, local engineering, procurement and construction projects) has already started bearing fruits with its recent RM1.15bn contract win.

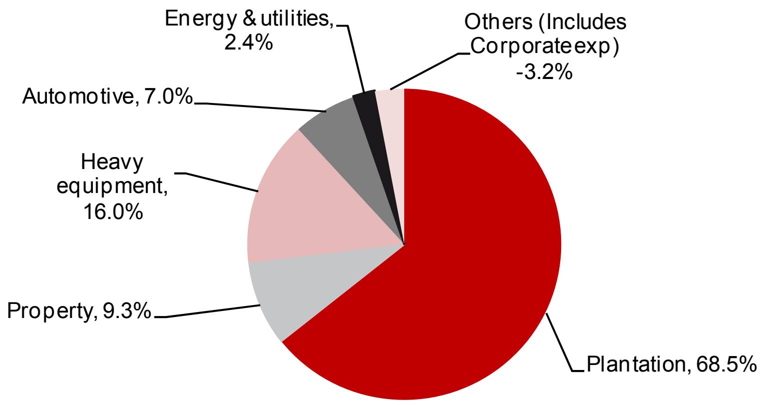
In the right place at the right time – all sectors enjoying a positive outlook. We believe Sime Darby is in the right sectors at the right time, with stronger palm oil prices supporting plantations earnings, continued growing demand for autos in Asia leading to solid performance at its motors division, stronger commodity prices bolstering heavy machinery demand, and stable demand for Malaysian real estate supporting property earnings. Furthermore, a positive outlook for the local oil & gas upstream space should aid the group in turning around its energy division. Increasing exposure to China across the divisions could, in our view, position Sime Darby in the right place to benefit from strong growth in the world's second-largest economy.

FY11F will end strong. FY11F (end June) will show a strong rebound in earnings for the group (up more than three-fold), we expect, primarily given the absence of one-off losses at the energy division from last year, and on the back of higher CPO prices (FY11F +32% y-y), strong sales at its motors division (+14% y-y) and successful new launches at its property division. Going forward, we forecast the group can grow EPS by 14% in FY12F and 9% in FY13F, given our relatively stable outlook for palm oil prices – good for a conglomerate the size of Sime Darby. We also expect ROEs to continue trending upwards to 16% in FY11F (from 10.6% in FY09) on the back of better earnings and a more efficient capital structure (net gearing rising to 15.6% in FY11F from 9.2% in FY09).

Valuations undemanding; r**eiterate BUY.** At 13x CY12F P/E, valuations are compelling, in our view, given that the stock is trading close to the low of its valuation band since its Synergy Drive merger re-listing — even with CPO prices trading at +1SD above mean. This is also at a slight discount to the KL Composite Index valuation of 13.5x CY12F P/E. On a P/B basis, the group is trading at 2.3x CY11F, which is close to its mean since listing, even with our forecast of improving ROEs. The dividend yield of 4.1% FY12F also adds appeal.

Fig. 1: Sime Darby – Operating profit contribution by division (FY11F)

Plantation continues to lead the pack thanks to its high margins



Source: Nomura estimates

Autos & Heavy Industrials: Hidden Gems

Autos division– growing significantly in China

A high-end Asian auto player ... Sime Darby has Motors operations spread across Asia-Pacific (Malaysia, China, Hong Kong/Macau, Australia/NZ, Singapore and Thailand. Sime Darby is involved in the distribution, importation, assembly and retail of vehicles. Most of the group's earnings are made as a distributor and dealer for various brands (including after-sales service).

… with an impressive line-up of high-end brands in its stable. Sime Darby has in its stable a host of car brands that it distributes (some with sole exclusive rights). The brands include its luxury mainstay BMW (in Malaysia, China, Hong Kong and Singapore), Ford, Hyundai and Land Rover amongst others. The group also has local assembly operations for brands such as BMW, Hyundai, Suzuki and Mazda in Malaysia.

Sime Darby has pan Asia Pacific automobiles operations, with 50% of this segment's EBIT coming from China. It deals in luxury brands such as BMW as well

Strong sales– with 50% of EBIT now coming from China. China's motor industry has grown sharply, with passenger vehicle sales ranging between 30-40% in the last two years, while Sime Darby's key brand in the market, BMW, has grown at a CAGR of 146% in the last five years. The division is a clear beneficiary of this growth, with sales having grown a strong 43% y-y in 1HFY11. By revenue, for 1HFY11 the Motors division is now the largest contributor to the group, (though due to smaller margins, remains the third-largest contributor by earnings). This, we think, is a remarkable feat, with the group having been able to grow its market share of BMW sales in China to over 15% in recent quarters.

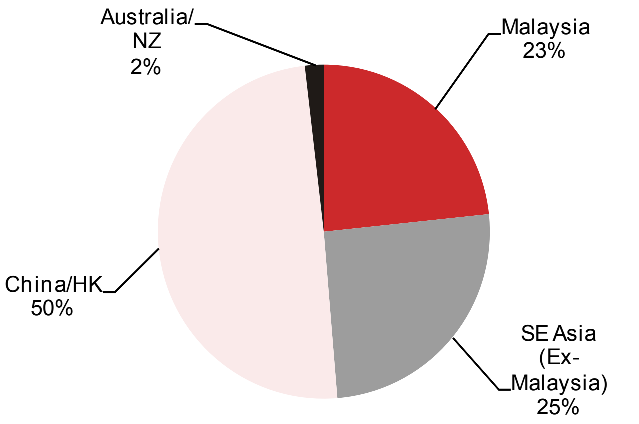
Strong track record allows it to strengthen its relationship with principals – we see the business growing. Over the years, there has been some concern by investors as to whether Sime Darby would lose market share, or even lose distributor licences given strong competition in this space. However, we think the Auto division has executed very well and we believe that Sime Darby will continue to grow its strength here. Management recently outlined its near-term plans on increasing its sales outlets in China from 14 to 20 outlets – a positive move, and testament to Sime Darby's good relationship with the auto brand's principals, in our view.

Demand for luxury cars in China to be supported. China's demand for luxury autos has grown markedly in recent years – having grown at a CAGR of more than 150% in the last five years (according to industry data). Our China auto analyst, Yankun Hou, remains relatively Neutral on the China auto space in the near term given its recent strong sales performance, coupled with some headwinds by government policies. However, he believes that luxury cars, SUVs, and low-end products will gain market share as consumer tastes evolve, mostly at the expense of mid-sized sedans – benefitting high-end brands such as BMW. Growing affluence on the back of strong GDP growth in China, coupled with increasing demand for luxury goods (as a measure of wealth), will continue to support demand for luxury goods, in our view.

Strong sales growth and stable margins in FY11-13F. Overall, the division currently sees margins around the region of 3-4% (as per company data), although we expect current management efforts to manage costs to maintain or improve margins slightly. We assume that sales growth will continue to match that of FY08 (~14-15% driven mainly by China) given the strong economic outlook for Sime Darby Motors key markets, while margins should remain relatively stable (~3%).

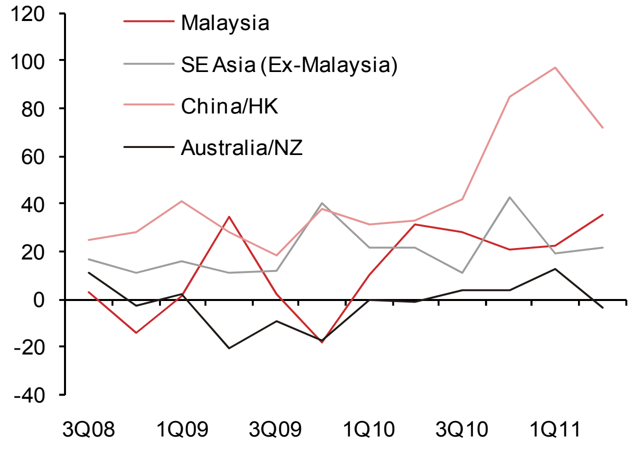
Fig. 2: Sime Darby FY10A EBIT breakdown by key markets

China leads in contribution to auto earnings



Source: Company data

Fig. 3: Quarterly EBIT for motors division by region



Source: Company data

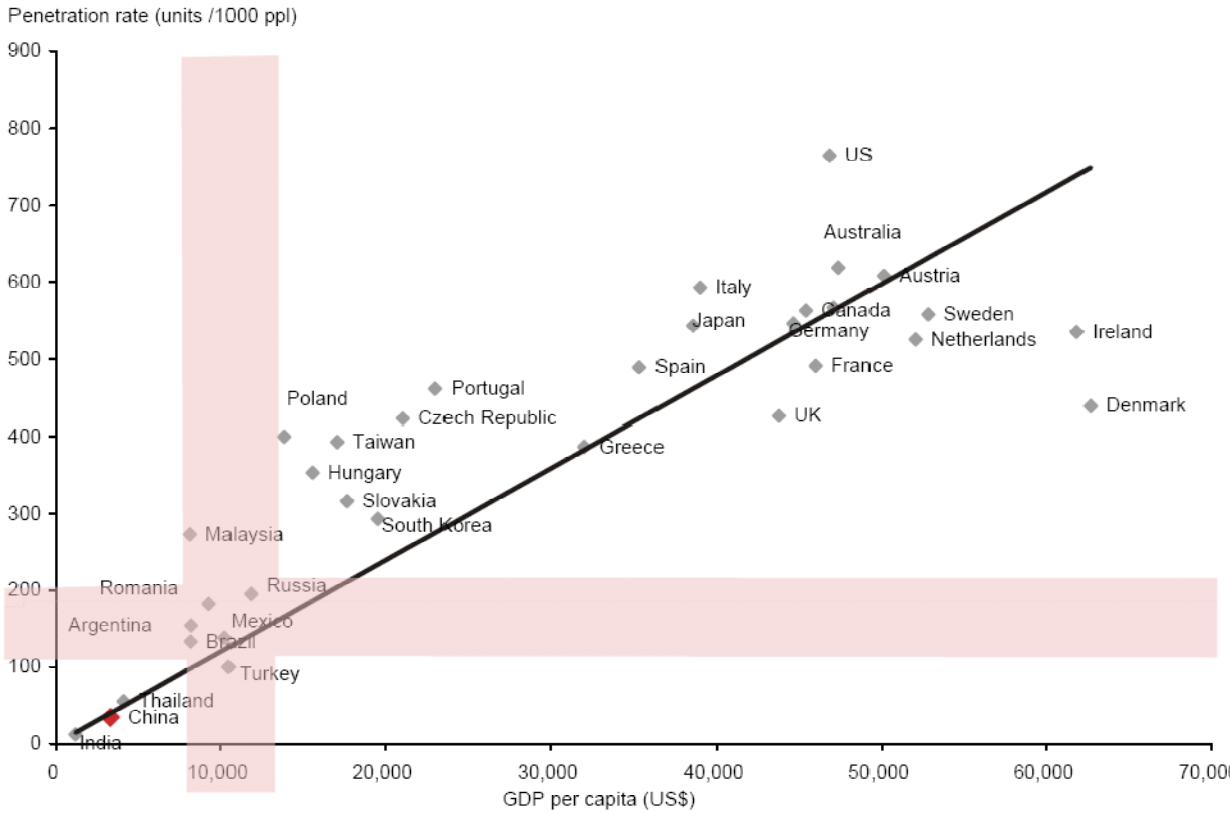
Fig. 4: Sime Darby – FY10 indicative margins for each market, assuming all revenues accrue from auto sales only

Country	Revenue (RMmn)	EBIT (RMmn)	Units Sold	Average price (RM/Unit)	Average EBIT (RM/Unit)	Average Margins (%)
Malaysia	1,722	90	13,835	124,467	6,505	5.2%
SE Asia (Ex-Malaysia)	2,177	98	12,405	175,494	7,900	4.5%
China/HK	4,328	191	16,734	258,635	11,414	4.4%
Australia/NZ	1,842	7	13,190	139,651	531	0.4%
Total	**10,069**	**386**	**56,164**	179,279	6,873	3.8%

This assumes that all revenue is derived from auto sales, ignoring margins from after-sales service, rental etc. (given limited data available)
Source: Company data, Nomura research.

Fig. 5: Auto penetration rate relative to GDP per capita

Markets such as China have good growth potential given its continued strong GDP growth outlook and relatively low auto penetration



Source: Bloomberg, CEIC

Fig. 6: China – auto sales growth

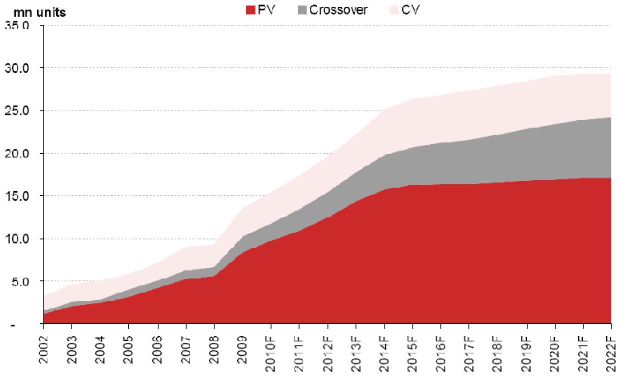
2011 shows some moderation in growth after a strong 2010

('000 units)	2008	2009	2010A	2011E
Total Auto Sales	**9,340**	**13,597**	**17,995**	**20,152**
Passenger Vehicle	**5,660**	**8,390**	**11,209**	**12,712**
Sedan	4,969	7,399	9,460	10,689
SUV	495	690	1,261	1,475
MPV	196	301	489	548
Crossover	**1,064**	**1,948**	**2,493**	**2,842**
YoY (%) Change				
Total Auto Sales	**7.5%**	**45.6%**	**32.3%**	**12.0%**
Passenger Vehicle	6.5%	48.2%	33.6%	13.4%
Sedan	5.3%	48.9%	27.8%	13.0%
SUV	32.2%	39.4%	82.8%	17.0%
MPV	-9.9%	53.6%	62.5%	12.0%
Crossover	7.7%	83.2%	28.0%	14.0%

Source: Nomura research CEIC

Fig. 7: China auto sales breakdown outlook

1st phase of growth expected to taper by 2014



Source: CEIC, Nomura research

Heavy Industries continues strength; China the new frontier

Sime Darby is the fifth-largest Caterpillar Heavy Machinery distributor in the world. The division's sales continue to show strong growth, especially in Australia. For the Australian mining heavy equipment space, Sime Darby has in the past managed to maintain a market share of 70-80% and we think that Sime Darby should be able to maintain its leadership position given its strong track record and relationship with end-consumers. Its industrial order book stands at RM3.7bn as at 31 December 2010 (1H FY11), close to triple the levels seen from year ago and should last 18 months, according to our estimates. We think this momentum can continue, given buoyant commodity prices (relative to the trough during the global financial crisis) supporting demand from the mining sector, and economic recovery improving the outlook for the construction space.

Relatively stable margins with decent revenue growth. Margins for this division have remained relatively stable, ranging between 8.5% and 11.7% in the past three years (averaging 10%). We expect margins to remain stable. Revenues have also been growing, averaging 8% y-y for the past two years, with only one quarterly y-y drop. We currently assume relatively flat margins of around 9%, with revenue growth of 10-12% given the stronger global growth outlook post the financial crisis.

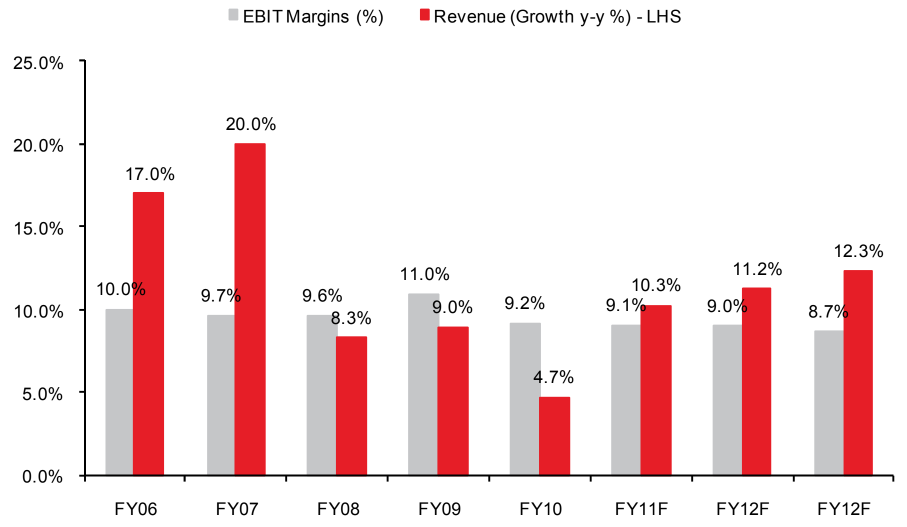
China currently contributes 9% of the division's EBIT, but we think there is room for strong growth within this space

Outlook for Heavy Industrials division promising – China the key to growth. China currently contributes 9% of the division's EBIT, but we think there is room for strong growth within this space. As a developing nation with such strong growth, China is dependent on keeping its supply of resources strong (mining) and while it continues its construction on the back of urbanisation. Nomura remains upbeat on Chinese growth, projecting between 9.5% and 9.8% real GDP growth for FY11-12F. Our China Heavy Machinery analyst, Yankun Hou, sees robust long-term demand growth in China for capital goods on the back of significant urbanisation and the development of Central and Western China, plus continuing improvement in the mechanization rate. He does, however, cite a possible slowdown in the near term (2Q and 3Q 2011) given recent strong growth, which was recently confirmed by our analyst during initial discussions with Chinese machinery dealers in May.

Sime Darby's principal Caterpillar has also stepped up its focus in developing markets, with plans to triple its production capacity in China by 2015. Sime Darby should be able to ride on these developments, having the exclusive license to operate in Xinjiang province, China, which we understand has coal reserves that are 27x those of Australia. Elsewhere, Komatsu (a key competitor to Caterpillar) is targeting 50% sales growth in China for FY12. We believe the key risk for Sime Darby's heavy machinery business in China is local players such as Sany Heavy, Zoomlion and Lonking, which are becoming increasingly competitive, with global Chinese Heavy Machinery exports growing in terms of market share.

Fig. 8: Sime Darby – EBIT margins and revenue growth of industrials division

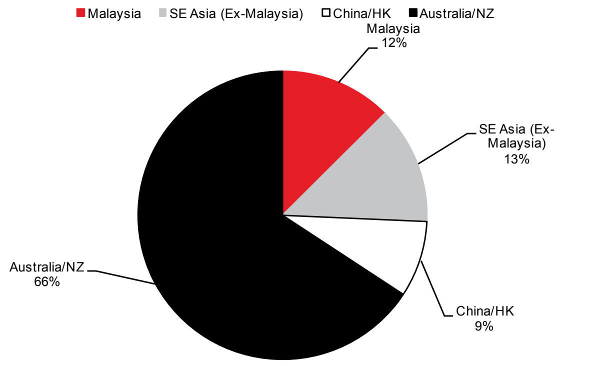
Assuming relatively stable growth and margins going forward



Source: Company data, Nomura estimates

Fig. 9: Sime Darby Industrials EBIT breakdown by region (FY10)

China offers strong potential



Source: Company data

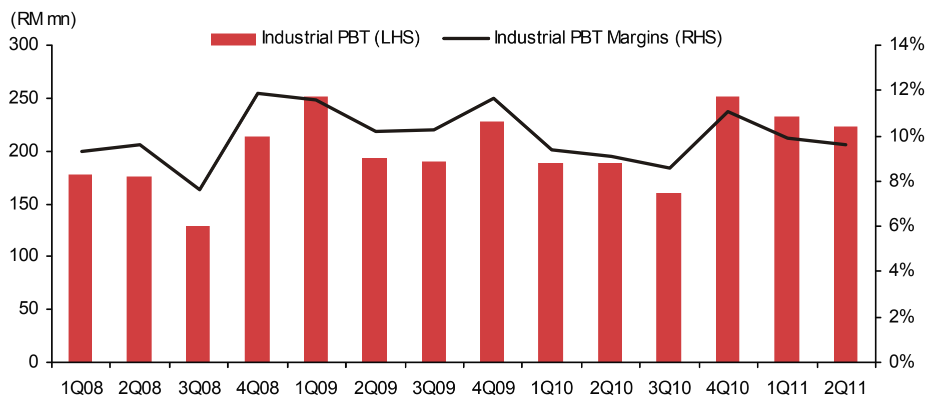
Fig. 10: China construction machinery sales trend

Continued strength

(Units)	2008	2009	2010F	2011F	2012F
Truck-mounted concrete pumps	4,527	5,880	9,996	11,995	13,794
Truck cranes	21,908	27,360	36,100	39,710	43,681
Crawler cranes	1,686	1,185	1,766	2,030	2,335
Excavators	77,851	95,820	162,000	194,400	223,560
Wheel loaders	66,308	143,322	217,700	228,585	240,014
Roadheaders	1,343	1,406	1,616	1,848	2,172
YoY (%) Change					
Truck-mounted concrete pumps	6.0%	29.9%	70.0%	20.0%	15.0%
Truck cranes	5.0%	24.9%	31.9%	10.0%	10.0%
Crawler cranes	78.0%	-29.7%	49.0%	15.0%	15.0%
Excavators	16.6%	23.1%	69.1%	20.0%	15.0%
Wheel loaders	4.6%	-13.8%	51.9%	5.0%	5.0%
Roadheaders	54.9%	4.7%	15.0%	14.3%	17.6%

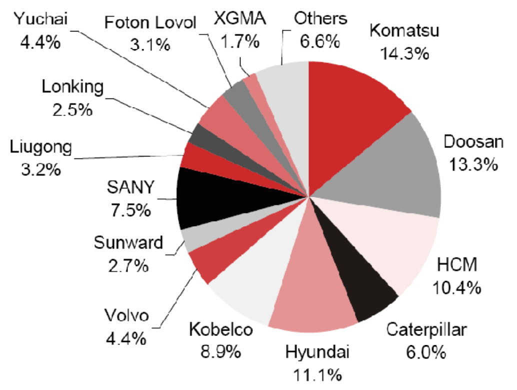
Source: China Construction Machinery Association, Nomura estimates

Fig. 11: Sime Darby – Industrial earnings and margins



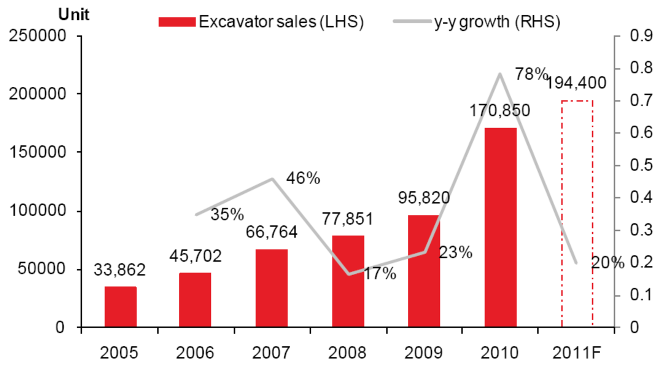
Source: Company data

Fig. 12: China excavator market share breakdown (2010)



Source: CCMA, Nomura research

Fig. 13: China – excavators sales



Source: CCMA, Nomura research

Other divisions offer opportunities

Plantations – offer easy wins

Upstream division is still the largest contributor to earnings.
Sime Darby's plantations division is still regarded as a world-leader in plantation standards. However, since its Synergy Drive merger in late 2007, the plantations division has seen relatively unexciting times, with Indonesian yields relatively poor, a downcycle in production for the industry in 2010, and relatively low Oil Extraction Rates. This has been a long-acknowledged issue at the company's estates, but we identify below key areas that we think could drive improvements in the division. We think that the division still has much to offer with regards to upside, given that it is still the key earnings contributor to the group.

Ramping up plantations performance could easily add 5-10% in earnings, we believe.
Key areas of focus:

Plantations division has several low hanging fruit – like improving FFB yields, OER, increasing acreage and lowering cost of production

- **Higher fresh fruit bunch (FFB) yields.** Currently, Sime Darby's yields in Indonesia are still trending relatively low, ranging from 16.6mT/Ha-18.67mT in FY08-FY10. This is below yields seen at its peers such as Golden Agri and Astra Agro Lestari, which have seen yields of about 22-23mT/Ha. Should Sime Darby be able to bring up its yields to the same level, we could see earnings increase by 2-3% (FY12F). Currently, production is seen to be relatively stable, at +1% in FY11F, according to our estimates, but recovering to more than 5% in FY12F on account of an expected strong pick-up in yields in June-Dec 2011F.
- **Improving oil extraction rate.** The group's average oil extraction rate ranges from 21-22% and leaves room for improvement (other planters, such as London Sumatra, are able to achieve OERs of 23%). The problem mainly lies at its Malaysian operations, which show OERs of 20-21%. Management is looking to improve the OER in Malaysia by refreshing its old Palm Oil mills – an ongoing effort. We estimate that a 1% improvement in OERs could increase FY11F net profit by ~RM100mn (or 3% of group net profit).
- **Increasing planted hectarage.** We acknowledge that with such a huge base for planted hectarage, it is not easy for Sime Darby to expand as quickly as its smaller peers. However, we think with its available landbank (though mostly in Liberia) and sufficient capital, Sime Darby should be able to ramp up hectarage in the longer term, especially if it is able to sort out teething issues in Liberia.
- **Lowering cost of production.** The group's CPO cost of production varies widely, from RM811/mT in FY08 to RM971/mT in FY10. Although this is, to some extent, driven by production volumes (i.e. economies of scale, given that many of the costs for the group are fixed), we think the group can do more to improve its cost of production, which is still above that of Indonesian peers, such as Golden Agri or even First Resources, which have been able to achieve a cost of production of below RM780/mT even in recent years.

Fig. 14: CPO production of listed Palm Oil companies

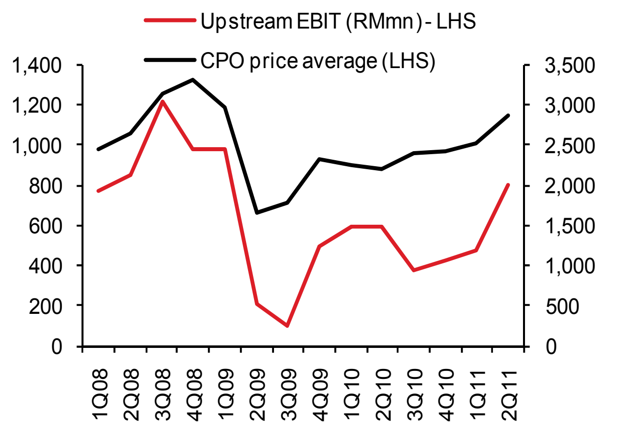
Sime Darby is the largest listed producer globally of Palm Oil, although Golden Agri is catching up quickly

	Company	CPO production (mT, 2010)	% of global production
1	**Sime Darby (SIME MK)**	**2,344,000**	**4.96%**
2	Golden Agri (GGR SP)	1,849,879	3.91%
3	Wilmar Intl (WIL SP)	1,597,890	3.38%
4	Astra Agro Lestari (AALI IJ)	1,113,277	2.36%
5	IOI Corp (IOI MK)	733,120	1.55%
6	KL Kepong (KLK MK)	785,800	1.66%
7	Indofood Agri (IFAR SP)	739,885	1.57%
8	Kulim (KUL MK)	484,154	1.02%
9	London Sumatra (LSIP IJ)	365,669	0.77%
10	First Resources (FR SP)	376,922	0.80%

Source: Company data, USDA, Nomura research

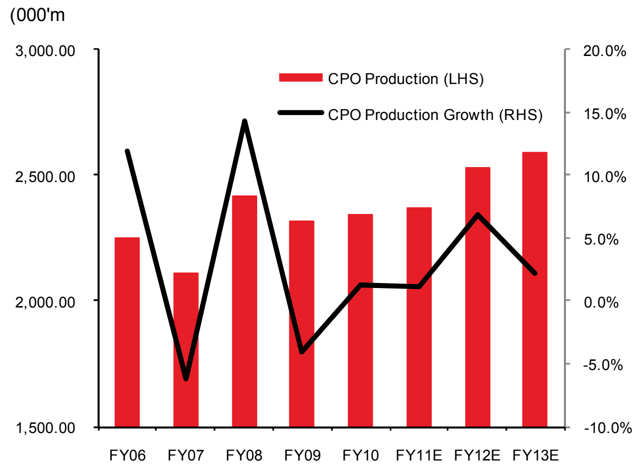
Fig. 15: Sime Darby: Plantations division upstream EBIT

Highly leveraged to CPO prices



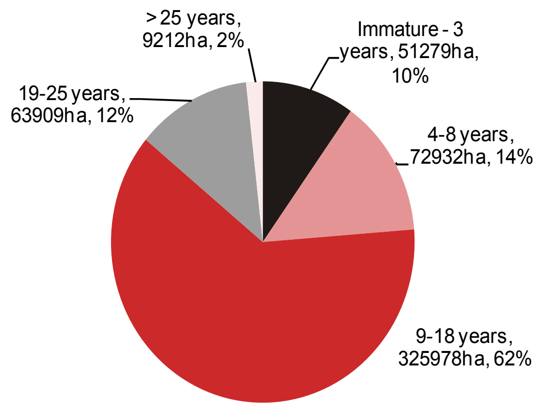
Source: Company data, Nomura research

Fig. 16: Sime Darby: CPO production growth



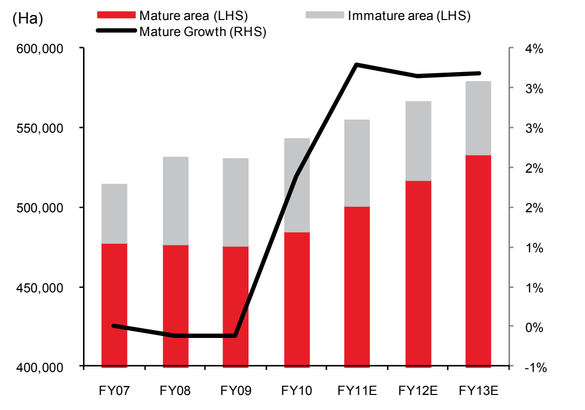
Source: Company data, Nomura estimates

Fig. 17: Sime Darby: Tree age profile



Source: Company data, Nomura estimates

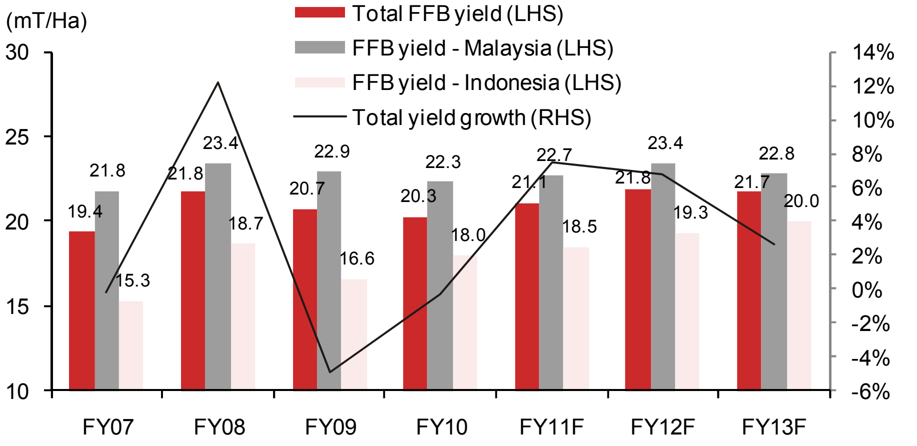
Fig. 18: Sime Darby: Hectarage growth



Source: Company data, Nomura estimates

Fig. 19: Sime Darby – Plantation FFB yields

Indonesian plantations hope to return to 2008 levels



Source: Company data, Nomura estimates

Fig. 20: Nomura Palm Oil Snapshot: Sime Darby – not easy to be above average at such scale

Metric	1	2	3	4	5	Comment
Age profile				✓		Sime Darby's tree age profile is currently mainly within the prime age (62% between 9-18 years old).
Yields			✓			Yields are average relative to its large-cap peers. We believe that the group could have more upside to yields given that its Indonesian plantation are still performing below average.
Oil extraction rate			✓			Oil extraction rate of above 21% is average versus its Malaysian peers and we think the group should be able to maintain this
Expansion rate				✓		The group has the landbank, planting materials and financial resources for expansion, and we are confident that the group will be able to meet its planting targets in the long run (grow panted hectarage by ~15% per annum)
Costs of production			✓			Cost of production for the group is average, though we do see upside if the group manages to ramp up production in Indonesia (improving economies of scale)
Sustainable production					✓	The group is the largest producer of Certified Sustainable Palm Oil under the RSPO and is a leader in setting the benchmark for sustainable practices.
Corporate governance			✓			There have been no major issues with the corporate governance of the group in recent times, in our view.

Note: (5= Best in Class, 3 = Average, 1= Poorest in Class). These are arbitrary measures based on our view of the operational metrics, as compared to other palm oil companies within the region

Source: Nomura research

We maintain our Bullish view on Palm Oil – with an outlook for stronger production and prices in 2011F

We maintain our bullish outlook on palm oil prices on tighter supply demand, strength in agri commodities like soybean, US$ depreciation and stronger crude oil price assumptions

We think that 2011 will be the year that Palm Oil planters will benefit from a double positive of higher CPO prices (y-y) and higher production after coming off a poor showing in 2010. Our higher-than-consensus CPO price assumption (below) is premised on:

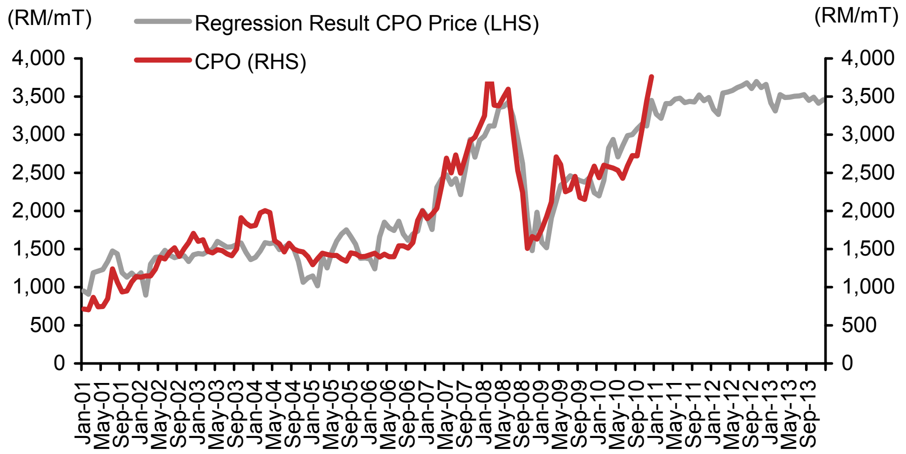
- Tighter supply/demand scenario in 2011F, following weak palm oil production in 2010;
- Continued strength in global agri-commodities, and risks that soybean production this year will be muted (judging by the already lower planting intentions in the US);
- US dollar depreciation supporting higher commodity prices overall (Nomura USD-IDR forecasts: 2010A: 8996, 2011F: 8400, 2012F: 8100; Nomura USD-MYR forecasts: 2010A: 3.07, 2011F: 2.88, 2012F: 2.72)
- Stronger crude oil price assumptions (2011-12F: US$110/bbl) providing support for CPO prices.

Fig. 21: Nomura CPO price assumptions

Year	2011F	2012F	2013F
New (RM/mT)	3,400	3,550	3,450

Source: Nomura estimates

Fig. 22: CPO price forecasts – multivariate regression results



Source: Nomura research

Property – strong unbilled sales, large landbank to support growth

The property division is sitting on more than RM1.05bn in unbilled sales and RM1.02bn in unsold stock as at 1HFY11 (Dec-2010), and will see a strong pipeline of launches amounting to more than RM6bn in the near-term, according to our estimates. Sime Properties continues to rank as one of the leading developers in the country.

Sime Darby's large property Landbank and strong unbilled sales offer significant room for earnings growth

We think its significant advantage lies in its very large landbank size for property development, which based on its books as at end-FY2010, totaled 12,409 acres. This makes it the developer with the largest landbank in the country followed by the listed UEM Land with 8,374 acres, while it comes in third in terms of remaining unbilled sales. Although we understand that demand (especially for high-end products) is moderating, we think that Sime Darby's strategic landbank (e.g. Guthrie Corridor, and Subang Jaya City Centre) will be a driver of demand for the division's property developments.

Fig. 23: Sales recognition

Sales recognition	31-Dec-10	30-Sep-10
Unbilled sales (RM mn) *	1,049.8	920.2
Unsold stocks (RM mn)	1,022.5	824.4
Inventory (units)	787	774
Work in progress (516 units)	516	444

Note: * Revenue recognized based on completion

Source: Company data

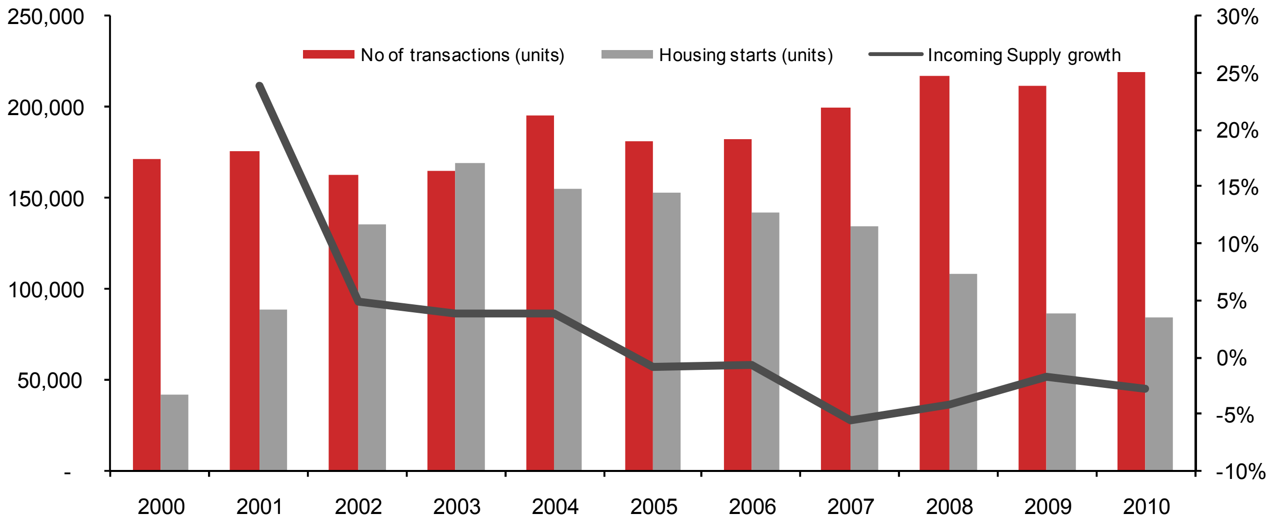
While our Malaysia property analyst, Jacinda Loh, is Neutral on the sector (with two BUY ratings and two NEUTRAL ratings) largely due to the bigger property names looking fairly reflective of current supportive fundamentals, she nevertheless expects property sales and transactions this year to continue an upward trend backed by a young demographic mix, shrinking household sizes amidst a rising middle class, still-evident affordability (owing to stiff competition amongst banks for the consumer business) and continued structural decreases in incoming supply and starts since 2005.

Fig. 24: Future project development

Projects	GDV (RM bn)
Subang Jaya City Centre	3.0
Bukit Jelutong Commercial Area (JV with Sunrise)	1.0
Oasis Corporate Park	0.7
Melawati Lifestyle Centre	0.6
The Glades, Putra Heights	0.4
Kenny Hills Residences	0.2
Turnberry Villa, KLGCC	0.1

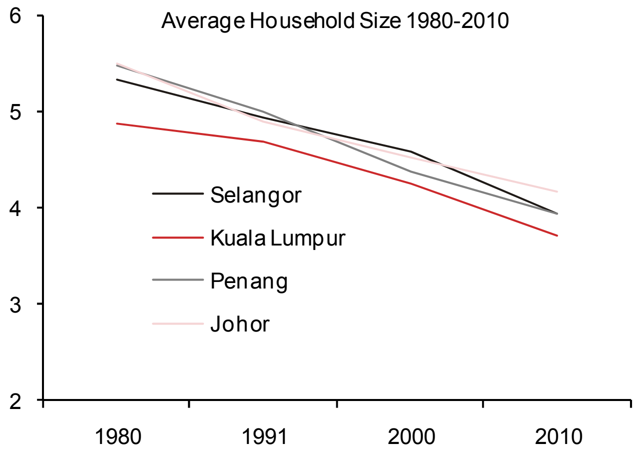
Source: Company data, Nomura research

Fig. 25: Malaysia housing transactions and housing starts



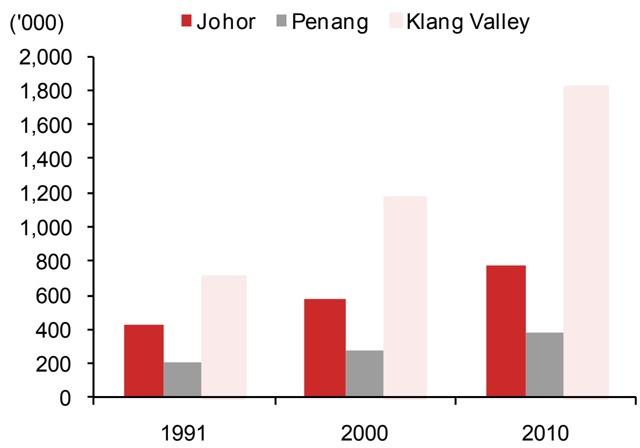
Source: CEIC, Valuation and Property Services Department

Fig. 26: Malaysia – Average household size on the decline



Source: Ministry of Statistics Malaysia, Nomura research

Fig. 27: Malaysia – No. of households on the rise



Source: Ministry of Statistics Malaysia, Nomura research

Energy & Utilities starting to pull its weight again – going back to basics

We like management's approach to turn around its Oil & Gas division by focusing on its bread and butter forte – local Engineering, Procuring and Construction (EPC) contracts. This has already yielded results, with Sime Darby recently winning the Kebabangan contract to fabricate topsides for a sum of RM1.15bn – marking the start of a real turnaround at the division, in our view. It is important to note here that Sime Engineering (Oil & Gas) has a long and well-regarded track record within the industry, prior to its recent losses in FY10, and we remain confident that the group should continue to show progress in garnering new contracts.

Why does Sime Darby deserve another look now?

In our view, Sime Darby is in the right sectors at the right time – with all divisions showing good performance. We think that Sime Darby is worth another look now, given that:

We think that things can only improve from Sime Darby from here on – the portfolio review and 5 – year strategic plan is going to be the first step forward

Sime is set to announce its Portfolio Review and 5-year strategic plans as soon as July – this marks the first large step for the company post its crippling energy losses. Post the large write-downs in FY10, management has been quiet on its strategy and plans. We understand that management has been re-looking at and taking stock of its strategy and operations. The company is in the midst of performing its Portfolio Review, which when announced (to be tabled to the board by June and likely to be announced soon after) should also include a five-year strategic plan. This will be a change from the quiet appearance of the group in recent quarters. We expect strong positive news flow surrounding this.

We think the worst is behind us with regards to the large Energy & Utilities losses. A year after the Oil & Gas related losses were announced (May 2010), we do not expect further negative surprises from the group, given that it made most of the relevant write-downs relating to the losses in FY10. In March, Sime Darby finalised the handing over of one of the loss-making projects which will result in a RM100mn write-back, underscoring the fact that the worst is behind the company, relating to the large losses, in our view.

The company has taken steps to address corporate governance concerns. With the exit of key management (including former Group CEO Datuk Seri Ahmad Zubir) post the energy losses, the new management team has been addressing corporate governance issues, including the formation of Subsidiary Boards to oversee each core business, reviewing reporting lines, and reviewing procedures for related-party transactions.

Return on assets analysis– where do opportunities lie?

Fig. 28: Sime Darby – Asset and operating profit return on assets; breakdown by division

FY10 (RMmn)	Plantation	Property	Industrial	Motors	Energy & Utilities	Total (Excl. Healthcare, Corporate and Others)
Total Assets	13,318.0	7,017.6	5,640.2	4,533.2	3,165.0	33,674.0
Total Liabilities	1,216.2	889.7	2,161.9	1,790.1	1,723.4	7,781.3
Total Net Assets	12,101.8	6,127.9	3,478.3	2,743.1	1,441.6	25,892.7
Operating Profit (FY11F)	3,529.0	480.2	825.3	359.3	123.9	5,317.7
Operating Profit Return on Assets (FY11F)	26.5%	6.8%	14.6%	7.9%	3.9%	15.8%
Operating Profit Return on Net Assets (FY11F)	29.2%	7.8%	23.7%	13.1%	8.6%	20.5%
FY09A (RMmn)	**Plantation**	**Property**	**Industrial**	**Motors**	**Energy & Utilities**	**Total (Excl. Healthcare, Corporate and Others)**
Total Assets	12,528.4	5,973.0	6,214.2	3,822.2	3,813.8	32,351.6
Total Liabilities	1,290.1	810.5	2,084.2	1,129.0	1,440.4	6,754.2
Total Net Assets	11,238.3	5,162.5	4,130.0	2,693.2	2,373.4	25,597.4
Operating Profit (FY09A)	1,795.8	410.4	850.6	178.1	23.3	3,258.2
Operating Profit Return on Assets (FY09A)	14.3%	6.9%	13.7%	4.7%	0.6%	10.1%
Operating Profit Return on Net Assets (FY09A)	16.0%	7.9%	20.6%	6.6%	1.0%	12.7%
Capex (FY10A)	1100.1	338.2	676.7	268	925.4	3308.4
% of Total Capex	33%	10%	20%	8%	28%	

Note: For operating profit in FY11F, we do not assume any contribution from the Oil & Gas division within Energy & Utilities. Note that RoA for Plantations in 2009 was relatively low given the weak CPO price of only RM2220/tonne average prevailing over FY09 (July-2008-June 2009).

Source: Company data, Nomura estimates

Analysing the returns from each division in the exhibit above, we have identified some areas of opportunity:

Plantations – Look into production growth (via hectarage expansion). This division typically yields high returns when Palm Oil prices are strong. The group should push for aggressive expansion in plantations (currently assuming very small hectarage growth of only ~3% per annum for FY11-12F), in order to grow its production, given its high returns (especially given our expectations of a relatively buoyant CPO price environment), in our view. This should include a strategy for inorganic growth (i.e. acquisitions where valuations permits). We think the land bank in Liberia offers an avenue for growth, but flag risks involved in operating in an unstable socio-political environment. For a planter of Sime Darby's size to expand in scale, but without an aggressive expansion plan, the company could easily be outsized by its peers such as Golden-Agri (GGR SP) in the long run.

Industrials division – a stable business with further opportunities in China. Management believes Xinjiang province in China (where Sime Darby has a distributorship license for Caterpillar products) has 27x the coal reserves of Australia, and could eventually be a very important contributor to the division. Although we think competition will be stiff in China for heavy machinery (having to compete with other global brands as well as fast growing local Chinese industrial equipment companies), a growing pie should benefit all players.

Sime Darby's key focus would be to increase CPO production, capture mining growth in China through its industrial division, and accelerate its property development plans

Property division – focus on unlocking value. The Property division has good assets which the group should speedily capitalise on further, in our view. We think that there is significant opportunity within this division. It is widely acknowledged that Sime Darby has a very good landbank, but we think that the group may not be doing enough to capitalise on this quickly enough (e.g. the Sime Darby Vision Valley with a large gross development value and area for development was mooted for progress as early as two to three years ago, but little progress has been seen so far). Opportunities here include entering into Joint Ventures to expedite the development of its assets (unlikely given that the group doesn't necessarily need the help as it has the talent to execute property developments very well, in our view) or list its property division in order to capture (or crystalise to an extent) the value of its landbank.

Motors division – expanding the network. The motors division has shown very strong performance in the last year, led by strong demand for Autos in the region (especially in China). We think the company is on the right track with its strategy to expand its outlets in China further (management recently shared its plans to expand to 20 outlets from 14 currently) and the company should seize any opportunities to expand its offering in Asia-Pacific (both by brand and geography), in our view.

… as well as expanding its motors distribution network, and divesting its E&U division

Energy & Utilities – to go all out, or to divest – needs serious consideration. Although we are confident in the division's ability to secure further local Oil & Gas EPC contracts (which is the forte for the division) after its recent contract win, we think the division still needs to justify its existence within the group. We think it may be too hasty for the company to consider hiving the asset off even before turning it around, as it does not allow the company to reap the full-value of its assets). In the peak of FY08, the division was able to yield an Operating Profit Return on Assets of 9.1%, which is relatively strong, but the recent significant losses (of up to RM2.1bn in FY10) highlights the risks involved for the business, making it far less attractive compared to other divisions on a risk-reward basis, in our view.

On a Book Value basis alone, the Energy and Utilities division is worth at least RM1.44bn (FY10A) post the write-downs, and within this we estimate Sime Darby's yards to be worth RM500mn at the very least. But with already RM4.8bn (as on 2QFY11) of cash on the balance sheet and relatively low gearing (net debt to equity = 0.14x), the company is not starved of capital. The group could consider acquiring smaller listed plantations if valuations permit. The difficulty here is that the company may not have significant opportunities to invest its capital should it liquidate its investments here – in which case, the group could consider returning the capital (increasing dividend payout) to shareholders.

Pros and cons of spinning-off assets

Investors have been talking about a possible spin-off of divisions within Sime Darby for one to two years. Here, we re-visit the benefits and drawbacks of spinning off different divisions:

Benefits of a spin-off:

- **Improved transparency –** We believe that investors (along with analysts) would value an improvement in transparency and disclosures that would come from having separate businesses. Currently, tracking the operations of the group is difficult (especially for its non-plantations division) given limited operational information such as unit sales at its industrials and motors divisions.
- **Easier oversight** – Oversight would also improve, given that each division would function with its own Board of Directors, Management and Shareholders.
- **Better valuations for a pure play upstream name** – Better valuations for its plantations business. Over the past year, Sime Darby has been trading at a 7% discount to its large-cap Malaysian peers, likely due to its sum-of-the-parts valuation (which includes lower valued divisions such as motors and industrials) as well as a holding company discount, typical of conglomerates.

Drawbacks of a spin-off:

Unable to fully capture benefits of the mega-merger – With the current poor sentiment surrounding the group (post its E&U write-downs), the company may not be able to realise the maximum valuation if it chooses to hive of the non-core divisions in the near term.

Cashflows will be trapped at plantations division – The plantations division is the cash cow of the group, in our view. With the group broken up, the other divisions such as property, industrials and energy and utilities divisions which are more capital intensive may suffer from weaker cashflows, and possibly higher borrowing costs. The standalone plantations entity may however see higher dividend payouts if its cash-pile builds up over time.

Running the numbers – Earnings growth in-line with peers, strong balance sheet and cashflows support dividend yield

Earnings growth of 9-14% in FY12-13F on our stable CPO price assumptions

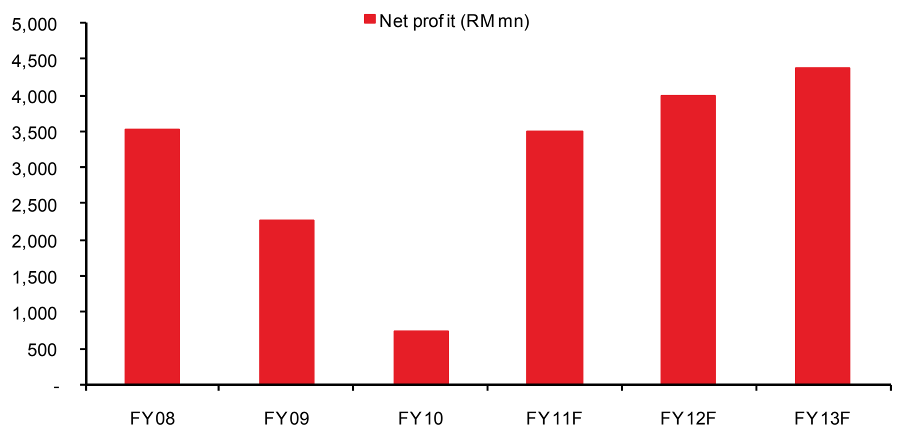
We expect the company to end its FY11F financial year with strong earnings growth. The exceptional losses in FY10F notwithstanding, FY11F will likely be a good year for the company, given the buoyant crude oil prices, strong auto sales, positive outlook for demand for Heavy Machinery as well as strong unbilled sales at its property division which should support earnings. We see the company offering 9-14% EPS growth in FY12-13F, which is fairly unexciting, due to our relatively stable CPO price assumptions for those years. We leave our earnings forecasts unchanged.

Fig. 29: Sime Darby – EBIT contribution breakdown by division

Divisional Operating Profit	FY08	FY09	FY10	FY11F	FY12F	FY13F	Comment
Plantation	3,827.30	1,796	2,098	3,529	4,047	4,380	Strong CPO prices and recovering production to support earnings.
Property	393.90	410	452	480	525	574	Unbilled sales of over RM1bn and good launch pipeline to drive earnings
Heavy equipment	684.60	850	748	825	912	985	Sales growth driven by Australia and China, with stable margins
Automotive	156.40	178	375	359	426	506	Strong sales growth from China BMW franchise
Energy & Utilities	224.60	23	(1,300)	124	130	137	Currently assuming no contribution fro Oil & Gas, stable earnings from utitlities
Others (Includes Corporate Exp)	(183.00)	(106)	(96)	(165)	(188)	(205)	Corporate expenses pegged to Operating Profit growth rate
Operating profit	**5,103.80**	**3,151.00**	**2,275.80**	**5,152.46**	**5,852.21**	**6,376.82**	
Interest expense	(267.40)	(252.60)	(278.40)	(313.62)	(324.05)	(334.90)	
Interest income	260.00	158.70	108.30	119.13	131.04	144.15	
Associates & JCEs	110.00	14.50	(364.20)	105.82	112.77	120.94	
PBT	**5,206.40**	**3,071.60**	**1,741.50**	**5,063.79**	**5,771.98**	**6,307.00**	
Taxation	(1,453.90)	(730.80)	(886.70)	(1,265.95)	(1,442.99)	(1,576.75)	
MI	(240.40)	(60.70)	(128.00)	(289.79)	(329.15)	(358.66)	
Net profit	**3,512.10**	**2,280.10**	**726.80**	**3,508.04**	**3,999.83**	**4,371.60**	

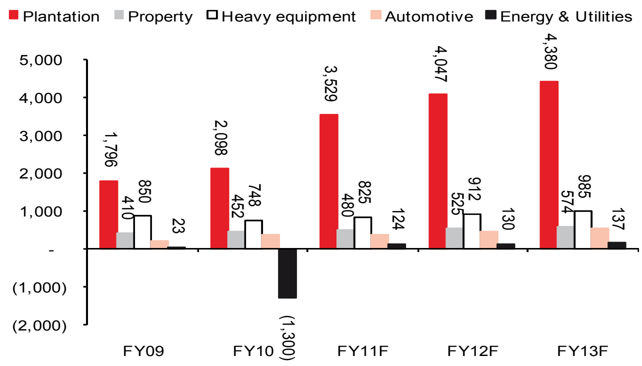
Source: Nomura research

Fig. 30: Net profit forecasts



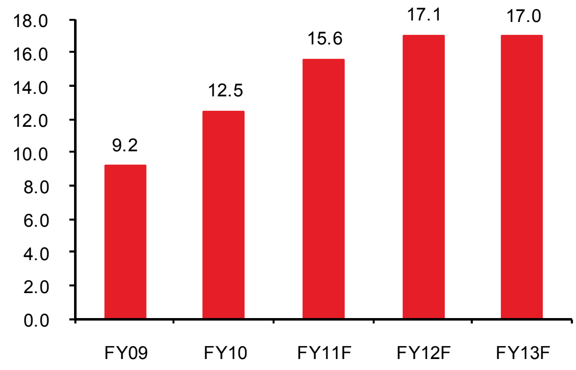
Source: Company data, Nomura estimates

Fig. 31: Sime Darby – Operating profit forecasts
Plantation division to drive earnings growth



Source: Company data, Nomura estimates

Fig. 32: Sime Darby – Net gearing
We think the group has room to increase gearing



Source: Company data, Nomura estimates

Balance sheet & cashflow – strong cashflow supports a strong balance sheet

The company has a relatively under-geared balance sheet, supported by a strong operating cashflow

The group's balance sheet remains relatively under-geared, which we think presents opportunities to improve capital efficiency. In the past, the group has seen net gearing of only 9-13% in FY09-10A. Management in the past has shared its intentions to increase net gearing to ~20% levels, which we think is a comfortable level for the group. The group currently has RM4.8bn in cash as at 1HFY11, which coupled with an increase in gearing, could see a relatively large war-chest should the company decide to expand inorganically (or organically in any case).

The group has had very strong cashflows, given that most of its key businesses including plantations, motors and utilities have very strong cashflow generation. This, in our opinion, supports its strong dividend policy (yielding 3-4% dividend yield for FY11-13F), with a payout assumption of 50-55% going forward. This we think is to an extent a function of its shareholding structure, where its main shareholder is Malaysia's largest Unit Trust Fund (Permodalan Nasional Berhad), which is reliant on dividend returns from its investments.

Valuations

We think valuations remain attractive …

Sime looks attractive on a P/E, EV/ha and on a P/B basis

Sime Darby is trading at 14.5x calendarised 2011F earnings estimates, below -1SD of the historical forward multiple of 14.9x, and the current Malaysian market 2011F P/E of 15x. Moreover, CPO prices have averaged RM3574/mT in 2011, which in spite of the recent correction, are still up 30% y-y. This, even after the observation that historically P/E valuations of upstream planters move in-line with CPO prices. We think that as the market appreciates the earnings growth by Sime Darby supported by higher CPO prices, and as concerns over the E&U division recede amidst no further write-downs, the gap between Sime's valuation and the market will recede.

…while EV/Mature Hectares valuations lag CPO prices

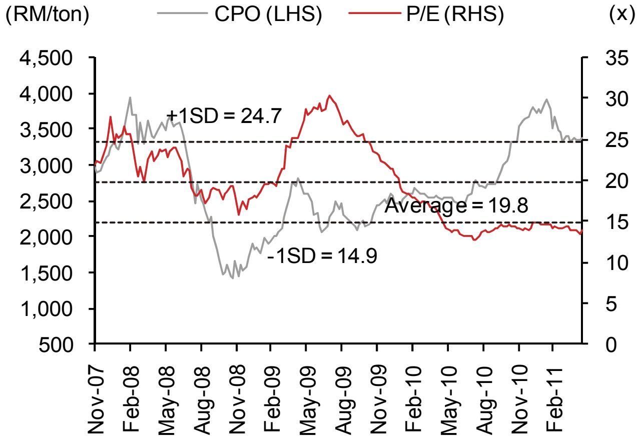
Even Sime's EV/ha at 25x (USD '000/ha) has lagged the historical (since listing) high of 35x attained during early 2008, having missed the CPO price rally altogether. Also according to our estimates, Sime could add close to 16,500 hectares of mature plantation every year from FY12-FY18. In such a scenario of strong additions of mature hectare plantation and increasing biological asset values of Palm plantations, Sime's EV/ha valuations can expand considerably, in our view.

EPS growth at 9-14% (FY12-13F) while ROEs improve

We forecast Sime's FY10-12F EPS to grow at a CAGR of 40%, albeit on a lower 2010 base due to the write-downs, which is much higher than its peers such as IOI, KLK and Genting Plantations, mainly due to our relatively flat CPO price assumption, in spite of the much larger base. On a P/B basis, the group is trading at 2.3x P/B FY11/12, which is at its mean since listing, and also compelling, in our view.

Fig. 33: Sime Darby – P/E vs CPO

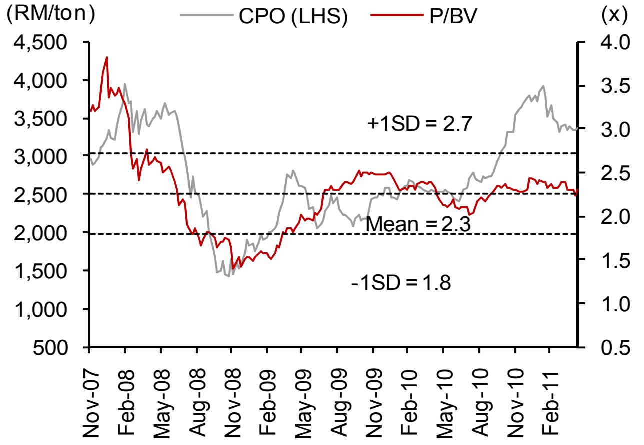
P/E lagging CPO



Source: Bloomberg, Nomura estimates

Fig. 34: Sime Darby – P/BV vs CPO

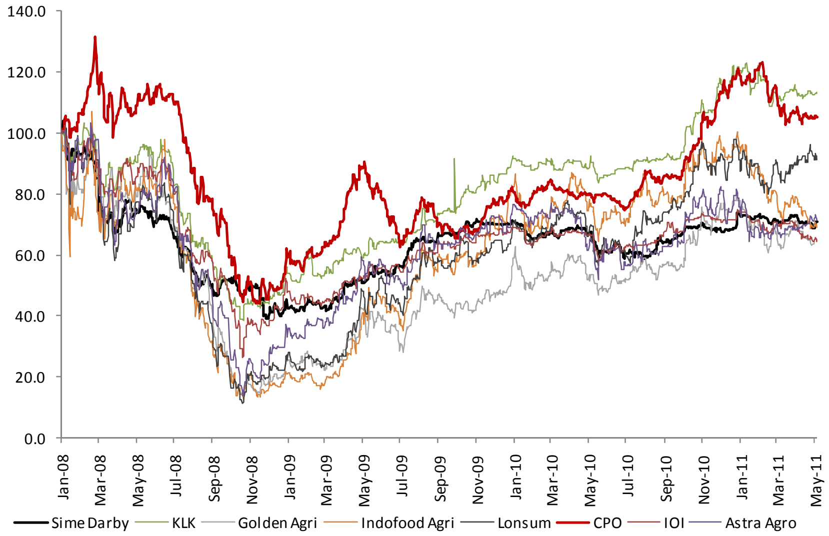
P/B lagging CPO



Source: Bloomberg, Nomura estimates

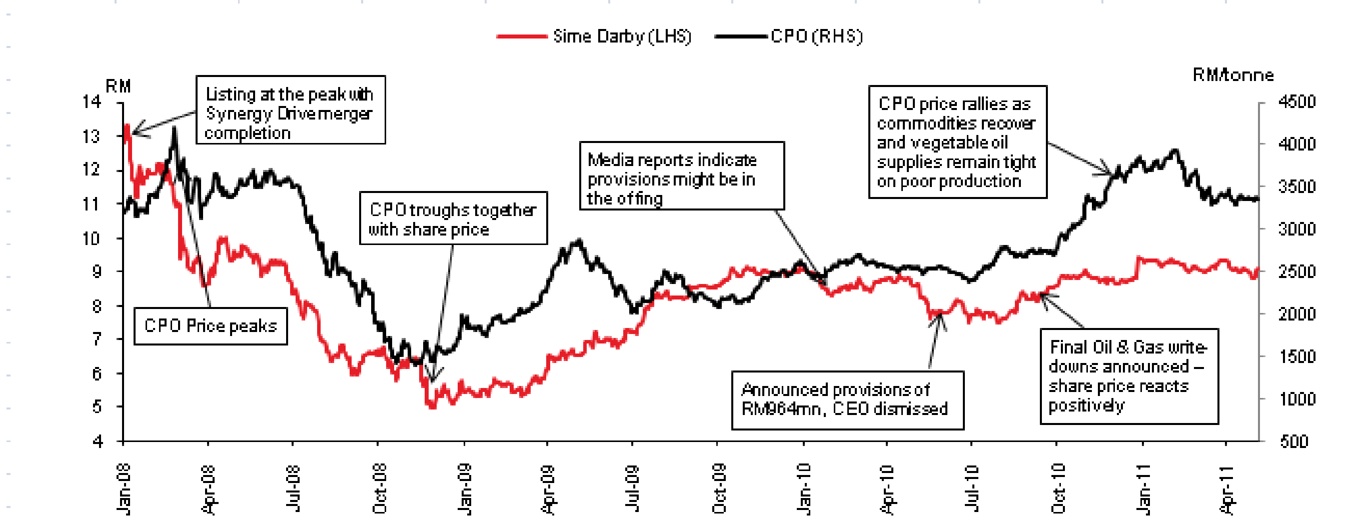
Fig. 35: Sime Darby – Price performance vs regional peers (Indexed)

Sime has underperformed most of its peers



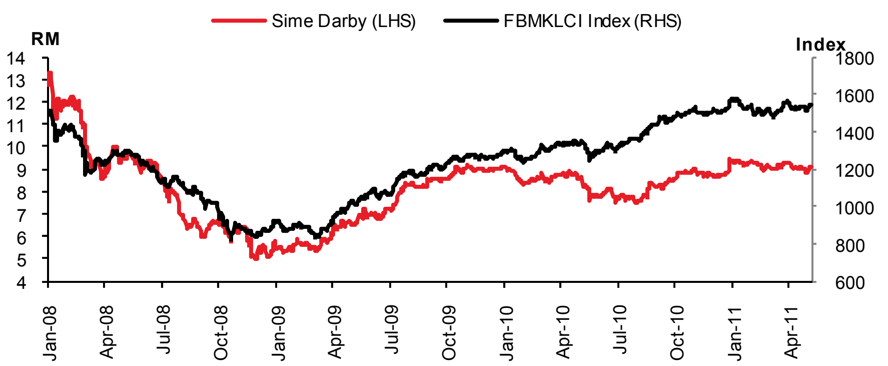
Source: Bloomberg, Nomura estimates

Fig. 36: Sime Darby – Share price performance vs CPO Price



Source: Bloomberg, Nomura estimates

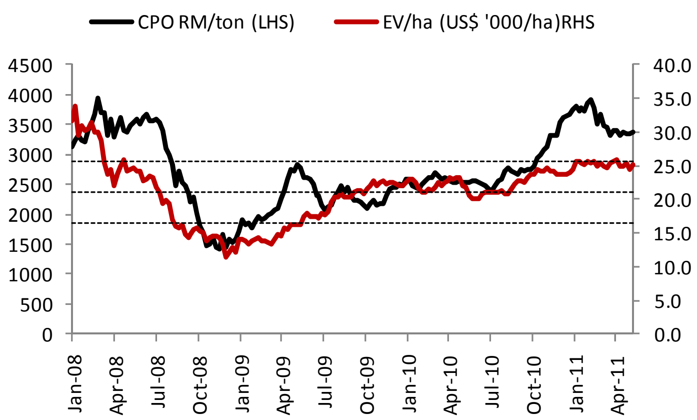
Fig. 37: Sime Darby vs KLCI index



Source: Bloomberg

Fig. 38: Sime Darby – EV/mature ha vs CPO price

Valuations lagging CPO price momentum



Note: Adjusted for non-plantations assets/earnings contribution
Source: Bloomberg, Nomura estimates.

Fig. 39: Valuation Summary

Name	Country	Nomura rating	Market cap (US$mn)	Closing price	P/E CY10F	P/E CY11F	P/E CY12F	P/B CY10F	P/B CY11F	P/B CY12F	EV/EBITDA CY10F	EV/EBITDA CY11F	EV/EBITDA CY12F	PEG (CY11 P/E vs CY10-12F CAGR)	Div yld (%) CY10F	Div yld (%) CY11F	Div yld (%) CY12F
UPSTREAM																	
Palm Oil																	
Sime Darby (SIME MK)	Malaysia	BUY	17,997	9.08	25.8	14.5	13.0	2.6	2.4	2.2	13.3	8.4	7.6	0.4	1.9	3.6	4.2
IOI (IOI MK)	Malaysia	BUY	11,042	5.22	17.6	14.4	12.8	3.0	2.7	2.5	11.2	9.9	8.8	0.8	2.3	2.6	3.1
KLK (KLK MK)	Malaysia	BUY	7,401	21.02	20.4	15.6	13.2	3.7	3.3	3.0	12.7	9.9	8.5	0.6	3.0	3.8	4.6
Genting Plantations (GENP MK)	Malaysia	BUY	2,015	8.05	18.8	13.8	12.3	2.1	1.8	1.6	12.3	9.3	8.1	0.6	1.1	1.7	1.9
Boustead Holdings (BOUS MK)	Malaysia	N.R.	1,774	5.72	14.0	9.4	8.6	1.3	1.6	1.7	12.6	8.9	7.8	0.3	5.5	7.6	7.8
Hap Seng Plantations (HAPL MK)	Malaysia	N.R.	699	2.65	12.8	9.1	9.2	1.2	1.1	1.0	8.6	6.2	6.3	0.5	5.3	6.5	6.3
Kulim (KUL MK)	Malaysia	N.R.	1,357	3.26	17.3	12.2	11.9	1.1	1.0	1.0	6.7	5.1	4.9	0.6	1.3	1.7	1.8
IJM Plantations (IJMP MK)	Malaysia	N.R.	735	2.78	16.5	13.6	13.4	1.7	1.6	1.5	10.3	8.5	8.4	1.2	2.9	3.4	3.8
Malaysia palm oil average					**17.9**	**12.8**	**11.8**	**2.1**	**2.0**	**1.8**	**11.0**	**8.3**	**7.6**	**0.6**	**2.9**	**3.9**	**4.2**
Golden Agri (GGR SP)	Singapore	BUY	6,524	0.67	16.9	10.9	9.4	1.0	0.9	0.8	11.6	7.4	6.2	0.3	1.2	1.8	2.1
Indofood Agri (IFAR SP)	Singapore	BUY	2,381	2.05	16.7	9.6	9.0	1.8	1.5	1.2	8.1	5.2	4.4	0.3	0.0	0.0	0.0
First Resources (FR SP)	Singapore	N.R.	1,673	1.42	14.8	11.3	11.0	2.5	2.0	1.7	na	na	na	0.7	1.3	2.2	2.4
Kencana Agri (KAGR SP)	Indonesia	N.R.	373	0.41	46.4	16.2	11.2	1.6	1.7	1.5	22.8	10.4	7.5	0.2	0.6	1.8	2.8
Singapore palm oil average					**23.7**	**12.0**	**10.1**	**1.7**	**1.5**	**1.3**	**14.2**	**7.6**	**6.1**	**0.4**	**0.8**	**1.5**	**1.8**
Astra Agro (AALI IJ)	Indonesia	BUY	4,352	23,650	20.8	13.3	11.7	5.4	4.7	4.1	12.9	8.7	7.5	0.4	2.9	4.9	5.5
London Sumatra (LSIP IJ)	Indonesia	BUY	1,933	2,425	16.0	12.1	11.3	3.6	3.1	2.7	9.6	7.9	7.3	0.6	2.5	3.7	4.4
Sampoerna Agro (SGRO IJ)	Indonesia	N.R.	751	3,400	16.9	11.8	11.3	3.1	2.5	2.2	9.8	6.9	6.8	0.5	1.5	2.3	2.6
Bakrie Sumatera (UNSP IJ)	Indonesia	N.R.	737	465	21.5	12.7	11.2	0.8	0.7	0.7	13.8	9.5	8.8	0.3	0.8	0.8	1.5
Indonesia palm oil average					**18.8**	**12.5**	**11.4**	**3.2**	**2.8**	**2.4**	**11.5**	**8.3**	**7.6**	**0.5**	**1.9**	**2.9**	**3.5**
Univanich Palm Oil (UVAN TB)	Thailand	BUY	244	78.50	12.2	8.3	7.3	3.3	2.8	2.4	na	na	na	0.3	6.0	8.8	10.0
Palm Oil Average					**19.1**	**12.3**	**11.0**	**2.3**	**2.1**	**1.9**	**11.8**	**8.1**	**7.3**	**0.5**	**2.4**	**3.4**	**3.8**

Pricing as of 13 May 2011UVAN TB is covered by Capital Nomura Securities.
Source: Bloomberg for non rated companies, Nomura estimates for companies under coverage; UVAN TB estimates provided by Capital Nomura Securities

Fig. 40: Estimate Summary

Name	Country	Nomura rating	Market cap (US$mn)	Closing price	Revenue growth (%) CY10F	Revenue growth (%) CY11F	Revenue growth (%) CY12F	EPS growth (%) CY10F	EPS growth (%) CY11F	EPS growth (%) CY12F	EPS CAGR (CY10-12F)	RoE (%) CY10F	RoE (%) CY11F	RoE (%) CY12F	Net margin (%) CY10F	Net margin (%) CY11F	Net margin (%) CY12F	Net debt to equity (%) CY10F	Net debt to equity (%) CY11F	Net debt to equity (%) CY12F
UPSTREAM																				
Palm Oil																				
Sime Darby (SIME MK)	Malaysia	BUY	17,997	9.08	10.0	12.7	11.9	40.8	77.3	11.5	40.6	14.9	16.9	17.4	8.9	9.5	9.4	14.1	16.3	17.0
IOI (IOI MK)	Malaysia	BUY	11,042	5.22	(3.7)	6.3	2.7	21.3	22.4	12.5	17.3	20.2	19.6	20.1	16.1	16.7	18.4	7.2	5.0	2.2
KLK (KLK MK)	Malaysia	BUY	7,401	21.02	11.5	10.3	11.5	54.2	30.7	18.7	24.5	18.5	22.3	24.2	14.3	17.0	18.1	6.9	5.7	3.4
Genting Plantations (GENP MK)	Malaysia	BUY	2,015	8.05	30.8	8.2	11.9	37.4	36.3	12.7	23.9	12.0	14.3	14.0	32.8	41.3	41.6	net cash	net cash	net cash
Boustead Holdings (BOUS MK)	Malaysia	N.R.	1,774	5.72	(5.2)	30.5	12.4	(29.0)	49.5	9.5	28.0	9.9	13.0	13.5	6.6	7.7	7.3	53.3	57.8	57.6
Hap Seng Plantations (HAPL MK)	Malaysia	N.R.	699	2.65	(4.6)	24.3	(0.9)	(2.1)	40.1	(1.0)	17.7	9.5	13.2	11.9	36.1	41.1	41.0	n.cash	n.cash	n.cash
Kulim (KUL MK)	Malaysia	N.R.	1,357	3.26	3.7	(1.9)	6.9	(39.1)	42.6	2.6	20.9	7.6	8.2	7.7	5.5	6.6	5.9	13.2	6.4	n.cash
IJM Plantations (IJMP MK)	Malaysia	N.R.	735	2.78	21.6	15.1	4.9	47.1	21.1	1.8	11.0	9.7	10.7	10.5	25.8	27.2	26.4	na	na	na
Malaysia palm oil average					**8.0**	**13.2**	**7.7**	**16.3**	**40.0**	**8.5**	**23.0**	**12.8**	**14.8**	**14.9**	**18.3**	**20.9**	**21.0**	**18.9**	**18.3**	**20.1**
Golden Agri (GGR SP)	Singapore	BUY	6,524	0.67	52.8	15.8	10.9	82.0	55.0	15.8	33.9	6.3	8.4	8.9	11.0	14.8	15.4	11.2	8.4	4.7
Indofood Agri (IFAR SP)	Singapore	BUY	2,381	2.05	48.1	18.2	10.0	(1.1)	74.3	7.2	36.7	11.6	16.6	14.8	9.0	13.3	13.0	42.3	25.4	11.4
First Resources (FR SP)	Singapore	N.R.	1,673	1.42	(2.6)	40.8	6.5	(21.7)	31.2	3.0	16.2	16.9	21.9	18.4	34.3	32.0	31.1	9.5	10.9	1.0
Kencana Agri (KAGR SP)	Indonesia	N.R.	373	0.41	(11.0)	31.5	20.8	(68.2)	185.7	45.0	103.5	5.0	11.0	14.6	5.4	12.5	15.8	23.6	59.5	72.3
Singapore palm oil average					**21.8**	**26.6**	**12.0**	**(2.3)**	**86.5**	**17.7**	**47.6**	**9.9**	**14.5**	**14.2**	**14.9**	**18.2**	**18.8**	**21.7**	**26.1**	**22.4**
Astra Agro (AALI IJ)	Indonesia	BUY	4,352	23,650	6.0	20.3	8.2	8.0	55.9	13.4	33.0	27.2	37.6	na	22.8	29.5	30.9	net cash	net cash	net cash
London Sumatra (LSIP IJ)	Indonesia	BUY	1,933	2,425	12.3	20.1	6.3	46.1	32.1	6.9	18.8	24.7	27.7	25.7	28.8	31.6	31.8	net cash	net cash	net cash
Sampoerna Agro (SGRO IJ)	Indonesia	N.R.	751	3,400	(8.5)	30.5	7.6	(15.7)	43.5	4.2	22.3	19.6	21.6	19.8	18.5	19.0	18.9	n.cash	7.2	12.5
Bakrie Sumatera (UNSP IJ)	Indonesia	N.R.	737	465	3.9	37.8	12.6	(67.9)	68.9	13.9	38.7	5.8	5.8	6.9	10.8	11.6	11.1	15.8	10.0	1.7
Indonesia palm oil average					**3.4**	**27.2**	**8.7**	**(7.4)**	**50.1**	**9.6**	**28.2**	**19.3**	**23.2**	**17.5**	**20.2**	**22.9**	**23.2**	**15.8**	**8.6**	**7.1**
Univanich Palm Oil (UVAN TB)	Thailand	BUY	244	78.50	9.1	26.0	15.9	4.4	46.7	13.3	28.9	28.6	36.5	35.5	14.0	16.3	15.9	n.cash	n.cash	n.cash
Palm Oil Average					**10.3**	**20.4**	**9.4**	**5.7**	**53.7**	**11.2**	**30.4**	**14.6**	**18.0**	**16.5**	**17.7**	**20.5**	**20.7**	**19.7**	**19.3**	**18.4**

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Source: Bloomberg for non rated companies, Nomura estimates for companies under coverage; UVAN TB estimates provided by Capital Nomura Securities

Fig. 41: Performance Summary

Name	Country	Nomura rating	Market cap (US$mn)	Closing price	3m ADTV (US$mn)	EV/mature hectare (US$000)	Abs Performance (%) 1M	3M	6M	12M	YTD
UPSTREAM											
Palm Oil											
Sime Darby (SIME MK)	Malaysia	BUY	17,997	9.08	25.1	25.2	0.4	(2.2)	3.2	10.1	3.2
IOI (IOI MK)	Malaysia	BUY	11,042	5.22	13.5	59.6	(3.5)	(6.5)	(11.5)	(3.2)	(10.2)
KLK (KLK MK)	Malaysia	BUY	7,401	21.02	10.0	55.2	0.9	(3.9)	5.9	25.3	(4.9)
Genting Plantations (GENP MK)	Malaysia	BUY	2,015	8.05	1.4	34.7	0.9	(0.6)	(5.8)	20.3	(8.5)
Boustead Holdings (BOUS MK)	Malaysia	N.R.	1,774	5.72	1.3	42.2	(1.9)	(0.5)	4.0	60.7	6.3
Hap Seng Plantations (HAPL MK)	Malaysia	N.R.	699	2.65	0.2	21.5	(6.0)	(16.9)	(13.4)	10.4	(20.9)
Kulim (KUL MK)	Malaysia	N.R.	1,357	3.26	3.5	39.0	(2.1)	(4.8)	(6.1)	76.2	2.4
IJM Plantations (IJMP MK)	Malaysia	N.R.	735	2.78	0.4	28.7	(3.1)	(6.7)	(4.1)	11.2	(6.7)
Malaysia palm oil average						38.5	(1.8)	(5.3)	(3.5)	26.4	(4.9)
Golden Agri (GGR SP)	Singapore	BUY	6,524	0.67	46.3	27.2	(3.6)	(5.0)	(8.2)	21.8	(16.3)
Indofood Agri (IFAR SP)	Singapore	BUY	2,381	2.05	15.2	26.2	(7.7)	(19.6)	(22.9)	(7.7)	(26.8)
First Resources (FR SP)	Singapore	N.R.	1,673	1.42	3.4	24.4	3.6	(0.7)	1.4	32.7	(9.0)
Kencana Agri (KAGR SP)	Indonesia	N.R.	373	0.41	0.2	38.8	0.0	(6.9)	(4.7)	28.6	(11.0)
Singapore palm oil average						29.2	(1.9)	(8.0)	(8.6)	18.9	(15.7)
Astra Agro (AALI IJ)	Indonesia	BUY	4,352	23,650	3.3	29.7	3.7	2.8	(5.4)	12.1	(9.7)
London Sumatra (LSIP IJ)	Indonesia	BUY	1,933	2,425	5.4	30.6	1.0	9.2	3.6	32.5	(5.6)
Sampoerna Agro (SGRO IJ)	Indonesia	N.R.	751	3,400	2.5	23.1	1.5	21.4	9.7	44.7	7.1
Bakrie Sumatera (UNSP IJ)	Indonesia	N.R.	737	465	2.7	34.4	29.2	40.9	29.2	(3.1)	19.2
Indonesia palm oil average						29.4	8.9	18.6	9.3	21.5	2.7
Univanich Palm Oil (UVAN TB)	Thailand	BUY	244	78.50	0.0	39.2	(1.3)	(6.5)	(4.8)	(0.6)	(12.8)
Palm Oil Average						34.1	0.7	(0.4)	(1.8)	21.9	(6.1)

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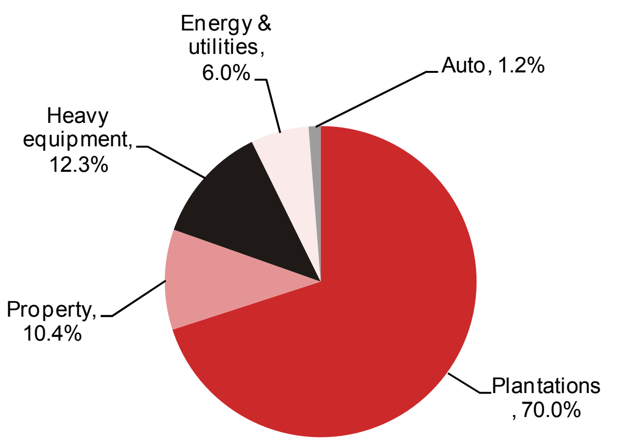
Source: Bloomberg for non rated companies, Nomura research; Capital Nomura Securities

Valuation methodology and investment risks

Valuing Sime Darby on a sum-of-the-parts basis

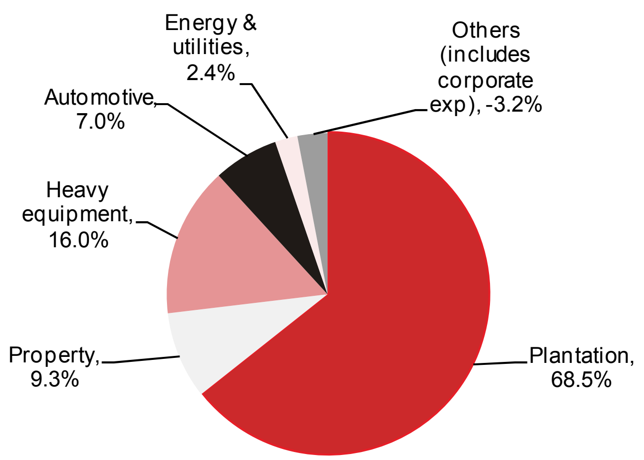
We value the company on a sum-of-the parts basis to arrive at our price target of RM12.15/share, though we highlight that there is potential upside to our RNAV valuation for the property division if the group is able to execute development more quickly than expected.

Fig. 42: Sime Darby – Sum-of-the-parts valuation breakdown by division (FY11F)



Source: Nomura estimates

Fig. 43: Sime Darby – Operating profit contribution by division (FY11F)



Source: Nomura estimates

Fig. 44: Sime Darby – Sum-of-the-parts valuations (rolling P/E)

	Operating PAT	PER (x)	RMm
Plantations - Malaysia	**2928.1**	18	52,706.2
Property	7,853.6		7,853.6
Heavy equipment	662.4	14	9,273.1
Automotive	302.8	15	4,542.6
Energy & Utilities	92.9	10.0	929.3
Others	34.0	8	272.0
Total SOP			**75,576.7**
Net cash			(2,556.3)
SOP/share (RM)			**12.15**
Shares (m) (fully-diluted FY10)			6,009

Source: Nomura estimates

Risks to our investment view

On the downside, the key risks include, lower-than-expected crude palm oil prices impacting its plantations division, lower-than-expected production recovery or poor weather impacting yields, the possibility that its current outstanding projects at its oil & gas business incur losses, slower-than-expected demand for its property launches, a global economic slowdown, which could impact demand for autos in Asia Pacific, a sharp drop in commodity prices and construction spending which could reduce demand for its heavy equipment.

Appendix

Plantations – largest palm oil planter in the world

Sime Darby is the largest-listed Palm Oil planter in the world. Its plantations saw their biggest boost in size with the amalgamation of a number of large palm oil companies, including Guthrie and Golden Hope in 2007.

Respected planter with long heritage. Sime Darby has a long heritage in plantations, having started 100 years ago in the rubber industry. Sime Darby is often viewed as the industry leader globally for Palm Oil plantings. We believe it has been at the forefront of sustainable palm oil practices, and was the first large-scale palm oil planter to look at Africa as its next expansion ground.

Sime Darby leads the pack in sustainability of plantations

Sime Darby is the world's largest producer of certified sustainable CPO

Sime Darby is the largest producer of Certified Sustainable Palm Oil (CSPO) which we think demonstrates Sime Darby's ability to lead the industry in creating more sustainable Palm Oil. We understand from management that the group is still on track to meeting its targets to get all Palm Oil production RSPO (Roundtable on Sustainable Palm Oil) certified by December 2011. We understamd that currently CSPO trades at only a US$8-US$10/tonne premium to normal uncertified oil, but we think this premium will increase over time, especially given that many end-users, such as Marks & Spencer, Unilever and Waitrose all have targets (earliest by 2015) to use only CSPO in their products

Fig. 45: RSPO certifications as at 20 April 2011

Company	Country	Mills	CSPO (mT)	PK (mT)
Sime Darby	Malaysia	22	740,703	186,872
Sime Darby	Indonesia	3	129,756	28,712
IOI Group	Malaysia	7	400,969	95,546
New Britain Palm Oil Ltd	PNG	6	339,235	74,909
Wilmar International - PPB Oil Palms Berhad	Malaysia	7	283,458	62,711
SIPEF: HOPL, PT Agromuko	PNG, Indonesia	6	252,168	38,447
Kuala Lumpur Kepong Berhad: KDC	Malaysia	5	211,978	53,030
United Plantations Bhd	Malaysia	6	189,980	50,922
Cargill: PT Hindoli ,PT Hindoli SS	Indonesia	4	186,892	42,097
PT PP London Sumatra Indonesia Tbk	Indonesia	4	169,480	30,017
PT Musim Mas	Indonesia	2	152,298	36416
PT Perkebunan Nusantara III, IV	Indonesia	4	118,228	26,905
Wilmar International	Indonesia	2	108,904	22,902
Kulim (Malaysia) Berhad	Malaysia	3	105,536	31,397
Felda	Malaysia	2	102,884	24,391
PT Sukajadi Sawit Mekar	Indonesia	1	99,109	22,440
Johor Corporation	Malaysia	3	92,191	27,689
PT Inti Indosawit Subur, Ukui I & II	Indonesia	4	91,166	21,014
PT Sahabat Mewah & Makmur	Indonesia	1	65,518	13,977
PT First Mujur Plantation & Industry	Indonesia	1	63,000	15,000
PT Berkat Sawit Sejati	Indonesia	1	54,166	12,584
PT Agrowiratama	Indonesia	1	46,635	11,635
PT Bakrie Sumatera Tbk	Indonesia	1	36,438	7,436
Keresa Plantations	Malaysia	1	33,874	5,758
JC Chang Group - Carotino Sdn Bhd	Malaysia	1	30,300	7,700
Daabon - CI Tequendama	Colombia	1	27,000	2,000
Total		**99**	**4,131,866**	**952,507**

Source: Roundtable on Sustainable Palm Oil. Note: PNG = Papua New Guinea; CSPO = Certified Sustainable Palm Oil; PK – Palm Kernel

Liberian Plantings – a long-term growth story

Sime Darby in 2009 received a concession for the development of palm oil plantations in Liberia, over an area spanning 220,000Ha, likely over a period of 20 years. We understand that the group is in the midst of carrying out its pilot project for the estates. Management is optimistic in carrying out its expansion in Liberia, even amidst the country risk associated with Liberia (including political and social risks). We think the venture overall should provide a platform for sustainable growth of the group's upstream business, but we think the group should take extra precautions in its expansion here given the risks involved.

Liberia may offer slightly lower yields due to lower rainfall (versus Malaysia and Indonesia), but its closer proximity to the key markets of Europe, together with abundant land and ample work force make it an attractive destination for expansion of Oil Palm hectarage, in our view. Golden Agri in September 2010 announced that it had also obtained a concession of 220,000Ha, with US$1.6bn worth of investments over a 20-year period.

Downstream division – volatile margins

Global presence – edible oils the key earnings driver. The group's mid-stream and downstream business is mainly involved in mid-stream refining (Malaysia and Europe), Oleochemicals (U.S., Europe and Malaysia) and Biofuels (Europe). Most of the division's earnings are made in the edible oils space (refining and branded cooking oil sales), although the group made consistent losses at its biofuels division (~RM30mn loss in FY09 and FY10).

But volatile margins make it a relatively difficult business. The group's downstream division during stable times sees EBIT margins at 1-4% levels (but has only averaged less than 1% in the past three years), although in the past has sunk into the red during times of extremely volatile CPO price movements. The division is small, accounting for 4-6% of EBIT for the plantations division. Growth in earnings has been inconsistent in the past, mainly due to erratic margins for the division.

Looking to expand capacity. However, the group is looking to expand its downstream division for the main reason of protecting upstream profit leakages, controlling oil movement and quality, and safeguarding its market position as a leading player in Certified Sustainable Palm Oil. The goal to protect its upstream margins is one of the most often cited reasons for upstream palm oil companies to continue expanding vertically. On this basis, we expect Sime Darby to grow its refining capacity by up to 67% by 2QFY13 (an additional 1.5mn mT of capacity in Malaysia (660k mT) and Indonesia (825mT) and it is also looking to expand further in France (currently conducting due diligence and feasibility studies, as per the company). On this, however, we are not banking on the group's downstream division to drive earnings, so long as margins within this business remain erratic.

We expect Sime Darby to grow its refining capacity by up to 67% by 2QFY13 (an additional 1.5mn mT of capacity in Malaysia (660k mT) and Indonesia (825mT) and it is also looking to expand further in France

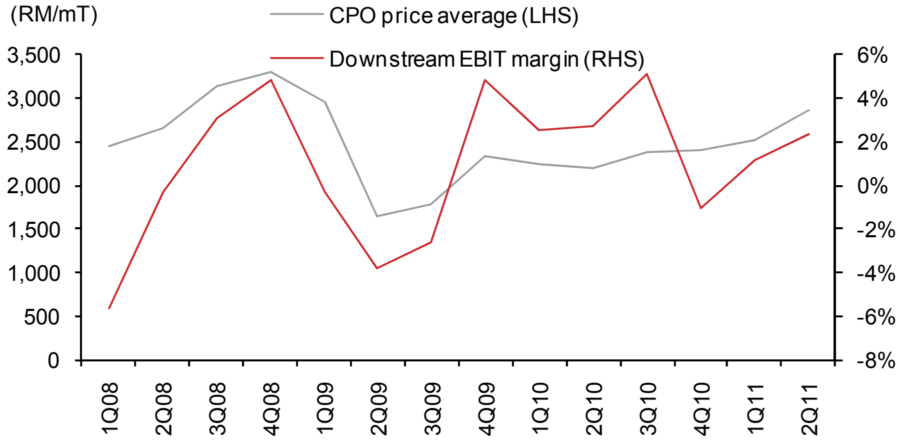
Fig. 46: Downstream capacity (operating unit)

	Refineries	
The Netherlands	Sime Darby Unimills B.V.	450,000
Malaysia	Sime Darby Jomalina	429,000
Thailand	Morakot Industries	396,000
Malaysia	Sime Darby Austral	330,000
Malaysia	Sime Darby Kempas	248,000
South Africa	Sime Darby Hudson & Knight	148,000
Vietnam	Golden Hope Nhabe	99,000
Singapore	Sime Darby Edible Products	48,000
China	Guangzhou KeyLink	45,000
Total Refining capacity		2,193,000
	Biodiesel	
The Netherlands	CleanerG B.V.	200,000
Malaysia	Sime Darby Biodiesel	90,000
Indonesia	Sime Darby Bioganic	10,000
Total Biodiesel capacity		300,000
	Oleochemicals	
Germany	Emery Oleochemicals Gmbh	375,000
Malaysia	Emery Oleochemicals	300,000
United States of America	Emery Oleochemicals	292,000
Canada	Emery Oleochemicals	29,000
Total Oleochemical capcity		996,000

Source: Company data

Fig. 47: Downstream EBIT Margins

Relatively unstable given volatile CPO prices



Source: Nomura research, Company data

Fig. 48: Key plantations statistics and forecasts

		FY09	FY10	FY11F	FY12F
SIME	FFB yield (mT/ha)	22.9	22.3	22.7	23.4
(Malaysia)	Mature (ha)	297,471	300,471	310,415	320,174
	% growth	*(0.6)*	*1.0*	*3.3*	*3.1*
	CPO production (MT)	1,531,216	1,473,000	1,500,886	1,595,813
	% growth		*(3.8)*	*1.9*	*6.3*
	OER (%)	21.1	21.3	21.3	21.3
SIME	FFB yield (mT/ha)	16.6	18.0	18.5	19.3
(Indonesia)	Mature (ha)	178,840	184,840	190,840	196,840
	% growth	*0.7*	*3.4*	*3.2*	*3.1*
	CPO production (MT)	782,219	871,000	869,925	936,077
	% growth		*11.3*	*(0.1)*	*7.6*
	OER (%)	22.4	23.0	22.4	22.4
GENP	FFB yield (mT/ha)	21.0	21.2	20.5	21.0
	Mature (ha)	55,608	57,137	59,575	65,111
	% growth	*1.8*	*2.7*	*4.3*	*9.3*
	CPO production (MT)	243,788	255,750	256,008	280,171
	% growth		*4.9*	*0.1*	*9.4*
	OER (%)	20.9	21.4	21.4	21.4
AALI	FFB yield (mT/ha)	22.3	20.3	21.3	21.5
	Mature (ha)	139,875	148,273	171,903	188,761
	% growth	*3.8*	*6.0*	*15.9*	*9.8*
	CPO production (MT)	1,082,953	1,113,277	1,162,666	1,271,121
	% growth		*2.8*	*4.4*	*9.3*
	OER (%)	23.1	22.9	22.8	22.8
GAR	FFB yield (mT/ha)	22.6	20.3	21.5	21.5
	Mature (ha)	252,586	281,431	303,816	331,423
	% growth	*10.7*	*11.4*	*8.0*	*9.1*
	CPO production (MT)	1,913,654	1,849,879	1,981,143	2,121,757
	% growth		*(3.3)*	*7.1*	*7.1*
	OER (%)	23.2	22.6	23.0	23.0
Indofood	FFB yield (mT/ha)	19.7	16.5	17.3	18.4
	Mature (ha)	132,560	155,400	160,521	172,544
	% growth	*6.8*	*17.2*	*3.3*	*7.5*
	CPO production (MT)	763,000	740,000	790,825	880,329
	% growth		*(3.0)*	*6.9*	*11.3*
	OER (%)	22	22.3	22.5	22.5
IOI	FFB yield (mT/ha)	26	24.4	24.4	25
	Mature (ha)	139,597	138,675	142,675	147,675
	% growth	*0.4*	*(0.7)*	*2.9*	*3.5*
	CPO production (MT)	777,310	732,275	744,296	793,599
	% growth		*(5.8)*	*1.6*	*6.6*
	OER (%)	21.4	21.5	21.4	21.4
KLK	FFB yield (mT/ha)	22.9	22.4	22.5	22.7
	Mature (ha)	137,327	144,977	154,977	164,977
	% growth	*20.8*	*5.6*	*6.9*	*6.5*
	CPO production (MT)	765,248	785,784	849,195	901,758
	% growth		*2.7*	*8.1*	*6.2*
	OER (%)	20.8	20.5	20.5	20.5
Lonsum	FFB yield (mT/ha)	19.0	17.1	17.6	18.4
	Mature (ha)	61,839	68,583	71,951	75,320
	% growth	8.0	10.9	4.9	4.7
	CPO production (MT)	377,505	365,669	388,111	416,404
	% growth		(3.1)	6.1	7.3
	OER (%)	23.6	23.1	23.4	23.4

Source: Company data, Nomura estimates. Note: Nucleus only

Motors – China and SE Asia key drivers

A high-end Asian auto player ... We can break Sime Darby's motors business into geographical locations spread across Asia Pacific. The division mainly operates in Malaysia, China, Hong Kong/Macau, Australia/NZ and South East Asia (Singapore and Thailand). Sime Darby is involved in the distribution, importation, assembly and retail of vehicles. Most of the group's earnings are made as a distributor and dealer for various brands (including after-sales service).

… with an impressive line-up of high-end brands in its stable. Sime Darby has in its stable a host of car brands that it distributes (some with sole exclusive rights). The brands include its luxury mainstay BMW (in Malaysia, China, Hong Kong and Singapore), Ford, Hyundai and Land Rover amongst others. The group also has local assembly operations for brands such as BMW, Hyundai, Suzuki and Mazda in Malaysia.

Adds value by developing long-term relationship with consumers and principals. Sime Darby has a long history within motors in Asia Pacific and continues to be an important player in the high-end segment. Although there have historically been concerns as to whether Sime Darby could lose its dealership/distributor rights, Sime Darby has proven that it is still able to maintain and grow its network.

China the key growth driver – one of the largest BMW dealers in China. Sime Darby has 14 dealerships in China mainly located in Tier-1 and Tier-2 cities – selling mainly BMW autos (although it is also involved in the sale of Land Rover, Rolls Royce and Jaguars). Management recently said that it hopes to increase its network to 20 outlets in the short term. Our China Auto analyst believes that luxury cars, SUVs and low-end products will gain market share as consumer tastes evolve, mostly at the expense of mid-sized sedans.

Hyundai assembly and dealership in Malaysia also showing strong growth We understand from the group that its Hyundai operations in Malaysia continue to be an important contributor to growth, with demand outstripping supply for newer models (long waiting periods). Sales YTD have grown 49% (1HFY11) according to management and the outlook here continues to look robust.

Asia Pacific exposure continues to be a key growth market for luxury vehicles. The Asian economies in which Sime Darby Motors operates in look sound. Overall, Nomura's Economics team remains bullish on Asia, with expectations of strong growth given good fundamentals and the lack of aftermath of the global financial crisis issues. For Sime Darby's key motor markets, the team believes that China will be more inclined to accelerate reforms, which should be positive in the long term. Elsewhere, ASEAN growth has surprised on the upside, which leads to our bullish view on Indonesia, Singapore and (near term) on Malaysia. We believe GDP growth should also quicken in Australia on stronger capex, exports and housing. Specifically for China, we expect stronger auto sales after summer 2011, due to pent-up demand, rising affordability and seasonality.

Asian luxury market to remain robust in our view – supporting demand for high-end vehicles. We continue to think that Asian demand for luxury goods (including autos) will drive demand – led by increasing wealth, social changes (desire for personal recognition from luxury goods), and rapid urbanization. As an example, even at the height of the global recession, China's luxury goods market saw 16% y-y growth in sales, slightly lower than the previous year, but still much better than many other markets around the world, according to consulting firm McKinsey & Company. BMW auto sales in China have grown at an average of 50% annually in the past five years and Sime Darby has been a key beneficiary of this, in our view.

We continue to think that Asian demand for luxury goods (including autos) will drive demand – led by increasing wealth, social changes (desire for personal recognition from luxury goods), and rapid urbanization

Heavy Industries – largest Caterpillar dealership in Asia

We currently assume revenue growth of 10-12% and relatively flat margins of ~9% for heavy industries segment

Sime Darby's industrials division is in the business of offering a variety of heavy equipment (for the construction, mining, power systems and forestry space). Sime Darby acts as the exclusive distributor for Caterpillar in key Asia Pacific markets, including Malaysia (sole), Australia (Queensland and Northern Territories), and China (Xinjiang and seven other South-eastern provinces). The company also provides related services, including sales, rental and provides the full range of product support and financing services. After-sales services accounts for a significant part of this segment's earnings.

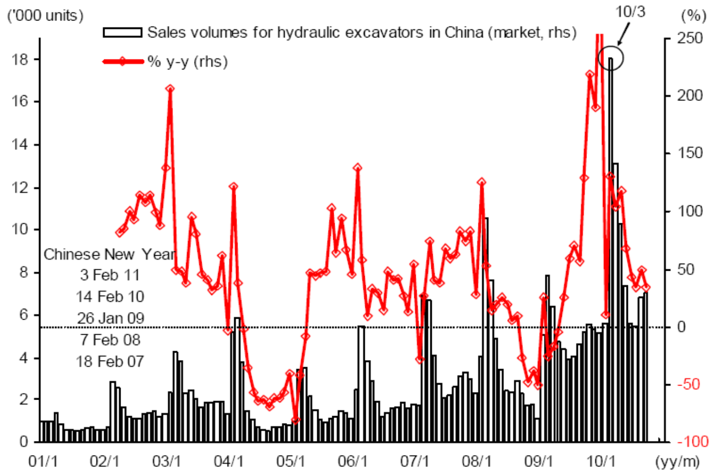
The division is the fifth-largest Caterpillar dealer in the world and operates the largest Caterpillar dealership network in the Asia Pacific region, with over 100 branches covering more than 20 countries.

Relatively stable margins with decent revenue growth. Margins for this division have remained relatively stable, ranging between 8.5% and 11.7% in the past three years (averaging 10%). We expect margins to remain stable. Revenues have also been growing, averaging 8% y-y for the past two years, with only one quarterly y-y drop. We currently assume relatively flat margins of around 9%, with revenue growth of 10-12% given the stronger global growth outlook post the financial crisis.

Market leader in Australia and Singapore – product reliability and after-sales service are key. Customers from the mining/construction sector are also key customers for after sales services. For example, the mining sector typically operates the equipment nearly 24 hours a day with minimal downtime due to stiff productivity requirements. As a result, reliability is one of the key factors in determining which brand/piece of equipment to use and the availability of strong after sales services is a must, in our view. As an example, we understand that in Indonesia, large size equipment in the mining sector normally spends about 40% of its equipment value in replacement component parts and services in the first five years of operation.

Fig. 49: Sales volumes for hydraulic excavators in China (over 6 tonnes)

Upward growth trajectory continues



Source: Nomura, Komatsu data (includes estimates). Y-y growth in Chinese sales of hydraulic excavators (over 6mT) by non-Chinese manufacturers – higher in Jan 2010 and lower in Feb 2010 due to the seasonal impact of Lunar New Year.

Fig. 50: Sime Darby's principal Caterpillar vs peers

	Komatsu	Caterpillar	HCM	Doosan
Bloomberg ticker	6301 JP	CAT US	6501 JP	042670 KS
Construction crane				
- Truck crane			✓	
- Crawler crane			✓	
- Tower crane				
Earth-moving machinery				
- Excavator	✓	✓	✓	✓
- Wheel loader	✓	✓	✓	✓
- Bull dozer	✓	✓		
Road machinery				
Road roller		✓	✓	
Grader	✓	✓		
Other machinery				
- Dump trucks	✓	✓	✓	
- Forklift	✓	✓	✓	✓

Source: CCMA, Nomura research

Fig. 51: China construction machinery sales trend

(Units)	2008	2009	2010F	2011F	2012F
Truck-mounted concrete pumps	4,527	5,880	9,996	11,995	13,794
Truck cranes	21,908	27,360	36,100	39,710	43,681
Crawler cranes	1,686	1,185	1,766	2,030	2,335
Excavators	77,851	95,820	162,000	194,400	223,560
Wheel loaders	66,308	143,322	217,700	228,585	240,014
Roadheaders	1,343	1,406	1,616	1,848	2,172
YoY (%) Change					
Truck-mounted concrete pumps	6.0%	29.9%	70.0%	20.0%	15.0%
Truck cranes	5.0%	24.9%	31.9%	10.0%	10.0%
Crawler cranes	78.0%	-29.7%	49.0%	15.0%	15.0%
Excavators	16.6%	23.1%	69.1%	20.0%	15.0%
Wheel loaders	4.6%	-13.8%	51.9%	5.0%	5.0%
Roadheaders	54.9%	4.7%	15.0%	14.3%	17.6%

Source: CCMA, Nomura research

Fig. 52: Industrial division – key markets and products

Country	About
Industrial division	Holds Exclusive Caterpillar dealer rights for the sale and rental of caterpillar heavy equipment in the various markets below. Also carries other brands such as Case New Holland, Kubota, Terberg, Driltech Kress and Mitsubishi Caterpillar Forklifts. Principal markets include resource extraction (mining), building and infrastructure construction, electrical power generation, logging, oil and gas and agricultures.
Malaysia	Led by Tractors Malaysia Holdings Berhad. Primarily involved in the sale, rental, distribution, and support of Caterpillar heavy equipment, Case New Holland agricultural machinery and other related equipment
Singapore	Tractors Singapore Ltd specialises in the design, supply, testig and commission of Power System packages for the marine/petroleum sector, in addition to the sale and retnal of heavy equipment to the construction sector
China	China Engineers Limited is the dealer of Caterpillar in Hong Kong, Macau and 7 Chinese provinces Guangdong, Fujian, Jiangxi, Guangxi, Hunan, Hainan and Xinjiang. Solely responsible for the sales, services and parts supply of Caterpillar's products, as well as financial leasing and other value-added services
Australia	Handled through the Hastings Deering group - distributor of Caterpillar productsin the areas of Queensland and Northern Territory in Australia, Papua New Guinea, New Caledonia and Solomon Islands

Source: Company data, Nomura research

Property – well respected developer

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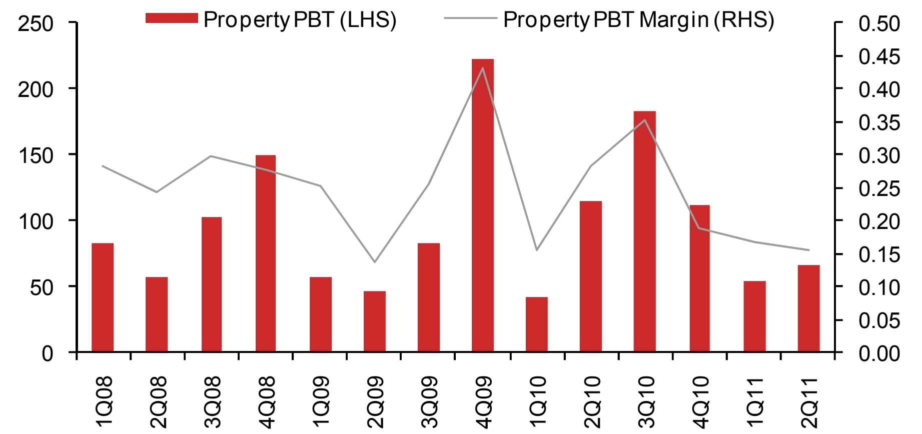
One of the leading property developers in Malaysia. In 2010, Sime Properties (listed as part of Sime Darby Berhad) continued to rank as one of the leading developers in the country. We think its advantage lies in its significant landbank size for property development, which based on its books as at end-FY2010, totalled 12,409 acres. This makes it the developer with the largest landbank in the country followed by the listed UEM Land, while it comes in third in terms of remaining unbilled sales.

Fig. 53: Property division quarterly PBT and margins



Source: Company data, Nomura research

Fig. 54: Landbank (based on key properties)

	Landbank (acres)
Sime Properties	12,409
UEM Land	8,374
SP Setia	3,692
Mah Sing	953

Source: Nomura research

Fig. 55: Unbilled sales
As on 31-December-2011

	Unbilled sales (RM mn)
SP Setia	2173
Mah Sing	1309
Sime Darby	1050
UEM Land	339

Source: Nomura research

Fig. 56: Sime Darby's global presence

	Asset Management	Property Development	Hospitality	Leisure
UK	√			
China		√		
Vietnam			√	
Malaysia	√	√	√	√
Singapore	√		√	
Australia		√	√	

Source: Nomura research

Fig. 57: Rank of property developers

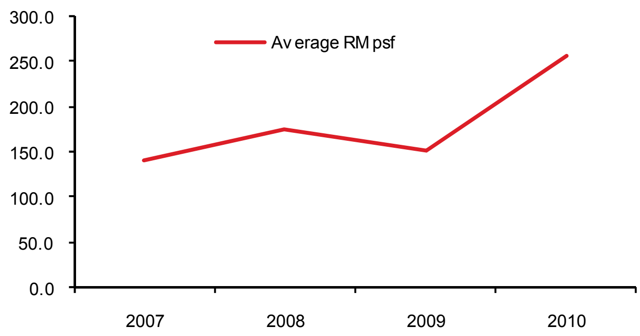
Overall Rank	2006	2007	2008	2009	2010
1st	SP Setia	SP Setia	SP Setia	Sime Property	SP Setia
2nd	IGB Corp	IGB Corp	IGB Corp	SP Setia	Sime Properties
3rd	I&P Bhd	IOI Properties	Sunway City	Sunway City	Sunway City
4th	Sunway City	Sunway City	I&P Bhd	IGB Corp	Sunrise
5th	IOI Properties	I&P Bhd	IOI Properties	I&P Bhd	IGB Corp
6th	Sime Property	Sime Property	BRDB	IOI Properties	IOI Properties
7th	Sunrise	Boustead	Bandar Utama City Corp	BRDB	I&P Bhd
8th	MK Land	BRDB	Sunrise	E&O	BRDB
9th	BRDB	E&O	E&O	Sunrise	Mah Sing
10th	YTL Land	Sunrise	Boustead	Bandar Utama City Corp	IJM Land

Source: Edge Weekly dated Oct 11-17, 2010

Brand strength makes it the top pick The significance of brand strength (in this case, Sime's) and its positive relationship with the propensity for capital appreciation continues to be at the forefront of purchasers' minds, and can be demonstrated by a quick survey of secondary transactions of properties developed by Sime Properties. The exhibits below provide a time-series sampling of secondary transaction prices for a 2-2.5 storey terrace and 2-2.5 storey semi-detached property type within Sime Properties' flagship Bukit Jelutong development.

Fig. 58: Average psf price of a 2-2.5 storey terrace home in Sime Bukit Jelutong

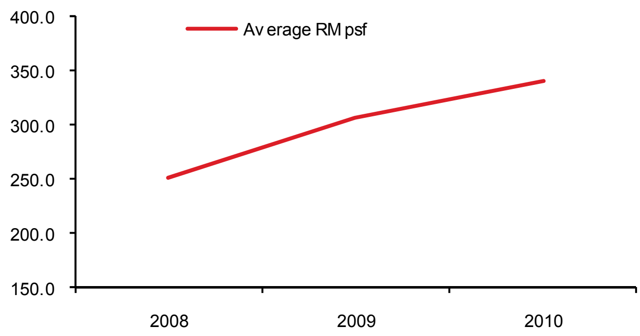
Note: For consistency of comparison, sampling taken from secondary sales of homes along Jalan Tiang Seri, Bukit Jelutong



Source: Nomura research

Fig. 59: Average psf price of a 2 storey semi detached home in Sime Bukit Jelutong

Note: For consistency of comparison, sampling taken from secondary sales of homes along Jalan Tiang Seri, Bukit Jelutong



Source: Nomura research

Large number of upcoming launches. For the second half of its financial year ended 30 June 2011, Sime Properties has planned continued launches totaling 1,445 units in most of its main townships like Bukit Jelutong, USJ Heights, Putra Heights, broken down below. These launches combined are estimated at a GDV of RM1.6bn. In the first half, it sold 858 units with an average 69% take up rate.

Fig. 60: Planned launches during 2HFY2011

Project	Units	Type
Bukit Jelutong	59	CondoVilla
USJ Heights	49	Bungalow
Putra Heights	237	Superlink, townhouse, semi-d, bungalow
Denai Alam	470	Superlink, semi-detached, shop, office
Bandar Bukit Raja	283	Superlink
Nilai / Saujana Impian	347	Superlink, bungalow

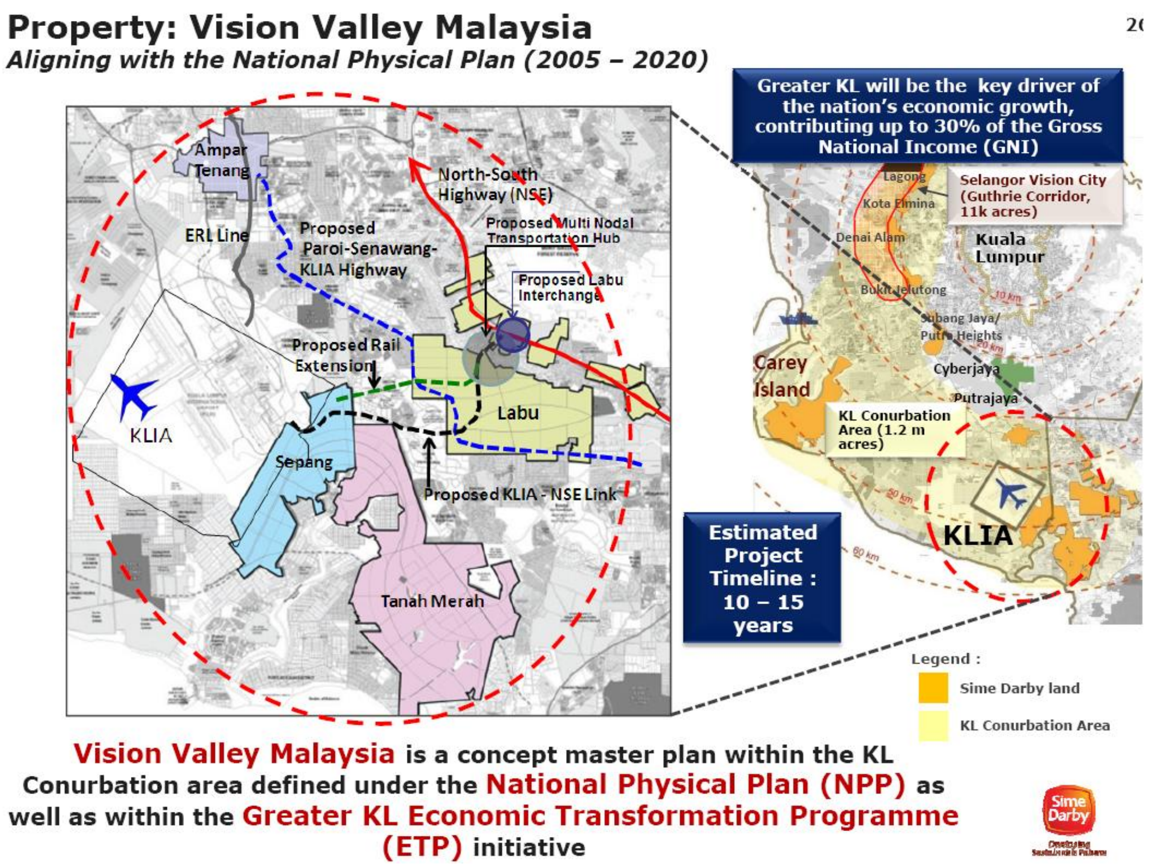
Source: Company data, Nomura research

Vision Valley

Given the steady decline in developable land in and around KL, the government has under the Greater KL Economic Transformation Programme emphasized the need for development of a greater KL area to meet the housing needs of the future. In line with that, Sime Properties has plans to spearhead a landmark development worth RM25bn-RM30bn in GDV by the name of Vision Valley (completion 2025), encompassing over 80,000 acres of its own oil palm plantation land – development will be undertaken in clusters and Phase 1 is expected to begin first in the Labu cluster which is expected to be developed over 6-7 years over 9,000 acres and is expected to comprise, among other things, a sports and entertainment complex, as well as a healthcare and wellness cluster with medical hubs, and retirement villages.

Sime Properties has plans to spearhead a landmark development worth RM25bn-RM30bn in GDV by the name of Vision Valley (completion 2025), encompassing over 80,000 acres of its own oil palm plantation land

Fig. 61: Sime Darby: Vision valley project details



Source: Company presentation

Our property analyst, Jacinda Loh, believes that even on conservative assumptions, the SDVV can contribute an additional RM1.3bn to our property RNAV of RM7.8bn.

While our Malaysia property analyst, Jacinda Loh, is Neutral on the sector (given two BUYs and two NEUTRALs) largely due to the bigger property names looking fairly reflective of current supportive fundamentals, she nevertheless expects property sales and transactions this year to continue an upward trend backed by a young demographic mix, shrinking household sizes amidst a rising middle class, still-evident affordability (owing to stiff competition amongst banks for the consumer business) and continued structural decreases in incoming supply and starts since 2005 (see "Malaysia Residential Property: Mass market of million dollars, dear?", Jacinda Loh, 8 April 2011).

Although headline primary sales performance moderated overall in 2010 from 2009 (to 47% from 59%), blue chip developers with a good landbank and products are likely to continue to see favourable take-ups, in our view. Indeed, despite the slew of million dollar property launches this year, Sime's recent property launches have seen robust responses, namely its link homes within its Bandar Bukit Raja township.

Fig. 62: Million ringgit property launches

Project	Type	Price (RM)	Location	No. of units	Developer	Remarks
Valencia Park	Bungalow	Av RM1.8mn	Bayan Lepas, Penang	142	432 luxury units	Launch July / Aug '11
Taipan	Shoplots / semi-detached	Av RM1.3mn	Bayan Lepas, Penang	75	432 luxury units	Launch Aug '11
Light Collection III	Condominiums	Av RM2mn	Next to Penang bridge	150	IJM Land	Launch June '11
The Address	Condominiums	Av RM760k	Bukit Jambul Penang	148	IJM Land	Launch Sep '11
Pearl Villas	Bungalows	Av RM3mn	Penang	35	SP Setia	Launch April '11
Setia V Residences	Bungalows	Av RM2.8mn	Kelawei Road, Penang	67	SP Setia	Launch Sep '11
10 Island resort project	Island Resort semi-detached villas	RM2.33mn - RM3.98mn	Batu Ferringhi	11	Ivory Properties Group Bhd	Launch mid 2011
Duta Kinrara	Semi-detached / Bungalows	RM3-6mn	Puchong, Selangor	29	Pilot Realty Sdn Bhd	na
Kinrara Residence	Superlink homes	From RM968k	Puchong, Selangor	94	Mah Sing	Launch April '11
Sunway Vivaldi	Condominium	From RM2.3mn	Mont Kiara	228	Sunway City	Completion in 2011, units still available
KL EcoCity	Condominiums	From RM700k-RM1.8mn	Midvalley, KL	711	SP Setia	Launch June '11
Eco Glades	Semi-detached / Bungalows	RM2-3mn	Cyberjaya, Selangor	na	SP Setia	Launch 2012
Madge Mansions	Condominium	RM4.96mn - RM11.33mn	Ampang, KL	52	Gamuda Land	Launched in April, 2011. Expected to be completed by Jan 2014
Persiaran Madge	Condominium	RM3.8mil (RM3,500 per sq ft)	Kuala Lumpur	19	Bukit Kiara Properties	Launch 3QFY11
Jalan Tun Razak	Service suites	RM1.2mil (RM1,500 per sq ft)	Kuala Lumpur	160	Bukit Kiara Properties	Launch 2012
Glenmarie Gardens	Bungalows	RM5.26mn - RM8.16mn	Shah Alam, Selangor	70	Glenmarie Properties	14 units launched in Nov 2010; phase 2 to take off in Q1FY11
One South	Condominiums	RM305.8k - RM745.8k (RM301 - 334psf)	Seri Kembangan, Selangor	418	Hua Yang Berhad	Launch May '11. Incentives - SPA legal fees and interest during construction absorbed
Azelia	Condominiums	RM350k - RM2.77mn	Bandar Sri Damansara	250	TA Global	Preview on 7 May 2011, expected completion May 2014
Dedaun	Condominium	From RM3.9mn	Jalan Ampang, KL	38	SDB Properties Sdn Bhd	Preview launched in April 2011
Elements Ampang	Service apartments	RM0.5mn - RM1mn range	Ampang, KL	1040	Mayland and Land & General	Launched in August 2010; expected to be completed by 2013
Melody Park, East Ledang	Pool villas	From 2.5mn	Nusajaya, Johor	36	UEM Land	Launch April '11

Source: Nomura research

Fig. 63: Recent Sime Darby property project take-up

Bandar Bukit Raja property series name	Launch date	Type	No of units	Takeup
Avani	Jan-11	2 storey link	194	Sold out after 3 days
Delmara	Mar-11	2.5 storey link	54	85% after two days

Source: Company data, Nomura research

Energy & Utilities

The Energy & Utilities division can be broken into two areas, namely Oil & Gas, and Power and Utilities.

Division in bad light for more than RM2.1bn in losses in FY10, but we believe the write-downs have ended. 2010 was a tumultuous year for the Oil & Gas division, having booked write-downs and losses of more than RM2bn. The cause of the losses was mainly attributed to cost overruns (at its overseas EPCIC projects in Qatar) as well as its long-running Bakun Hydro-electric dam project. The recent more than RM100mn write-back at its Qatar Petroleum project further underscores how unlikely it is for there to be further write-downs, in our view.

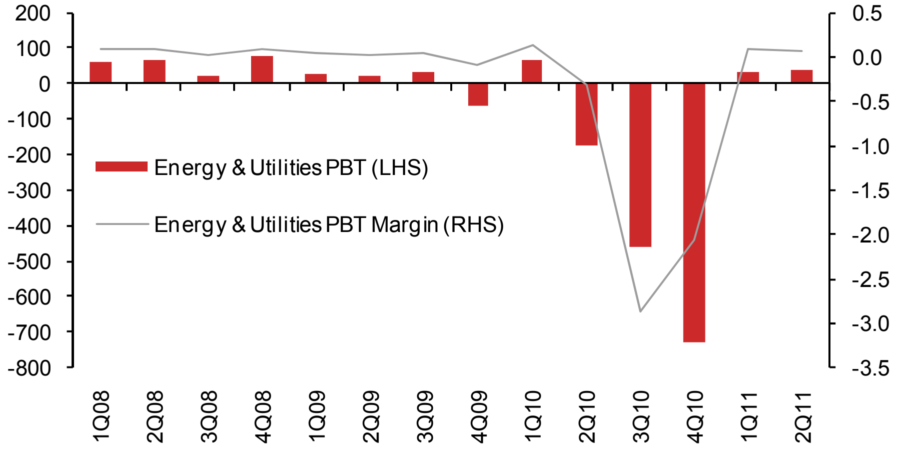
Fig. 64: Details of FY10 Energy & Utilities write-downs

Project	Provisions (RMmn)	Comment
Maersk Oil Qatar	526	Design by front-end engineering design sub-contractors needed re-work, and delay in locking-in contractor and vessels
Qatar Petroleum	200	Due to the inability to secure a suitable transportation & installation contractor in a timely manner, and unprecedented severe weather conditions
Marine Project	155	JV partners ran into financial difficulties resulting in non-delivery of vessels
Bakun Hydroelectric Dam	450	Poor project management, lack of reporting and visibility on project costs and poor controls on claims management
Other losses not apportioned	777	Includes provisions for Qatar Petroleum, MOQ and the Groundwater project

Source: Company data, Nomura research

Fig. 65: Energy & Utilities PBT

Large losses were mainly due to legacy pre-Synergy Drive merger projects



Source: Company data

Oil & Gas division – starting a recovery

Sime Darby Engineering, acts as a Engineering, Procurement, Construction, Installation and Commissioning (EPCIC) player, with vast experience in local offshore and marine structure (since 1984).

Sime Darby's recent contract wins shows that it is still able to compete and procure relatively large EPCIC contracts

Recent EPCIC project win marks an important milestone towards recovery. Sime Darby Berhad recently announced that it has been awarded the contract to fabricate topsides for the Kebabangan Petroleum Operating Company (KPOC) for a total sum of RM1.15bn, for delivery within 29 months from 22 April 2011. This is its first major EPCIC project since the completion of the large write-downs seen in FY2010. We think this marks an important milestone for the division in that it is still able to compete and procure relatively large EPCIC contracts (in spite of its recently tarnished record). We understand from management that the key focus for the division is for local EPCIC projects, which it has a respectable track record of executing, in our view.

Respectable track-record should not be ignored. Despite its recent failures, which could arguably be partly attributed to over-reaching, the award of the CPP to Sime Darby Engineering should not be viewed as strange, as the recent write-downs notwithstanding, the company has a substantial track record. SDE has fabricated over 200 offshore structures since 1984 (mostly in Malaysia; the Qatar Petroleum project won in 2006 was SDE's first EPCIC contract outside Malaysia, and the first international job in which SDE was the main contractor). The company began as a 70:30 JV between Sime Darby and Sembawang Engineering Pte Ltd in 1981, and Sime Darby bought out Sembawang in 2005.

Fig. 66: Sime Darby Engineering track record highly regarded, in our view

Major offshore structure fabricated (158 out of >200 structures in total)	Tonnage range	No. of structures
Jackets	1,800MT – 5,700MT	65
Compression Modules	256MT – 13,000MT	30
Wellhead Decks	682MT – 1,800MT	13
Module Support Frames	From 1,200 MT	11
Helidecks	100MT – 140MT	9
Bridges	380MT – 4,000MT	8
Living Quarters	1,600MT – 12,000MT	8
CPP (Integrated Decks)	7,000MT – 14,000MT	7
CPP (Modular)	6,000MT – 17,000MT	4
FPSO	1,300MT – 7,900MT	3

Source: Sime Darby Engineering

Positive outlook for Malaysian upstream Oil & Gas capex.

According to our Malaysian Oil & Gas analyst, Muzhafar Mukhtar, we expect Oil & Gas upstream capex in Malaysia to rise in the coming years. We believe Sime Darby will be a key potential beneficiary given limited yard capacity availability (and given that Sime Darby's yards are running at low utilization post the Oil & Gas related losses last year). Our key thesis for this positive upstream Oil & Gas outlook includes:

- The uptick in reserve additions between 2008 and 2010 (net additions rose at a two-year CAGR of 32%);
- The development schedule for major deepwater fields in East Malaysia, with Kebabangan, Malikai, Ubah Crest and Jangas due to come onstream by around 2014; and
- Actions taken in line with the government's push to boost falling national oil & gas production, including: a) a higher domestic capex plan at Petronas, with total capex slated to increase to ~RM55bn pa over the next five years, vs ~RM40bn in FYE March 2011, b) investments in enhanced oil recovery (EOR) for brownfield developments by both Petronas and PSC contractors. For example, in 2008, ExxonMobil Exploration and Production Malaysia Inc signed a new PSC with Petronas which involved the two investing US$2.1bn in the EOR at Tapis and six other fields. The front-end engineering for the ExxonMobil project has started, and the first US$1bn investment is expected in 2013; and c) investments in marginal fields, which collectively hold recoverable reserves of 580mn boe, according to company data. Based on the small reserves (each typically 30mn boe or less) and the number of fields to be developed (106 in total, with 27 planned for development, and 10 ready for development), there is an incentive to utilise re-deployable infrastructure, i.e., FPSO, MOPU and MOPSU. (Source: Malaysia Oil & Gas analyst – Muzhafar Mukhtar)

Recent contract win a prelude to selling Oil & Gas assets? We think not

Following the award of the Kebabangan CPP topside to Sime Darby Engineering recently, feedback from the investment community has included the view that the contract may be a prelude for the sale of the Sime Darby's oil & gas assets to Malaysia Marine and Heavy Engineering Bhd (MMHE), with the specific purpose of helping to push up the final sale price. We believe this scenario is highly unlikely to be true.

Firstly, the operator of the Kebabangan project, Kebabangan Petroleum Operating Company Sdn Bhd (KPOC), is a JV between Petronas Carigali (40%), Shell (30%) and ConocoPhillips (30%). In other words, the award of a contract is not within the unilateral control of Petronas, even we make the unlikely assumption that the national oil company would be incentivized to have its 63%-owned subsidiary buy assets from an entity, in which it has no financial interest, at inflated prices. Secondly, as above, Sime Darby's track record is still respectable and should allow the company to bag more contracts (meaning that Sime Darby should not be seen as a distressed seller, desperate to exit the business).

Whilst we acknowledge a value-accretive deal between MMHE and Sime Darby Engineering is a possibility, and that MMHE's fortress of a balance sheet is fertile ground for catalytic corporate actions, we remain pessimistic that stock levels allow investors to participate significantly in any upside, especially in light of what increasingly looks to be delayed order book replenishment.

Fig. 67: Good assets – Still the largest fabrication yard capacity in Malaysia

Shipyard	Company	Overall area (m2)	Tonnage capacity pa (mt)	Share (% of tonnage capacity pa)	Fab. area (m2)	Max skid track tonnage (mt)	Deepwater experience
Sime Darby Pasir Gudang	Sime Darby	404,682	60,000	21.4	NA	15,000	No
Sime Darby Teluk Ramunia Fabrication Yard A	Sime Darby	169,968	10,000	3.6	124,064	6,000	No
Sime Darby Teluk Ramunia Fabrication Yard B	Sime Darby	323,748	30,000	10.7	292,010	11,000	No
Sime Darby Teluk Ramunia Fabrication Yard C	Sime Darby	194,249	20,000	7.1	155,312	10,000	No
Total Sime Darby		**1,092,647**	**120,000**	**43**	**571,386**	**42,000**	**No**
MMHE Pasir Gudang	MMHE	150,600	69,700	24.9	321,400	40,000	Yes
Kencana Lumut	Kencana HL	635,500	48,000	17.1	560,500	20,000	No
Boustead Penang	Boustead HI	160,880	9,000	3.2		4,000	No
Brooke Sejingkat	Brooke Dockyards	82,000	8,500	3	63,500	4,000	No
Pulau Indah (pending acquisition from Oilfab)	Ramunia Holdings	226,624	15,000	5.4	164,600	8,400	No
Sandakan yard (MoU with Pleasant Eng)	Ramunia Holdings	210,437	10,000	3.6			No

Source: Company data

Power & Utilities – Stable earnings contributor

The Power and Utilities division can be broken into:

- **Power generation** – made up of independent power producer (IPP) PD Power in Malaysia – 440MW capacity and Laem Chabang in Thailand. The group's strategy here is to look for expansion opportunities regionally at its power business and to explore opportunities within the renewable energy space.
- **Ports in China –** Weifang and Jining in the Shandong province – with throughput capacity of ~19mn tonnes p.a) with an eventual target capacity of 43mn tonnes p.a.
- **Water treatment in Weifang (China) –** 80,000 cubic meters of water with target capacity of 200,000 cubic meters.

Reliable earnings contributor – about RM160-RM200mn annually

Earnings for the power and utilities division have been relatively stable, ranging from RM160mn -RM200mn on average prior to the write-downs, with stable revenues and margins mostly hovering around the 20% levels. Going forward, we assume relatively conservative revenue growth of 5% per annum and EBIT margins of 20%.

We flag here that Sime Darby's 75%-owned IPP PD Power will see its supply contract ending in 2016, which could see earnings contribution from the Power division falling from then on.

Earnings for the power and utilities division have been relatively stable, ranging from RM160mn -RM200mn on average prior to the write-downs, with stable revenues and margins mostly hovering around the 20% levels. Going forward, we assume relatively conservative revenue growth of 5% per annum and EBIT margins of 20%

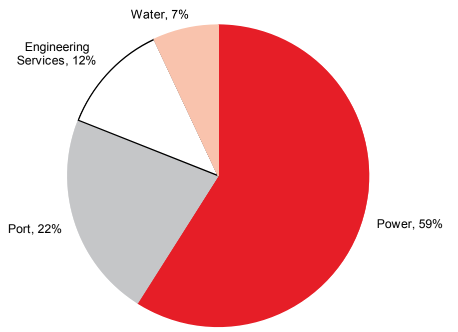
Fig. 68: Malaysian power generation breakdown

Electricity supply companies	Generation capacity (MW)
Peninsular Malaysia	**12,504**
Tenaga Nasional Berhad	8,055
IPPs:	
YTL Power Generation	1,212
Segari Energy Ventures	1,303
Powertek	440
PD Power (75% owned by Sime)	440
Pahlawan Power	334
Genting Sanyen Power	720
East Malaysia	**1,339**
Sabah Electricity	478
Sarawak Electricity Supply Corp	557
IPPs (Sabah):	
ARL Tenaga	50
Serudong Power	36
Powertron Resources	120
Stratavest	64
Sandakan Power Corporation	34

Source: Malaysian Energy Commission

Fig. 69: 1HFY11 – EBIT contribution (excluding oil & gas)

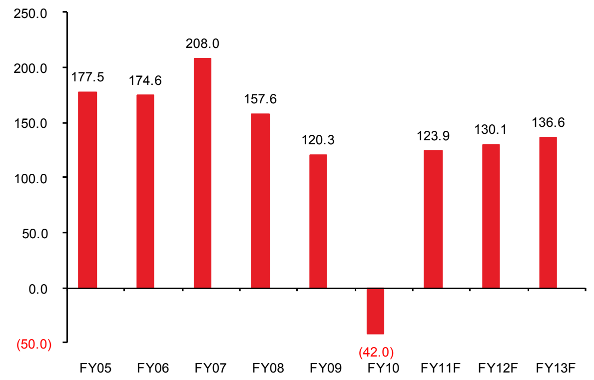
Power division the largest stable contributor



Source: Company data. Note: Excludes Oil & Gas contribution.

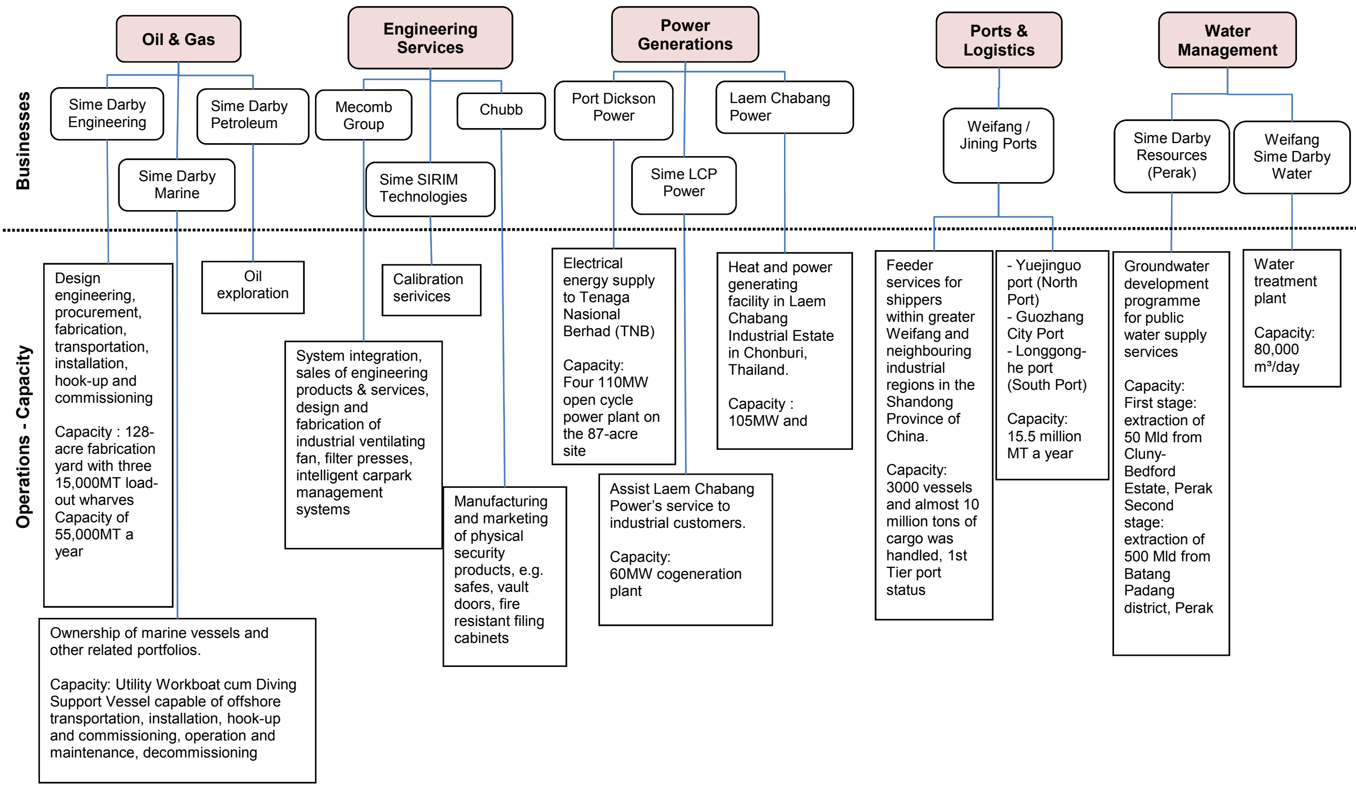
Fig. 70: Power & Utilities EBIT

Expecting conservative stable earnings from the division going forward



Source: Company data, Nomura research.

Fig. 71: Details of its Energy & Utilities division operations



Source: Company data, Nomura research. The company has since re-considered its investment in water resources in Perak, Malaysia

Healthcare

Sime Darby Healthcare (SDH) is one of the leading private healthcare providers in Malaysia, with three key institutions:

- Sime Darby Medical Centre Subang Jaya (SDMC SJ)
- Sime Darby Specialist Centre Megah (SDSC Megah)
- Sime Darby Nursing & Health Sciences College

Plans. Sime Darby plans to open two additional medical centres under the Division. The first one, SDMC AD, was acquired in April 2010, and will be reopened in mid-2011, after an investment of ~RM240mn.

Fig. 72: Sime Darby's planned new ventures in healthcare

Institution	Planned opening	Description
Sime Darby Medical Centre Ara Damansara (SDMC AD)	2011	SDMC AD will house a dedicated private brain centre of excellence in Malaysia, featuring a epilepsy management programme that includes an electroencephalogram or EEG studies laboratory and equipment for early diagnostic and treatment capabilities, as well as a rehabilitation facility.
Sime Darby Medical Centre ParkCity	2013	It will be positioned as a centre of excellence dedicated to women's and children's healthcare with focus on breast oncology, child development and the treatment of chronic diseases such as diabetes

Source: Company data

Other businesses

Sime Darby also has a small presence in other industries like bedding, tires, consumer products and insurance broking

Bedding. In 2004, the Sime Darby Group, through its wholly owned subsidiary Dunlopillo Holdings Sdn. Bhd., assumed ownership of the Dunlopillo trademark in 45 countries. These are distributed in the AsiaPac region, especially in Pakistan, Philippines and the Middle East, with manufacturing facilities in Vietnam and China.

Manufacturing. This comprises Continental Sime Tyre Sdn Bhd, which manufactures and markets a wide range of tyres. It is a joint-venture company between Continental AG of Germany and Sime Darby Berhad, which has a 49% interest in the business.

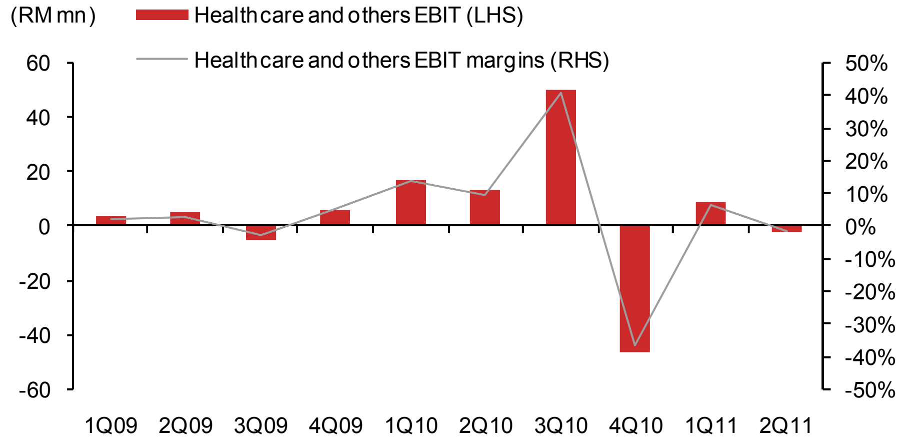
Its key brands include Continental, Dunlop, Barum, Sime Tyres and Simex. This portfolio covers a range of tyres for passenger cars, 4-wheel drive, truck, bus, motorcycle, forklift, earthmover, agricultural, industrial and military vehicles.

Consumer Products. It comprises Tesco Stores (Malaysia) Sdn. Bhd, which is a joint-venture between Sime Darby Berhad and Tesco plc. Sime Darby holds a 30% stake in the joint venture. Tesco operates 30 hypermarkets in the country.

Insurance Broking and Agency. Sime Darby Lockton Insurance Brokers Sdn Bhd is a professional risk services firms delivering risk management and insurance solutions. It is involved in insurance services since the early 1930s in the Asian region, primarily in Malaysia, Singapore and Hong Kong. (Source: Company website)

Fig. 73: Healthcare and others

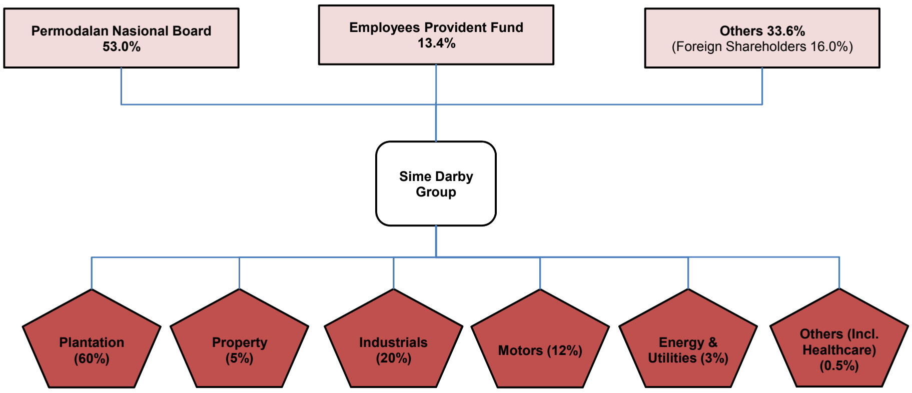
A small but volatile contributor to earnings



Source: Company data

Company Background

Fig. 74: Group shareholding and business structure



Note: Percentage below division name is the Operating Profit breakdown for 1HFY11A. Source: Company data, Nomura research

Company History

Scotsman William Sime and Englishman Henry Darby established the rubber company Sime, Darby & Co. in the Malaysian state of Malacca in October 1910. It initially managed 500 acres of rubber estates and seeing growing demand expanded through the acquisition of Sarawak Trading Company. This also marked the company's entry into the heavy equipment industry. With the advancement of synthetic rubber technology, during WW2, the company diversified into palm oil and cocoa cultivation. The company was incorporated in the United Kingdom as Sime Darby Holdings Ltd in 1958.

By the late 1970s, almost half the equity was under Malaysian investors, and on 11 September 1978, Sime Darby Berhad was incorporated in Malaysia, and its headquarters were moved to Kuala Lumpur. The group became a wholly Malaysian-owned company in 1981.

Synergy Drive Merger

In 2006, Synergy Drive, a SPV funded by CIMB Investment Bank, proposed to merge Malaysia's three plantation giants, Sime Darby Berhad, Golden Hope Plantations Berhad and Kumpulan Guthrie Berhad, and their subsidiaries. This merger was completed by October 2007, and created Malaysia's largest listed company, and the world's largest plantation group – Sime Darby Berhad. It consolidated eight publicly listed companies – Sime Darby Berhad, Sime Engineering Services Berhad, Sime UEP Properties Berhad, Golden Hope Plantations Berhad, Mentakab Rubber Company (Malaya) Berhad, Kumpulan Guthrie Berhad, Guthrie Ropel Berhad and Highlands & Lowlands Berhad – relisting them on Bursa Malaysia as Sime Darby Berhad.

Sime Darby Berhad currently has 5 core businesses: plantations, property, motor, heavy equipment, energy & utilities. Its non-core businesses include Healthcare, bedding (Dunlopillo Holdings Sdn Bhd), tyre manufacturing (Continental Sime Tyre Sdn Bhd), consumer products (Tesco Stores (Malaysia) Sdn Bhd) and insurance broking and agency (Sime Darby Lockton Insurance Brokers Sdn Bhd).

Sime Darby continued diversification throughout the 1980s and early 1990s in various segments, including tyre manufacturing, property, tourism and power generation. This also included a majority stake in United Malayan Banking Corporation. United Malayan, then Malaysia's fourth largest bank in terms of assets, was later renamed Sime Bank Berhad. In June 1997, Sime Darby announced record revenues of over RM13 billion, accrediting a significant role to Sime Bank.

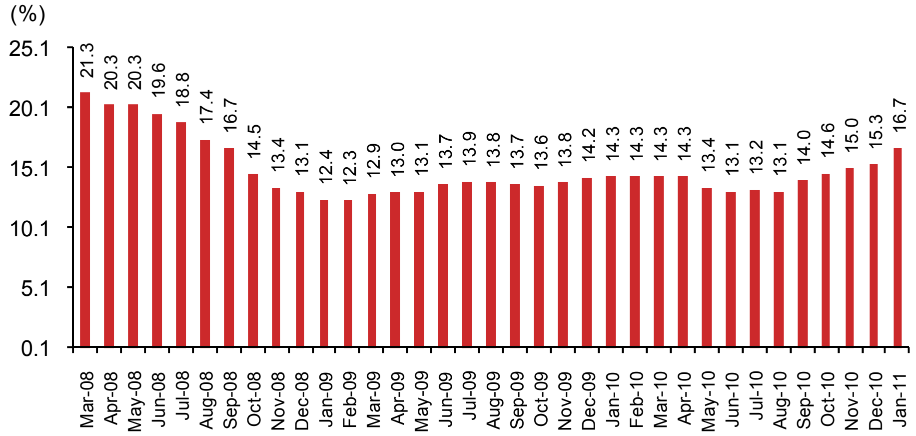
However, during the Asian financial crisis in July 1997 this business suffered, and in the six-month period ending December 1997, Sime Bank suffered a RM1.6 billion loss – the largest in Malaysian banking history. Sime Darby Berhad ended FY1998 with a net loss of RM540.9 million.

The company as a result turned the emphasis back on its core industries: plantations, property development, tyre manufacturing, heavy equipment and power generation. It sold Sime Bank and its Sime Securities subsidiary, as well as some of their tourism businesses.

(Source: Sime Darby, Nomura research)

Fig. 75: Foreign Shareholding (%)

Slight pick-up post the through from Oil & Gas losses



Source: Bursa Malaysia, Company data

Fig. 76: Sime Darby: Board of Directors

TUN MUSA HITAM
(Chairman, Independent Non-Executive Director)
Also the Chairman of Lion Industries Corporation Berhad and United Malayan Berhad. He was Malaysia's fifth Deputy Prime Minister and Minister of Home

TAN SRI DATO' HAMAD KAMA PIAH CHE OTHMAN
(Deputy Chairman Non-Independent Non-Executive Director)
Also the President & Group Chief Executive in Permodalan Nasional Berhad, Directors in Amanah Saham Nasional Berhad, Pelaburan Hartanah Nasional Berhad, Amanah Mutual Berhad

TAN SRI SAMSUDIN OSMAN
(Non-Independent Non-Executive Director)
Also the Chairman the Employees Provident Fund Board, EPF Investment Panel, BIMB Holdings Berhad. He was the Chief Secretary to the Malaysian Government, the Secretary General for Ministry of Home Affairs and The Ministry of Domestic Trade and Consumer Affairs

TAN SRI DATO' DR WAN MOHD ZAHID MOHD NOORDIN
(Non-Independent Non-Executive Director)
Also the Director of Permodalan Nasional Berhad (PNB), Amanah Saham Nasional Bhd, SP Setia Berhad and Yayasan Sime Darby. He was the Chairman of Berger International Ltd based in Singapore, and Deputy Chairman of International Bank Malaysia Berhad

ENCIK AZMI BIN MOHD ALI
(Non-Independent Non-Executive Director)
Also Director of Pernec Corporation Berhad and Chemical Company of Malaysia Berhad. He is also a Senior Partner and principal owner of Messrs Azmi & Associates. He was the Head of Gas/New Ventures, Upstream Legal Department in Petroliam Nasional Berhad

PUAN ZAITON BINTI MOHD HASSAN
(Non-Independent Non-Executive Director)
Also the Director BIMB Holdings Berhad, Bank Islam Malaysia Berhad, Malaysian Industrial Development Finance Berhad and Credit Guarantee Corporation Malaysia Berhad. She was Head of Treasury in Malayan Banking Berhad and President/Executive Director of Malaysian Rating Corporation Bhd (MARC)

TAN SRI DATUK AMAR (DR.) TOMMY BUGO @ HAMID BUGO
(Independent Non-Executive Director)
Also sits on the board of SapuraCrest Petroleum Berhad, Sapura Resources Bhd, Permodalan Sarawak Bhd. He was the first General Manager of Land Custody and Development Authority, Sarawak then a Secretary of the Ministry of Resource Planning and State Secretary of Sarawak

DATO SRI LIM HAW KUANG
(Independent Non-Executive Director)
Also a member of the China Council for International Cooperation in Environment and Development and Director and Special Adviser to the President and Executive Committee of World Business Council for Sustainable Development, and has been awarded state honours by the Malaysian Government. He was the Chairman of Shell Malaysia, Executive Chairman of Shell Companies in China .

TAN SRI ANDREW SHENG LEN TAO
(Non-Independent Non-Executive Director)
Also sits on the board of Khazanah Nasional Berhad and Qatar Financial Centre Regulatory Authority, Chief Adviser to the China Banking Regulatory Commission & advisor to IRDA. He was the Chairman of the Securities and Futures Commission of Hong Kong, Senior Manager of Financial Sector Development at the World Bank.

TAN SRI DATO' DR YUSOF BIN BASIRAN
(Non-Independent Non-Executive Director)
Also the Chief Executive Officer of the Malaysian Palm Oil Council (MPOC) and the Chairman/ Director of TH Plantations Berhad and CB Industrial Product Holding Berhad. He is also a Director of FELDA. He was the Director-General Palm Oil Research Institute of Malaysia (PORIM)

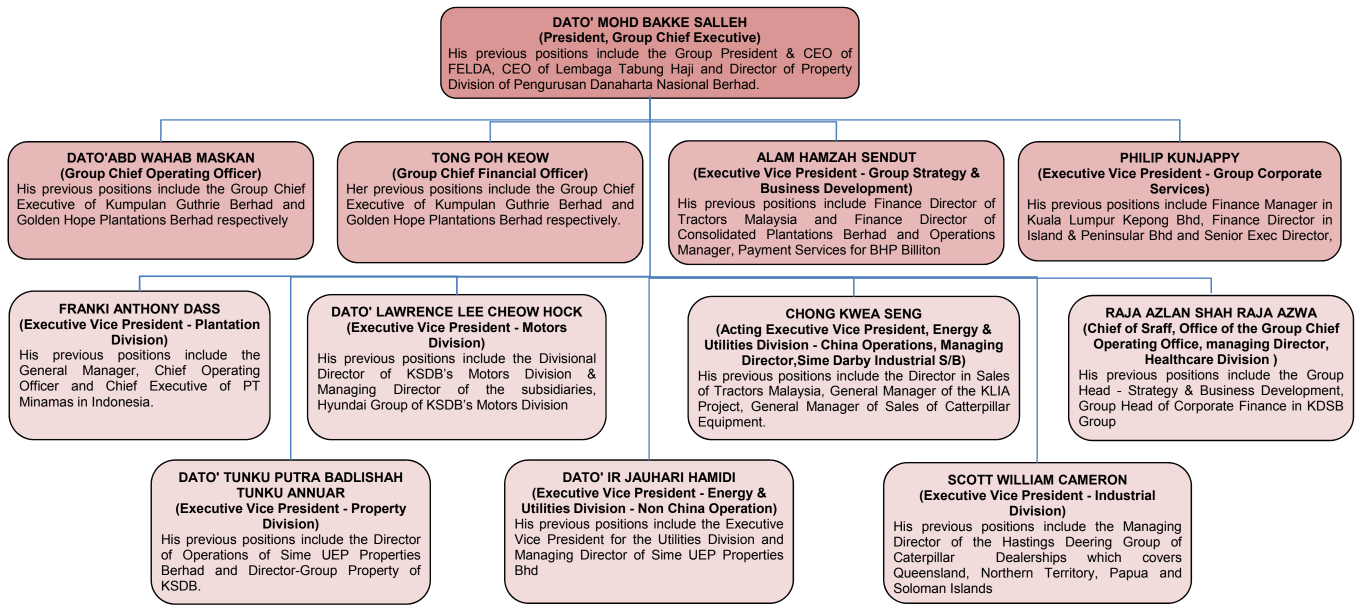
DATO' MOHD BAKKE SALLEH
(Non-Independent Non-Executive Director)
His previous positions include the Group President & CEO of FELDA, CEO of Lembaga Tabung Haji and Director of Property Division of Pengurusan Danaharta Nasional Berhad. He has a Bachelor of Science (Economics) degree from the London School of Economics and Political Science (University of London)

MR SREESANTHAN ELIATHAMBY
(Independent Non-Executive Director)
Also sits on the Boards of Scomi Group Berhad, Guinness Anchor Berhad and Malayan Banking Berhad. He is also an advocate & Solicitor and a Partner with the legal firm of Messrs Kadir, Andri & Partners. He holds a post-graduate degree in law from the University of Oxford,

DATO' HENRY SACKVILLE BARLOW
(Independent Non-Executive Director)
Also the Director of HSBC Bank Malaysia Berhad and The International and Commonwealth University of Malaysia Berhad. Honorary Secretary of the Heritage Trust of Malaysia; and Honorary Treasurer of the Malaysian Branch of the Royal Asiatic

Source: Company data, Nomura research

Fig. 77: Sime Darby: Key management personnel



Source: Company data, Nomura research

Appendix A-1

Analyst Certification

We, Ken Arieff Wong, Tushar Mohata and Vishnuvardana Reddy, hereby certify (1) that the views expressed in this Research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of our compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

Issuer Specific Regulatory Disclosures

Mentioned companies

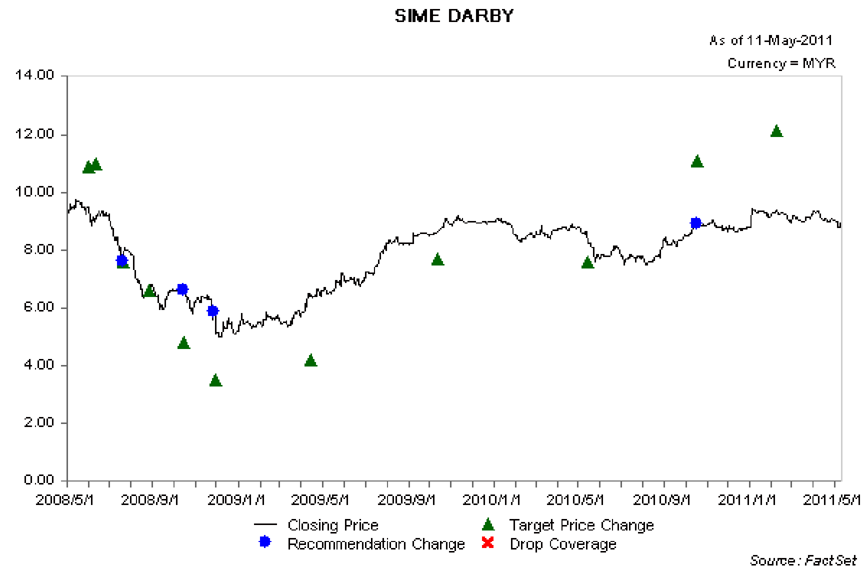
Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Sime Darby	SIME MK	9.08 MYR	13-May-2011	Buy	Not rated	

Previous Rating

Issuer name	Previous Rating	Date of change
Sime Darby	Reduce	19-Oct-2010

Sime Darby (SIME MK) **9.08 (13-May-2011)** Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
09-Feb-2011		12.15	9.38
19-Oct-2010		11.10	8.87
19-Oct-2010	Buy		8.87
14-May-2010		7.60	8.25
13-Oct-2009		7.70	8.62
14-Apr-2009		4.20	6.45
01-Dec-2008		3.50	5.10
28-Nov-2008	Reduce		5.85
16-Oct-2008		4.80	6.60
16-Oct-2008	Sell		6.60
27-Aug-2008		6.60	6.60
21-Jul-2008		7.60	7.60
21-Jul-2008	Neutral		7.60
12-Jun-2008		11.00	9.10
02-Jun-2008		10.90	9.30

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value Sime Darby using an SOTP valuation: 1) ascribing a P/E multiple of 18x to its plantations division FY11F PAT of RM2.93bn, 14x to heavy equipment FY11F PAT of RM662mn, 15x to automobiles FY11F PAT of RM303mn, 10x to Utilities (ex oil and gas) FY11F PAT of RM93mn, and 8x to others (RM34mn); 2) valuing the property business at RNAV (RM7.85bn), to arrive at our PT of RM12.15.

Risks that may impede the achievement of the target price On the downside, the key risks include, lower-than-expected crude palm oil prices impacting its plantations division, lower-than-expected production recovery or poor weather impacting yields, the possibility that its current outstanding projects at its oil & gas business incur losses, slower-than-expected demand for its property launches, a global economic slowdown, which could impact demand for autos in Asia Pacific, a sharp drop in commodity prices and construction spending which could reduce demand for its heavy equipment.

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STOCKS

A rating of '**Buy**', indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months.
A rating of '**Neutral**', indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months.
A rating of '**Reduce**', indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months.
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SECTORS

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A '**Neutral**' stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next 12 months.
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Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

STOCKS

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A '**Buy**' recommendation indicates that potential upside is 15% or more.

A **'Neutral'** recommendation indicates that potential upside is less than 15% or downside is less than 5%.
A **'Reduce'** recommendation indicates that potential downside is 5% or more.
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A **'Bearish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

Explanation of Nomura's equity research rating system in Japan published prior to 6 January 2009 (and ratings in Europe, Middle East and Africa, US and Latin America published prior to 27 October 2008)

STOCKS
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A **'Bearish'** stance, indicates that the analyst expects the sector to underperform the Benchmark during the next six months.
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Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published prior to 30 October 2008

STOCKS
Stock recommendations are based on absolute valuation upside (downside), which is defined as (Fair Value - Current Price)/Current Price, subject to limited management discretion. In most cases, the Fair Value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as Discounted Cash Flow or Multiple analysis etc. However, if the analyst doesn't think the market will revalue the stock over the specified time horizon due to a lack of events or catalysts, then the fair value may differ from the intrinsic fair value. In most cases, therefore, our recommendation is an assessment of the difference between current market price and our estimate of current intrinsic fair value. Recommendations are set with a 6-12 month horizon unless specified otherwise. Accordingly, within this horizon, price volatility may cause the actual upside or downside based on the prevailing market price to differ from the upside or downside implied by the recommendation.
A **'Strong buy'** recommendation indicates that upside is more than 20%.
A **'Buy'** recommendation indicates that upside is between 10% and 20%.
A **'Neutral'** recommendation indicates that upside or downside is less than 10%.
A **'Reduce'** recommendation indicates that downside is between 10% and 20%.
A **'Sell'** recommendation indicates that downside is more than 20%.

SECTORS
A **'Bullish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a positive absolute recommendation.
A **'Neutral'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a neutral absolute recommendation.
A **'Bearish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

Explanation of CNS rating system for Thailand companies under coverage published from 2 March 2009:
Stocks:
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Recommendations are set with a 6-12 month horizon unless specified otherwise. Accordingly, within this horizon, price volatility may cause the actual upside or downside based on the prevailing market price to differ from the upside or downside implied by the recommendation.

A "Buy" recommendation indicates that potential upside is 15% or more.
A "Neutral" recommendation indicates that potential upside is less than 15% or downside is less than 5%.
A "Reduce" recommendation indicates that potential downside is 5% or more.

Explanation of CNS rating system for Thailand companies under coverage published prior to 28 February 2009:
Stocks:
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Recommendations are set with a 6-12 month horizon unless specified otherwise. Accordingly, within this horizon, price volatility may cause the actual upside or downside based on the prevailing market price to differ from the upside or downside implied by the recommendation.

A "Strong Buy" recommendation indicates that upside is more than 20%.
A "Buy" recommendation indicates that upside is between 10% and 20%.
A "Neutral" recommendation indicates that upside or downside is less than 10%.
A "Reduce" recommendation indicates that downside is between 10% and 20%.
A "Sell" recommendation indicates that downside is more than 20%.

Sectors: (No change)
A "Bullish" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a positive absolute recommendation.
A "Neutral" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a neutral absolute recommendation.
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