

NO. 3 (JOINT RANKING) | Sime Darby Property Bhd

	2023	2022
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# Boosting growth through diversification

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**D**espite the property industry's challenges, such as a labour shortage and escalating building material prices, Sime Darby Property Bhd (SDP) ended FY2022 with an operating profit of RM487.8 million and sales of RM3.7 billion — its highest ever following its demerger in 2017. According to group managing director Datuk Azmir Merican, the company's revenue grew 24% year on year (y-o-y) to RM2.7 billion, while profit before tax (PBT) increased 64% to RM458.9 million.

"The substantial rise in PBT was supported by increased profitability across all our business segments, including contributions from our land monetisation activities and sale of non-core assets. We launched products worth RM2.6 billion in gross development value (GDV), of which 46% comprised industrial products in Elmina Business Park, Bandar Bukit Raja and Serenia City in Selangor; Hamilton Nilai City and Nilai Impian in Negeri Sembilan; as well as Bandar Universiti Pagoh in Johor," he says. Apart from the positive financial results, 2022 was also an eventful year for SDP. In May last year, it unveiled the 1.09-acre Elmina Rainforest Knowledge Centre (ERKC) in its City of Elmina township, demonstrating its efforts to implement good biodiversity practices, focusing on conservation actions, research and development, environmental education and eco-tourism, among other green initiatives.

The following month, the Kuala Lumpur Golf & Country Club (KLGCC) celebrated the return to its prestigious legacy, reverting to its previous name from TPC Kuala Lumpur. As the centrepiece of its KLGCC Resort township, it leverages the premium value of the location nestled on the outskirts of Kuala Lumpur.

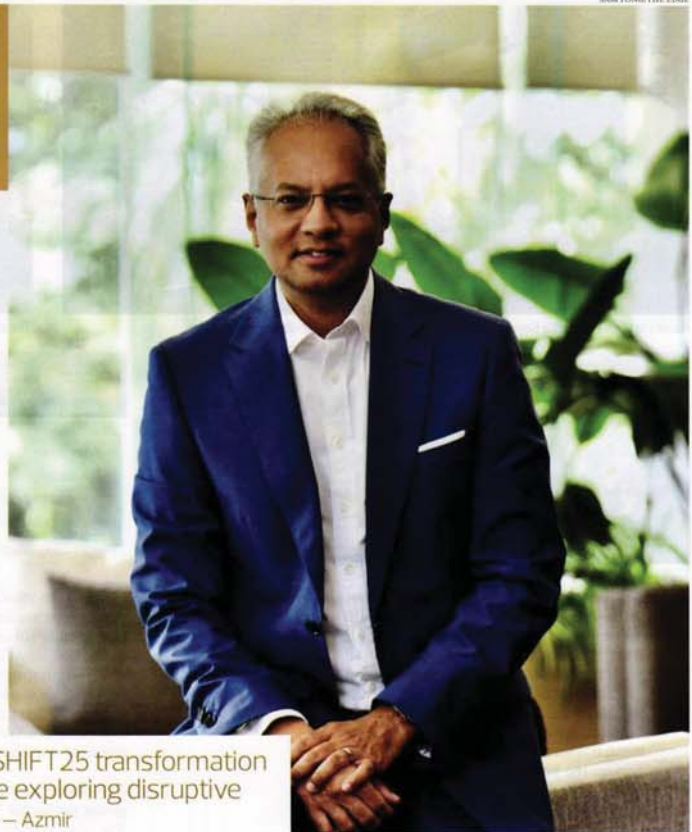
The company's joint venture with LOGOS SE Asia Pte Ltd (LOGOS Property), SDPLOG, also marked a milestone with the commencement of groundwork at its maiden asset, the E-Metro Logistics Park in Bandar Bukit Raja, Klang.

"On the international front, FY2022 was a pivotal year for our Battersea Power Station project, with the public opening of the Grade II\* listed Power Station and Electric Boulevard in October last year, which have received more than 11 million visitors since," says Azmir.

Moving forward, as SDP is looking to trans-

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As part of our SHIFT25 transformation strategy, we are exploring disruptive opportunities." — Azmir



SAM FONG/THE EDGE

MOHD IZWAN MOHD NAZAM/THE EDGE



Azmir (centre) with (from left) *The Edge Malaysia* editor-in-chief Kathy Fong, editor emeritus Au Foong Yee, *The Edge Media Group* publisher and group CEO Datuk Ho Kay Tat and *City & Country* editor E Jacqui Chan

form itself into a sustainable real estate company, it seeks to have higher recurring income for the group while growing its investment and asset management segment. It is also looking to expand its high-rise portfolio. Azmir shares the developer's growth plan and some of his thoughts on the future of the company.

**City & Country: How have the past 12 months been for SDP?**

**Datuk Azmir Merican:** We have been focusing on execution in the last 12 months. We sold 3,332 units and successfully delivered 1,855 in 2022, while maintaining our product quality with an average of 83% for our Quality Assessment System in Construction (Classic) performance of our residential offerings — head and shoulders above the Classic national average of 77%.

As part of our commitment to innovation and creativity, we also embarked on the Concept Home 2030 initiative, which aims to redefine how homes are designed and built, envisioning a future where homes incorporate new and innovative approaches. In support of value creation within and extending our township developments, we invested RM530

million in 2022 for infrastructure to maintain the needs of future communities in residential, commercial and industrial precincts.

We were cautious at the start of 2023. However, the market responded well and by the first half of the year, SDP had received 40 awards, cementing its excellence in brand and market perception. We registered revenue of RM1.4 billion for the six months ended June 30, 2023 (1HFY2023), marking a 25% increase from RM1.1 billion in the same period a year ago. The group's gross profit margin exceeded expectations at 28%, with profit before tax at RM212.2 million and profit after tax and minority interest (Patami) at RM131.7 million, reflective of the more competitive and dynamic market environment.

On Aug 21, 2023, we completed our second sukuk issuance under the Sukuk Musharakah Programme with a nominal value of RM600 million. The issuance reached an oversubscription of more than eight times and accumulated an order book valued at over RM4.8 billion, a testament to the market's confidence in our fundamentals.

Confident that the strong momentum seen in 1H2023 will continue into the second half, we revised our sales target of RM2.3 billion to RM2.7 billion and the GDV launch target of RM3 billion to RM4 billion. Given the positive outlook, we believe we are well positioned to capitalise on the resilient market demand, which presents us with an opportunity to maximise our property development growth over the coming years. We are optimistic about our ability to achieve our goals for the year and subsequently strive towards maximising shareholders' value.

**Where is SDP now in the SHIFT25 strategy?**

In 2021, we launched our SHIFT25 strategy, aimed at transforming SDP from a pure-play residential-focused property developer into a sustainable real estate company by 2025. This means having a broader presence along the real estate value



SIME DARBY PROPERTY

## Sime Darby Property Bhd

FINANCIAL YEAR END (RM MIL)	2022	2021	2020	2019	FP2018*	FY2018
Revenue	2,742	2,217	2,063	3,180	1,269	2,353
Pre-tax profit	459	280	(475)	666	(38)	728
Paid-up capital	6,801	6,801	6,801	6,801	6,801	6,801
Shareholders' funds	9,520	9,412	9,014	9,722	9,210	9,735
Profit attributable to shareholders	316	147	(502)	599	(319)	640
Dividend payout ratio (%)	43.1	46.3	133.4**	34.1	71.8**	53.1

\*\* Excludes exceptional items

\* The group changed its financial year end from June 30 to Dec 31. FP2018 covers the financial period of July 31 to Dec 31, 2018.

Hype Residences in Subang Jaya is the developer's latest high-rise development

chain encompassing property development, as well as investment and asset management (IAM).

We undertook strategic land activation to drive sales, matching our product launches with market demand. Our agility in taking advantage of the market conditions has resulted not only in enhanced sales but also in a more diversified product portfolio. For example, we made good progress in FY2022 whereby we achieved our highest-ever operating profit of RM487.8 million, Patami more than doubled to RM315.8 million and PBT grew 64% y-o-y to RM458.9 million. All segments were profitable and, on top of that, we achieved the highest sales since the demerger at RM3.7 billion.

While property development continued to be the top contributor, accounting for 93% of total revenue, the IAM segment saw 18% y-o-y revenue growth in FY2022. This is a healthy indicator as we work towards our target of achieving 30% recurring income stream by 2025.

Moving forward, we will continue to focus on building our property development business while diversifying our product mix. In tandem with a more subdued market, we will rein in our aggressive product launches, but remain agile and introduce products that resonate with the market in order to maintain sustainable earnings visibility.

Beyond property development, we seek to grow our IAM segment through the generation of higher recurring income contributions to the group. We also expect to carry out the final closure of the Industrial Development Fund (IDF) as we complete

the first phase of the E-Metro Logistics Park in the coming quarters.

### SDP plans to expand its high-rise portfolio. Can you elaborate on the plan?

One of the things we have looked at is making sure our property development business performs well. Traditionally, we excel in landed residential homes, but if you see this year, we are planning to launch more than RM1 billion of high-rise developments. That is not something we have typically done in the past.

Now, we are also going strong in integrated high-rise developments, and we are confident about this segment, which has become a very important sales contributor. We're looking at about RM1 billion to RM1.5 billion a year moving forward.

Most of all, we want to continue developing products that address different segmental needs. It is SDP's goal to develop self-sustaining townships comprising a mix of landed properties, high-rise residences, commercial and retail offerings, and recreation parks.

### The company's IDF allows the company to have recurring income. What are your target assets under management?

The assets under management (AUM) is a critical metric for us. Hence, what we want to do is to keep launching new funds and products to keep growing our AUM. We have successfully raised about RM700 million. We expect to close the fund at RM1 billion by the first quarter of 2024. We will need time and we need the market to be right.

## ONGOING PROJECTS

PROJECT / LOCATION	TYPE	GDV (RM MIL)	LAUNCH DATE
Ilim Residence 3, City of Elmina	Residential	263	March 2023
Teja, Subang Jaya City Centre (SJCC)	Residential	211	May 2023
TRIARA Residences, Ara Damansara	Residential	319	May 2023
Hype Residences, SJCC	Residential	222	October 2023
Serenia Aqila Phase 3, Serenia City	Residential	46	October 2023

## IN THE PIPELINE

PROJECT / LOCATION	TYPE	GDV (RM MIL)	EXPECTED LAUNCH DATE
Bandar Ainsdale	Residential	TBC	TBC
KLICC Resort	Residential	TBC	TBC
City of Elmina	Residential	TBC	TBC
KL East	Residential	TBC	TBC

### Any plan to grow your property investment portfolio other than the IDF? What is the company's current revenue/profit contribution ratio between property development and property investment/recurring income?

Our investment portfolio currently encompasses 5.4 million sq ft of diversified assets across the commercial, retail, and industrial and logistics sectors in Malaysia, Singapore and the UK.

Two upcoming retail malls in KLGCC Resort and City of Elmina are under development, totalling 420,000 sq ft. We commenced construction of a ready-built warehouse (RBW) in Bandar Bukit Raja Industrial Gateway in August 2022 and secured pre-commitments for 487,000 sq ft of space from two anchor tenants: CEVA Logistics, a multinational logistics and supply chain company; and SL Ng, a home-grown fast-moving consumer goods market expansion service provider in Malaysia. The RBW was recently completed.

For our joint venture with LOGOS Property, we commenced construction of two RBWs, namely E-Metro Hub 1 (December 2022) and E-Metro Hub 2 (April 2022). Both are expected to be completed in 2024.

Our target is to have a 70:30 split between property development income and recurring income. Currently, we are at 90:10.

### Other than the UK, is SDP looking to venture into other countries?

As part of our SHIFT25 transformation strategy, we are exploring disruptive opportunities, including geographical expansion as well as other value accretive and synergistic opportunities to broaden our income stream, especially recurring income.

Currently, the only development we have outside of Malaysia is the Battersea Power Station in the UK, of which SDP is a 40% shareholder. We have invested in the UK for more than 10 years and we should be able to do more as we're well versed with the market now. But whether further investing in the UK or other countries, we will only pursue the right opportunities.

### Where is the company right now in terms of achievements, with regard to sustainability? Can you share some of the achievements/results?

For SDP, it aligns with (i) our purpose to be a value multiplier for people, businesses, economies and the planet; and (ii) our vision of advancing real estate as a force for collective progress, in harmony with the planet's resources. It is part and parcel of our commitment to being a force for good. We must see beyond the business and think about the impact that we'll be leaving on our next generation. We owe it to them.

Since 2011, we have planted more than 125,000 trees, of which almost 25,000 are in the Endangered, Rare and Threatened (ERT) category. Through this initiative, it is estimated that 13,000 tCO<sub>2e</sub> has been sequestered from the atmosphere.

In May 2022, we officially launched ERKC. Operated in partnership with a non-governmental organisation (NGO) — Tropical Rainforest Conservation and Research Centre (TRCRC) — ERKC focuses on conservation, research and development, environmental education, eco-tourism and community engagements.

TRCRC also operates the 10-acre Elmina Living Collection Nursery, adjacent to ERKC. The nursery acts as a genetic store for the production and conservation of ERT species of trees as assessed by the International Union for Conservation of Nature Red List of Threatened Species.

In 2022, we began developing our net zero pathway with a strategic partner to help us chart our carbon footprint reduction, focusing on our operational Scope 1 and Scope 2 carbon emissions before moving towards developing a baseline for Scope 3 in 2023.

Sustainability is a long-term journey, and we want to lead and make a difference. Hence, we will: (i) move towards our net zero goal; as well as to (ii) continue championing urban biodiversity and make rewilding and restoring the soil as a target to achieve in all our townships. We have been working with various NGOs and experts in this space to make it happen, and we will continue to do so.

# Combining strategy and a clear vision

Datuk Azmir Merican joined Sime Darby Property as group managing director in April 2020. Yes, right at the start of the first Covid-19 lockdown – what a baptism of fire! And despite coming from another industry, he learnt fast, and with discipline and focus, expanded the company from being merely a property developer into a real estate company. This delivered a strong set of results in 2022, with after-tax profit more than doubling.



MORIED EDWAN MORIED KAZAM/THE EDGE

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**R**esilience, a clear vision and the ability to build trust with a team are among the essential qualities of a CEO, according to Sime Darby Property Bhd (SDP) group managing director Datuk Azmir Merican.

"[Running a company] is a marathon ... when you run an organisation, you don't look at short-term results so much, you look at the long-term plan. Today, as a CEO, compared to 10 years ago, I take a much longer perspective. Problems arise because your perspective and horizon are not long enough. You try to fix the problems but nothing works," the 52-year-old Penangite explains.

"Property development is an industry in which you need to have a longer horizon; for example, to build a high-rise project, from land acquisition, planning and design, approval and selling to completion, it will easily take seven years at least.

"I am not a very patient person, but you have to understand that [situation] and make sure every single part in those seven years is right. That's why resilience is not only about being patient, but also understanding that you need to weather the storms and that you don't see the outcome immediately. Sometimes, it doesn't work so you need input from your team and often, they have solutions for you."

Also, he believes that it is important to establish a company vision that involves and excites everyone in the company, as a company cannot expect a different outcome if it keeps doing the same thing. The vision has to be clear, as well as right for the company and its people, he adds.

Next, building trust is an important and a time-consuming process but there is value in doing so.

"When you have trust, you solve a lot of problems. I see many organisations go through a lot of unnecessary drama because the trust level is low, [and] a lot of time is wasted on situations that can be dealt with in a more mature way. For me, building trust both ways is important and takes time because we need to understand each other well. As leaders, we need to ensure team members have a sense of belonging and we need to help them in executing [their work]."



I don't like to keep doing the same old same old." – Azmir



Azmir, who assumed his current position in April 2020, received the Outstanding Property CEO award at *The Edge Malaysia* Property Excellence Awards 2023. This award is presented to CEOs or professionals who have taken their company to exceptional levels.

## Gearing for growth

Under Azmir's leadership, the developer launched the SHIFT25 strategy in 2021, which is set to transform SDP from a pure-play residential-focused property developer into a real estate company with multiple sources of income by 2025. The target is to broaden its income base to a 70:30 split between property development and recurring income streams.

The strategy brings forth the establishment of an industrial development fund, where the earnings contribution comes in the form of new recurring income streams such as fund management and development services fees.

Azmir (centre) with (from left) *The Edge Malaysia* editor emeritus Au Foong Yee, editor-in-chief Kathy Fong, *The Edge Media* Group publisher and group CEO Datuk Ho Kay Tat and *City & Country* editor E Jacqui Chan

In September 2021, a 51:49 joint venture between the developer and LOGOS SE Asia Pte Ltd was formed to develop a 177-acre site in SDP's Bandar Bukit Raja in Klang, Selangor, that would create close to eight million sq ft in gross lettable area.

"In fact, we can even do a land fund and develop land without using our entire capital. We know how to acquire and develop land, then we can get investors, move the project forward and manage it. It is private equity and we have institutional investors come in. We can give them a yield and they will see a fund like this is not very risky. What we want to do is to apply this model to other parts of our business ... it can be in almost every type of product. We believe it is important to create recurring income for SDP," Azmir explains.

Also, he emphasises that as property developers deal with a finite resource – land – SDP needs to utilise it in a better way.

"Even though SDP has many land assets, our efficiency is not as good as others because we mainly build landed homes. That's why our utilisation is very high and we have upped that in the last few years. So, from this year onwards, we will be very aggressive in launching high-rises and plan to launch such projects worth more than RM1 billion each year. It is a new thing, and it is about getting that business active," he says.

The SHIFT25 strategy also encourages opportunities for experimental bets on new innovations and business segments, such as affordable landed homes. Azmir notes that large corporations normally do not want to take too many bets but he sees the need for organisations to do so.

"We agree that if something is interesting, we will look at it for a certain period ... if it works, then well and good; if not, we move on. It is about



Azmir sharing the highlights of Elmina Green Seven with Minister of Local Government Development Nga Kor Ming

being open and allocating the right resources. If it works, we have something new."

With the SHIFT25 strategy in place, Azmir is optimistic about SDP's growth ahead.

"We'd like to see the company growing and 2025 is the marker to see this growth. If the formula is right, we can even bring this overseas."

"It calls for discipline. For example, we can make fast money today but we say no instead and we will make the money in the next five years. It is a tactical decision we need to agree on."

"We are very Malaysia-centric, with only one project in the UK. For us to expand the business, we need to look at the growth markets and where SDP can be effective. We are looking at more markets abroad and are happy to do partnerships in other countries."

Sustainability is also a priority for SDP, and a topic the team is passionate about, Azmir notes. Various ideas, such as wetlands and connecting parks, have been suggested and the developer is looking to execute some of these suggestions.

"As a company, we have the ability to do good things...we want to push for this very hard and I think we have the obligation to do that. Covid-19 made us realise that sometimes, if we leave nature alone, it has the ability to restore itself. What that means is that if we take a step back, we are able to design the township better [to connect to nature]. At the end of the day, we need nature but nature doesn't need us. We also have a policy that we don't deplete primary forest," he says.

"The planet is so important today. We cannot trade it off and we have to do what is right. At SDP, when we develop, we try to restore the land to as healthy a state as possible. We also learn that when we do our parks, we want to connect all of them. I believe we are a value multiplier for businesses, people, economies and the planet... this purpose is very strong within us, and I think that's why people believe in us."

#### Industry newbie

"I don't like to keep doing the same old same old," Azmir candidly declares, which is why the highly competitive CEO joined SDP. A business administration (finance) graduate of Western Michigan University's Haworth College of Business, he started his career as an investment analyst with Maybank Group before moving on to become a manager in the financial advisory arm of PricewaterhouseCoopers.

Azmir then joined CIMB Investment Bank Bhd, where he was part of the team that established the bank's private equity business. Then, at age 36, he took on his first role as group CEO and managing

director at AWC Bhd, a provider of engineering services and solutions and integrated facilities management in Malaysia, Singapore and the Middle East.

He then joined UEM Group, where he held various positions, including a stint as managing director for property developer Faber Group Bhd — now known as UEM Edgenta Bhd, following the merger between Opus Group Bhd and Projek Penyelenggaraan Lebuhraya Bhd.

The stint at UEM Edgenta gave him a brief introduction to property development until the company's exit from the industry in 2017 to focus on total asset management.

On his switch to the property development industry when he joined SDP at 49, Azmir recalls: "I was never convinced to join the property company because I used to think the industry is very competitive and at my age then, I thought it would be too late to join a new industry."

"There are many talented people in the property development industry and I didn't think I would add a lot of value but subsequently, I met the board members who are genuine and have a lot of interest. They were quite persuasive and I thought we would work well together... that was important to me."

The board of directors explained his role and how they would build a team to support him — all these moves made him feel he could work with them. Also, he reckoned it was time to move on to new challenges.

"We have a good board that really cares about the organisation and wants to make a difference. Especially when I first joined, there were people [from the board] who understand the industry,



Azmir: You need to fly 10,000ft high to understand the business but you also need to come down quickly [enough] to know the operations, tactical issues and implementation

there were people who understand strategy. It is a highly involved board. It is the SDP story," he says.

Azmir attributes the Outstanding Property CEO award to the team, as he says with everyone's support, the company can do something wonderful and special.

Nevertheless, he agrees that his previous work experience has helped him in his current job as he has been involved in creating strategies and dealing with problems. Azmir notes that the fundamentals are the same. Understanding the business model and processes is also something that he appreciates.

"You need to know the business well. The more you know, the better you can manage the business. You need to fly 10,000ft high to understand the business but you also need to come down quickly [enough] to know the operations, tactical issues and implementation. There are different guidelines, issues and feedback," he says.

"We are regulated, but in the end our success depends on whether homebuyers like our products. That's good because you have the opportunity to be competitive, find a way to produce something that consumers want by understanding the market, get the right product and compete openly. We are not held back by monopoly and I find that is good. It really depends on your innovation and when you execute it, you can see the impact."

He surrounds himself with a good team. Even though communication was hard when he first joined the company due to the Covid-19 outbreak, he met everyone online and tried to understand each business head's role as much as possible. There has also been a lot of engagement with the employees.

Even with strategies in place, he believes in the power of a company's vision, one that all its employees understand. With a clear vision, it is about how best to get the strategy executed.

While he enjoys solving problems, Azmir's approach is to be open-minded and less formal. "First, we need clarity on what we want to do and try to make it as informal as possible. Formality makes it difficult for people to work with one another. I also try to be practical and understanding in solving problems. The team here is collaborative, we loop everyone in when making decisions and everyone knows what is happening. The management team is critical and needs to be aware of what is happening. The board is also important because they have their input," he adds.

#### Trade-off

Spending a lot of time at work, Azmir admits it can be difficult to juggle between professional and personal responsibilities and commitments.

"There are sacrifices, but I am lucky that my wife is understanding. We are a team. You need to be able to trade off because of the hours spent at work. I have responsibility as many people come to me for meetings and discussions. Also, as a CEO, you are the bottom line and need to be effective. I am still learning... it is demanding but quite satisfying," he admits.

"I have learnt to look at problems differently compared to 15, 20 years ago. In every problem, there is opportunity. I like problems because if you understand them, you can manage them better. A lot of the time, dealing with problems means dealing with people. When you solve a problem, clarity and alignment are important."

In his free time, Azmir prefers to be home with his wife and three children. While he enjoys cycling and yoga, he knows he does not exercise enough due to his busy schedule.

"Sweating, for me, is good to get my energy working out. Also, I like to understand what is happening in general and a bit of networking is important for me. Generally, when I get the chance to chill, I make sure I spend as much time as possible with my family. Sports are important to me too," he adds.



Azmir chatting with staff at the 18 Lab by KLGCC café at the developer's headquarters in Ara Damansara