

19 November 2021

DRB-HICOM Berhad

9MFY21 Below Expectations

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9MFY21 results reported significantly higher core losses of RM362m compared to core losses of RM255m for 9MFY20 and our/consensus core full-year profit/core loss of RM46m/RM5m, respectively. We deemed the results as below our expectation on continued losses in the Automotive segment from unfavourable sales mix. As such, we cut FY21E CNP of RM46m to core loss of RM407m (>100%) and FY22E CNP to RM193m (-43%). For the immediate term, we expect the global supply chain issues to continue affecting its high-margin models Proton X70 and X50, with waiting period reaching up to six months. Downgrade to MP from OP with a lower SoP-derived TP of RM1.80 (from RM2.20).

YoY, its 9MFY21 results reported significantly higher core losses of RM362m compared to core losses of RM255m for 9MFY20 mostly affected by the closure of the automotive sector during pandemic lockdown, but overall sales (-1%) was cushioned by the SST-exempted sales since last year. Automotive segment sales (+4%) were cushioned by early year momentum from: (i) Proton to 71,641 units (-3%) with top-selling models namely Proton Saga followed by the two SUVs, Proton X70 and the newer Proton X50, and (ii) Honda to 31,044 units (-10%) with its best-selling all-new Honda City. Services segment sales (-5%) mostly were dragged by Pos Malaysia's contribution following the decrease in mail (-20%) and parcel volumes handled especially from contract customers affected by another lockdown (that started in June 2021), though cushioned by slight improvement from normalisation on Bank Muamalat. Property sector (-50%) contribution is expected to see weaker growth with the completion of both Media City and Northern Gateway Infrastructure projects.

QoQ, 3QFY21 losses widened to RM177m compared to core loss of RM168m in 2QFY21 with lower sales (-19%) following the implementation of another lockdown starting June 2021. Both Proton and Honda reported lower sales at 15,647 units (-34%) and 5,847 units (-44%), respectively.

Outlook. Proton and Honda are expected to chart a better recovery post lockdown in tandem with resumption of economic activities and lifting of inter-state travels. During this sales tax exemption period (until June 2022), the group's marques are expected to boost their sales performance by featuring new or revised models. 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 "new normal" environment to ensure financial sustainability, against the backdrop of changes in consumer behaviour.

FY21E CNP of RM46m cut to core loss of RM407m (>100%) and FY22E net profit trimmed to RM193m (-43%). Our CNP cut premised on unfavourable sales mix toward lower margin models. For the immediate term, we expect the global supply chain issues to continue affecting its high-margin models of X70 and X50 with waiting period reaching up to six months.

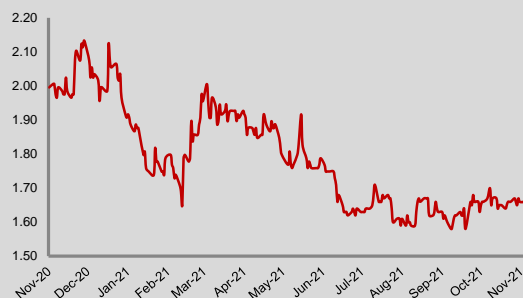
Downgrade to MP from OP with a lower Sum-of-Parts (SoP) derived-TP of RM1.80 (from RM2.20). The cut in SoP is due mainly to unfavourable sales mix on proton side with subsequent lower profit valuation.

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

MARKET PERFORM

Price: RM1.66
Target Price: RM1.80

Share Price Performance



KLCI	1,523.79
YTD KLCI chg	-6.4%
YTD stock price chg	-20.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	DRB MK EQUITY
Market Cap (RM m)	3,209.2
Shares Outstanding	1,933.2
52-week range (H)	2.25
52-week range (L)	1.58
3-mth avg daily vol:	1,239,756
Free Float	29%
Beta	1.3

Major Shareholders

Etika Strategi Sdn Bhd	55.9%
Employees Provident Fund	10.2%
Lembaga Tabung Haji	2.8%

Summary Earnings Table

FYE Dec (RM m)	2020A	2021E	2022E
Turnover	13,156	11,273	15,685
EBIT/ (LBIT)	921	-496	661
PBT/ (LBT)	540	-944	334
PATAMI / (NL)	554	-407	193
CNP/ (CNL)	-193	-407	193
Consensus (NP)	-	-5.0	271.5
Earnings Revision	-	>100%	-43%
Core EPS (sen)	-10.0	-21.0	10.0
C.EPS growth (%)	-216.8	110.9	-147.4
NDPS (sen)	2.0	2.0	2.0
BV/Share (RM)	3.92	3.75	3.89
Core PER (x)	N.M	N.M	16.7
P/BV (x)	0.4	0.4	0.4
Gearing (x)	0.6	0.6	0.7
Net Div. Yield (%)	1.2	1.2	1.2

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Result Highlights

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE: Dec (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Turnover	2,120	2,622	-19%	3,564	-41%	8,254	8,305	-1%
EBIT/ (LBIT)	(71)	(202)	-65%	228	-131%	(153)	(51)	202%
Associates	(20)	(21)	-5%	15	-237%	(30)	(14)	122%
PBT/ (LBT)	(201)	(280)	-28%	142	-241%	(445)	(409)	9%
Taxation	(44)	(21)	107%	(32)	38%	(88)	(74)	19%
PATAMI / (LATAMI)	(179)	(217)	-17%	47	-478%	(414)	(432)	-4%
CNP/ (CNL)	(177)	(168)	5%	72	-346%	(362)	(255)	42%
EPS/ (LPS) (sen)	(9)	(11)	-17%	2	-478%	(21)	(22)	-4%
EBIT margin	N.M	N.M		6.4%		N.M	N.M	
PBT margin	N.M	N.M		4.0%		N.M	N.M	
CNP margin	N.M	N.M		2.0%		N.M	N.M	
Effective tax rate	N.M	N.M		22.3%		N.M	N.M	

Source: Bursa Malaysia, Kenanga Research

Segmental Breakdown

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE: Dec (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Automotive	1,272	1,776	-28%	2,541	-50%	5,626	5,408	4%
Services	835	792	5%	919	-9%	2,491	2,621	-5%
Property	13	55	-77%	104	-88%	137	277	-50%
Segment Revenue	2,120	2,622	-19%	3,564	-41%	8,254	8,305	-1%
Automotive	(126)	(150)	-16%	141	-190%	(195)	(136)	43%
Services	62	(49)	-228%	77	-18%	40	75	-46%
Property	(8)	17	-148%	21	-139%	22	48	-53%
Investment Holding	(129)	(98)	32%	(96)	35%	(312)	(396)	-21%
Segment Profit	(201)	(280)	-28%	142	-241%	(445)	(409)	9%

Source: Bursa Malaysia, Kenanga Research

Sum-of-parts valuation

Automotive		PER of 7x, which is the same as MBMR ascribed PER	1,493
Puspakom	100%	DCF	286
Bank Muamalat	70%	1.0x PBV	707
Pos Malaysia	54%	Based on TP of RM0.720	304
CTRM		12x PER	235
Deftech		13x PER	330
Property and construction	100%	BV	2,403
Subtotal			5,758
Less: Net cash / (debt)			(1,020)
Total			4,738
Holding co. discount (25%)			(1,184)
No. of shares			1,933
SOP/share (TP)			1.80

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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	1.57	1,823.4	Y	04/2022	-8.0%	10.6%	-11.5%	12.3%	13.6	15.4	13.7	3.0	2.1	16.1%	3.8%	1.65	MP	
DRB-HICOM BHD	1.66	3,209.2	Y	12/2021	-14.3%	39.1%	-310.9%	-52.6%	N.A.	N.A.	16.7	0.3	0.4	-4.3%	1.2%	1.80	MP	
MBM RESOURCES BERHAD	3.24	1,266.5	Y	12/2021	-7.9%	15.8%	-1.9%	20.3%	7.6	7.8	6.5	0.6	0.6	7.6%	4.6%	3.50	OP	
SIME DARBY BERHAD	2.20	14,965.6	Y	06/2022	4.6%	5.0%	15.2%	5.8%	12.0	10.4	9.8	0.9	0.9	8.8%	5.0%	2.60	OP	
TAN CHONG MOTOR HOLDINGS BHD	1.16	756.5	N	12/2021	-25.4%	31.9%	-133.5%	-72.8%	N.A.	N.A.	62.4	0.3	0.3	-1.6%	1.3%	1.00	UP	
UMW HOLDINGS BHD	3.25	3,797.0	Y	12/2021	-4.9%	19.5%	-25.7%	69.6%	16.5	22.2	13.1	0.6	0.5	3.5%	1.8%	3.20	MP	
Simple Average					-9.3%	20.3%	-78.0%	-2.9%	12.4	14.0	20.4	0.9	0.8	5.0%	3.0%			

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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