

25 February 2021

DRB-HICOM Berhad

FY20 Within Expectations

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FY20 recorded core losses of RM193m compared to core profit of RM233m in FY19, within our full-year core losses estimate of RM164m and consensus core losses of RM145m. Both Proton and Honda continued to receive overwhelming responses for the all-new Proton X50 and all-new Honda City, respectively, while Pos Malaysia is on track to recovery in FY21. Maintain OP with Sum-of-Parts (SoP) derived-TP of RM2.50. Our TP implies a PER of 15x on FY21E EPS.

YoY, FY20 reported core losses of RM193m compared to core profit of RM233m for FY19. This was mainly due to lower overall sales (-6%) impacted by the COVID-19 pandemic and further worsened by the unfavourable forex movement, which caused the group to recognise forex losses on translation of payables and borrowings denominated in foreign currencies. Automotive segment sales (-6%) were affected by the business closure during MCO in 2QFY20 but had since recovered with Proton sales at 108,524 units (+55%) and Honda sales at 60,468 units (-40%). Services segment registered weaker sales (-18%) from: (i) Pos Malaysia's aviation division which suffered losses from flight cancellations, but this was cushioned by the stronger e-commerce and online market place demand as well as (ii) weaker performance from banking segment (Bank Muamalat) due to, in our view, higher financing impairments. Revenue from property sector (+274%) was boosted by the completion of the disposals of property assets as part of the restructuring of DRB-HICOM's property businesses which saw the group recognising a gain of RM862.6m and also marks DRB-HICOM's exit from the hospitality industry. **Note that our FY20 core losses exclude: (i) one-off property assets & investments disposal gain (RM945.95m), (ii) modification losses on financing moratorium (RM60.6m), (iii) impairment loss on PPE (RM76.6m), and (iv) other losses (RM62m).**

QoQ, 4QFY20 recorded lower core PATAMI of RM62m (-14%) mainly due to weaker services segment (-4%) due to unexpected shutdown of Pos Malaysia's main parcel processing centre in October and November 2020 affected by COVID-19 outbreak but this was cushioned by higher banking revenue (Bank Muamalat). This was despite higher sales (+36%) from stronger Automotive sales (+3%) on sales-exempted promotion and boosted by superior property sector sales (+1,199%) from the disposals of property assets. Proton and Honda recorded unit sales of 34,977 units (-4%) and 25,813 units (+47%), respectively, with Honda leading the growth through the superb sales of All-new Honda City which was launched in November 2020.

Outlook. During this sales tax exemption period, the group's marques are expected to boost their sales performance by featuring new or revised models. To illustrate, Volkswagen has launched Arteon, Tiguan Allspace SUV and the Passat R-Line, Audi introduced the Q3 Sportback while Proton unveiled the Proton X50 (Geely Binyue) recently. Honda has launched the face-lifted BR-V and the all-new Honda City in 2HCY20. Despite the challenging environment, Pos Malaysia's on-going transformation efforts will augment the improved tariff rates and growing demand for e-commerce. Other businesses in the group will continue to adapt to the so-called "new normal" environment to ensure financial sustainability, against the backdrop of changes in consumer behaviour.

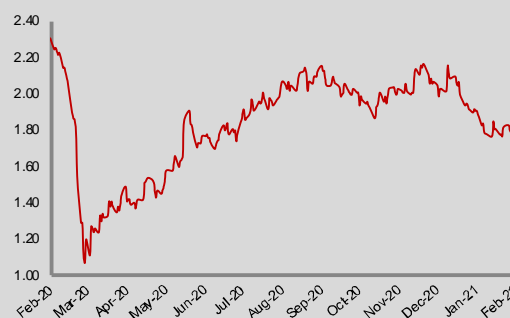
Maintain OP and Sum-of-Parts (SoP) derived-TP of RM2.50. Our TP implies a PER of 15x on FY21E EPS.

Key risks to our call are: (i) lower-than-expected car sales volume, and (ii) lower-than-expected associates' contribution.

OUTPERFORM ↔

Price: RM1.71
Target Price: RM2.50 ↔

Share Price Performance



KLCI 1,565.05
YTD KLCI chg -4.3%
YTD stock price chg -19.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	DRB MK EQUITY
Market Cap (RM m)	3,228.5
Shares Outstanding	1,933.2
52-week range (H)	2.27
52-week range (L)	0.98
3-mth avg daily vol:	3,016,903
Free Float	30%
Beta	1.4

Major Shareholders

Etika Strategi Sdn Bhd	55.9%
Employees Provident Fund	9.2%
CIMB Group Holdings	2.7%

Summary Earnings Table

FYE Dec (RM m)	2020A	2021E	2022E
Turnover	13,156	14,082	17,001
EBIT/ (LBIT)	921	703	813
PBT/ (LBT)	540	573	671
PATAMI / (NL)	554	325	374
CNP/ (CNL)	-193	325	374
Consensus (NP)	-	252	253
Earnings Revision	-	-	new
Core EPS (sen)	-10.0	16.8	19.4
C.EPS growth (%)	>100	>100	15.3
NDPS (sen)	-	3.0	3.0
BV/Share (RM)	3.92	4.12	4.34
Core PER (x)	N.M	12.8	11.1
P/BV (x)	0.5	0.5	0.5
Gearing (x)	0.6	0.5	0.3
Net Div. Yield (%)	-	1.4	1.4

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Result Highlights

	4Q	3Q	QoQ	4Q	YoY	12m	12m	YoY
FYE: Dec (RM m)	FY20	FY20	Chg	CY19	Chg	FY20	CY19	Chg
Turnover	4,850	3,564	36%	3,505	38%	13,156	14,003	-6%
EBIT/ (LBIT)	971	228	325%	313	210%	921	1,107	-17%
Associates	68	15	364%	3	2429%	55	123	-56%
PBT/ (LBT)	949	142	566%	195	387%	540	801	-33%
Taxation	(82)	(32)	159%	49	-268%	(156)	(143)	9%
PATAMI / (LATAMI)	986	47	1976%	241	309%	554	488	14%
CNP/ (CNL)	62	72	-14%	46	36%	(193)	233	>100%
EPS/ (LPS) (sen)	51	2	1976%	12	309%	29	25	14%
EBIT margin	20.0%	6.4%		8.9%		7.0%	7.9%	
PBT margin	19.6%	4.0%		5.6%		4.1%	5.7%	
CNP margin	1.3%	2.0%		1.3%		N.M	1.7%	
Effective tax rate	8.7%	22.3%		N.M		28.9%	17.8%	

Source: Bursa Malaysia, Kenanga Research

Segmental Breakdown

	4Q	3Q	QoQ	4Q	YoY	12m	12m	YoY
FYE: Dec (RM m)	FY20	FY20	Chg	CY19	Chg	FY20	CY19	Chg
Automotive	2,617	2,541	3%	2,384	10%	8,026	9,275	-13%
Services	877	919	-4%	1,042	-16%	3,498	4,292	-18%
Property	1,355	104	1199%	79	1611%	1,632	436	274%
Segment Revenue	4,850	3,564	36%	3,505	38%	13,156	14,003	-6%
Automotive	206	141	46%	108	90%	69	601	-88%
Services	(1)	77	>100%	(132)	-99%	74	(53)	>100%
Property	861	21	4021%	(2)	>100%	909	185	391%
Investment Holding	(117)	(96)	22%	220	-153%	(512)	68	>100%
Segment Profit	949	142	566%	195	387%	540	801	-33%

Source: Bursa Malaysia, Kenanga Research

Sum-of-parts valuation

Automotive		PER of 9x, which is the same as MBMR ascribed PER	1,854
Puspakom	100%	DCF	286
Bank Muamalat	70%	1.0x PBV	707
Pos Malaysia	54%	Based on TP of RM1.00	423
CTRM		12x PER	235
Deftech		13x PER	330
Property and construction	100%	BV	2,403
Subtotal			6,237
Less: Net cash / (debt)			(364)
Total			5,873
Holding co. discount (20%)			(1,175)
No. of shares			1,933
SOP/share (TP)			2.50

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliance	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.			
STOCKS UNDER COVERAGE																		
BERMAZ AUTO BHD	1.40	1,602.8	Y	04/2021	100.0%	-3.3%	21.5%	38.8%	16.2	13.3	9.6	3.1	2.5	20.8%	4.5%	1.70	OP	
DRB-HICOM BHD	1.71	3,228.5	Y	12/2021	7.0%	20.7%	68.4%	15.2%	N.A.	10.2	8.8	0.3	0.3	3.2%	1.8%	2.50	OP	
MBM RESOURCES BERHAD	3.29	1,286.0	Y	12/2020	-8.1%	1.2%	-26.8%	26.7%	6.7	9.1	7.2	0.6	0.6	6.8%	3.6%	4.10	OP	
SIME DARBY BERHAD	2.17	14,761.5	Y	06/2021	5.9%	5.9%	15.0%	1.8%	14.2	12.3	12.1	1.0	0.9	7.6%	4.6%	2.40	MP	
TAN CHONG MOTOR HOLDINGS BHD	1.13	736.9	N	12/2020	-28.9%	25.2%	-295.0%	-54.0%	17.4	N.A.	19.4	0.3	0.3	-2.9%	1.3%	1.30	MP	
UMW HOLDINGS BHD	2.87	3,353.0	Y	12/2020	-10.9%	21.4%	-33.3%	55.7%	13.1	19.7	12.7	0.6	0.5	2.8%	1.0%	3.85	OP	
Simple Average					10.9%	11.8%	-41.7%	14.0%	13.5	12.9	11.6	1.0	0.9	6.4%	2.8%			

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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