

31 May 2019

DRB-HICOM Berhad

FY19 Below Our Expectation

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FY19 CNP came in at RM183m (+10% YoY) compared to our forecast of RM350.7m. However, this appears to be above consensus CNP of RM100m. The negative variance was due to lower-than-expected Automotive, services sector and associates' contributions. We cut our FY20E CNP by 43% to RM209m and introduce FY21E CNP of RM251m. Downgrade to UP from MP with a lower SoP TP of RM1.80 (from RM1.90).

FY19 below our expectation. FY19 CNP came in at RM183m (+10% YoY) compared to our RM350.7m estimate. However, this appears to be above consensus CNP of RM100m. The negative variance was due to lower-than-expected Automotive, services sector and associates' contributions. No dividend was declared for the quarter. However, we expect the group to declare a final dividend of 3.0 sen, after publishing its annual report (FY18: 3.0 sen).

YoY, FY19 CNP rose 10% mainly from improved contribution by its banking segment, aviation (CTRM), concession (Puspakom), property segment, and stronger vehicles sales by PROTON at 70,182 units (+9%) in 4Q, which more than offset lower overall contribution from Automotive, Pos Malaysia, and lower share of profits from associates' (-26%), namely Honda, which recorded lower sales at 100,290 units (-6%), as consumers held back purchases in anticipation of newer models. Note that, Honda has only recently launched the face-lifted Honda HR-V, and Mugen variants of Honda Jazz and BR-V, Proton was buoyed by the all-new Proton X70 (CBU), supported by face-lifted Proton Iriz and Persona, Property segments (Completion of Lease 1 of Media City Development, and Phase 1 of the Integrated Customs, Quarantine and Security Complex) and Pos Malaysia (FY19 plunged into core net loss of RM126.1m compared to a net profit of RM93.3m in FY18).

QoQ, 4Q19 recorded significant turnaround with CNP of RM188m (+157%), mainly from a turnaround in the Automotive segment's profit contributions of RM259m compared to segment profit of RM11m in 3Q19, which we believe was contributed by PROTON, especially with the sales of higher margin all-new Proton X70 (30k units booking, 14k units delivered). This turnaround more than offset the flat sales of PROTON units sales at 15,511 units (0%) and Honda units sales at 22,367 units (-1%).

Outlook. Proton X70 was rolled out on 12th December 2018. Proton is in the midst of finalising a 10-year business road map targeting 30% share of the domestic market and 10% of regional market via introduction of new models. Specifically, the group is targeting to expand its products portfolio in the A, B, SUV and MPV segments for their export market. PROTON has recently launched the face-lifted Proton IRIZ and PERSONA based on the Proton X70 design. A new manufacturing plant in Tanjung Malim will be fully ready in five years' time, but the first Proton car made with Geely's technology will be rolled out by 2H19.

We cut our FY20E CNP by 43% to RM209m based on lower-than-expected contributions from Automotive and services sectors as well as associates. We also **introduce our FY21E CNP estimate of RM251m.**

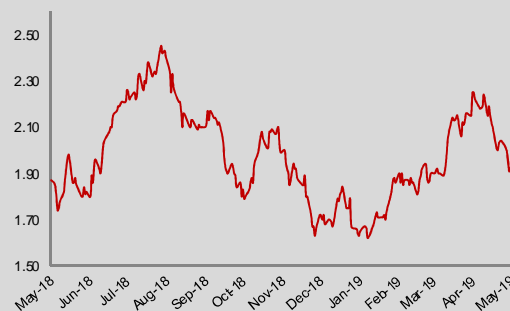
Downgrade to UP from MP with a lower Sum-of-Parts (SoP) Target Price of RM1.80 (from RM1.90), implying PER of 17x on FY20E EPS. Despite recording a turnaround in its core Automotive sector in 4Q19, significantly lower associate Honda's contribution as well as expanded losses from Pos Malaysia may limit its net earnings growth in the upcoming quarters.

Key risks to our call are: (i) faster-than-expected roll-out of new models under the new Geely-Proton management, and (ii) higher-than-expected associates' contribution.

UNDERPERFORM ↓

Price: RM1.98
Target Price: RM1.80 ↓

Share Price Performance



KLCI 1,636.50
YTD KLCI chg -3.2%
YTD stock price chg 16.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	DRB MK EQUITY
Market Cap (RM m)	3,827.8
Shares Outstanding	1,933.2
52-week range (H)	2.58
52-week range (L)	1.60
3-mth avg daily vol:	3,218,518
Free Float	33%
Beta	1.3

Major Shareholders

Etika Strategi Sdn Bhd	55.9%
Employees Provident Fund	9.2%
Dimensional Fund	1.9%

Summary Earnings Table

FYE Mar (RM'm)	2019A	2020E	2021E
Turnover	12,477	12,947	13,441
EBIT	441	739	845
PBT	282	506	579
Net Profit (NP)	123	209	251
Core Net Profit	183	209	251
Consensus (NP)	-	159	183
Earnings Revision	-	-43%	new
Core EPS (sen)	9.5	10.8	13.0
C.EPS growth(%)	-41.5	14.4	19.8
NDPS (sen)	3.0	3.0	3.0
BV/Share (RM)	3.47	3.55	3.65
Core PER	20.9	18.3	15.3
P/BV (x)	0.6	0.6	0.5
Gearing (x)	0.6	0.7	0.7
Net Dvd Yield (%)	1.5	1.5	1.5

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Result Highlights

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE: Mar (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Turnover	3,467	3,172	9.3%	2978.9	16.4%	12,477	12,251	1.8%
EBIT/ (LBIT)	388	172	125.6%	-221.6	-275.0%	441	405	8.9%
Associates	31	130	-76.6%	77.5	-60.5%	180	243	-26.2%
PBT/ (LBT)	329	97	240.0%	-241.0	-236.4%	282	284	-0.7%
Taxation	(109)	(43)	152.5%	52.4	-308.8%	(231)	(92)	151.9%
PATAMI / (LATAMI)	128	73	75.1%	-59.4	-315.2%	123	430	-71.5%
CNP/ (CNL)	188	73	157.4%	-59.4	-416.4%	183	167	9.5%
EPS/ (LPS) (sen)	7	4	75.1%	-3.1	-315.2%	6	22	-71.5%
EBIT margin	11.2%	5.4%		-7.4%		3.5%	3.3%	
PBT margin	9.5%	3.0%		-8.1%		2.3%	2.3%	
NP margin	3.7%	2.3%		-2.0%		1.0%	3.5%	
Effective tax rate	33.3%	44.8%		21.8%		81.8%	32.3%	

Source: Bursa Malaysia, Kenanga Research

Segmental Breakdown

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE: Mar (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Automotive	2,077	1,952	6.4%	1,591	30.6%	7,357	6,896	6.7%
Services	1,213	1,134	6.9%	1,218	-0.4%	4,579	4,493	1.9%
Property	177	85	106.7%	170	3.7%	541	863	-37.3%
Group Revenue	3,467	3,172	9.3%	2,979	16.4%	12,477	12,251	1.8%
Automotive	259	1	N.M	(234)	-210.7%	50	93	-45.7%
Services	27	63	-57.5%	(20)	-231.9%	206	296	-30.2%
Property	135	72	88.5%	59	130.0%	260	105	148.3%
Investment Holding	(92)	(39)	134.9%	(45)	101.8%	(235)	(210)	11.9%
Group Profit	329	97	240.0%	(241)	-236.4%	282	284	-0.7%

Source: Bursa Malaysia, Kenanga Research

Sum-of-parts valuation

Proton	51%	Based on FSP pricing	750
Puspakom	100%	DCF	211
Alam Flora		Proposed Sale Value	945
Bank Muamalat	70%	1.4x PBV	990
Pos Malaysia	54%	Based on TP of RM1.30 (corresponding downgrade of Kenanga Research TP to RM1.30 from RM1.50)	550
CTRM		12x PER	235
Deftech		13x PER	330
Property and construction	100%	BV	2,403
Others (extricated assets)		BV	540
Subtotal			6,953
Less: Net debt			(2,490)
Total			4,463
Holding co. discount (20%)			(937)
No. of shares			1933
SOP/share (TP)			RM1.80

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
AUTOMOTIVE																	
BERMAZ AUTO BHD	2.32	2,690.8	Y	04/2019	20.5%	3.6%	78.5%	3.2%	19.2	10.8	10.4	5.1	4.1	42.5%	7.4%	2.85	OP
DRB-HICOM BHD	1.98	3,827.8	Y	03/2020	3.8%	3.8%	14.4%	19.8%	20.9	18.3	15.3	0.6	0.6	3.1%	1.5%	1.80	UP
MBM RESOURCES BERHAD	2.93	1,145.3	Y	12/2019	0.3%	1.0%	1.7%	2.1%	6.9	6.8	6.7	0.6	0.6	8.9%	2.0%	3.45	OP
SIME DARBY BERHAD	2.30	15,641.9	Y	06/2019	2.8%	3.0%	-1.5%	1.9%	18.3	18.5	18.2	1.1	1.1	5.8%	3.3%	2.35	MP
TAN CHONG MOTOR HOLDINGS BHD	1.55	1,011.6	Y	12/2019	0.3%	1.8%	-3.8%	4.7%	9.6	10.0	9.5	0.4	0.4	3.6%	2.6%	2.15	OP
UMW HOLDINGS BHD	5.09	5,946.6	Y	12/2019	2.9%	6.1%	5.0%	18.7%	15.7	14.9	12.6	1.8	1.6	11.5%	1.5%	5.80	MP
Simple Average					5.6%	2.6%	17.9%	6.4%	15.0	12.9	12.0	1.6	1.3	12.8%	3.4%		
CONSENSUS ESTIMATES																	
APM AUTOMOTIVE HOLDINGS BHD	3.00	586.6	Y	12/2019	-0.8%	3.8%	-1.0%	4.5%	15.3	15.4	14.8	0.5	0.5	3.2	0.1	2.65	SELL
PECCA GROUP BHD	1.07	196.2	Y	06/2019	13.2%	5.5%	78.0%	5.4%	19.2	10.8	10.2	1.1	1.2	10.7	0.1	1.40	BUY

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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