Property portfolio, data centres to lift SimeProp

Recurring income from assets to accelerate earnings

PROPERTY

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> CGS International Research

PETALING JAYA: Sime Darby Property Bhd's (SimeProp) accelerating growth on the back of recurring income from the significant expansion of its investment property portfolio has CGS International Research (CGSI Research) reiterating its "add" call on the stock with an unchanged target price of RM1.90.

CGSI Research said there would be a number of income streams for SimeProp, including the recent acquisition of two double-storey logistics warehouses in Bandar Bukit Raja in Selangor that cost RM232mil.

The research house said it estimates that the acquisition could contribute between RM7mil to RM8mil in net profit annually, assuming there is a 7% net property income yield.

"Furthermore, we gathered from management during the first quarter (1Q25) results briefing that the group has retained some of their commercial and industrial units to lift rental income," the research house said.

Among them is the KLGCC Mall in Kuala Lumpur that is set to open to the public in the second half of this year (2H25), further boosting the group's portfolio of retail assets.

The property developer's commencement of built-to-lease data centres at Elmina Business Park in Selangor is also set to boost recurring income from next year (FY26) onwards.

"Phase one and two of the data centre assets are on track for completion by end-FY26 and 1H27, respectively. We project the investment property portfolio to contribute about RM119mil in net profit by FY27, making up 11% of the group's net profit," CGSI Research said.

However, the research house expects SimeProp to be negatively affected by the 6% sales and service tax (SST) on construction services, as it directly leads to higher construction costs for its commercial and industrial products.

On a more promising note, construction as well as rental and leasing services for residential buildings, which account for over 50% of SimeProp's sales are exempted under the expanded SST, thus limiting the overall impact.

This could result in SimeProp's profit margins remaining intact in the short term.

"Nevertheless, we do not rule out the risk of softer sales in its commercial and industrial segments as elevated property prices may temper buyer sentiment, potentially leading to deferred purchases or weaker property demand," CGSI Research said.

The research house said following a weaker 1Q25 for SimeProp, it now continues to anticipate stronger quarterly earnings for the group for the rest of FY25 as progress billings pick up pace.

"The valuation has also reverted to a palatable FY26 price-earnings of 15 times, which we deem compelling given the encouraging FY25 to FY27 earnings growth trajectory," it said.

The research house added downside risks include wider losses from the Battersea Power Station development in Britain and slower property launches, while re-rating catalysts were stronger sales growth and further expansion of SimeProp's data centre business.

SimeProp's shares closed at RM1.42 in yesterday's trading.