

DRB-HICOM

Honda Malaysia Lifts Earnings

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DRBHCOC's 1QFY23 results beat expectations. Earnings were driven by strong sales of Proton, Mitsubishi and Isuzu vehicles, and a good showing from associate Honda Malaysia (stemming from a high production volume for high-margin HR-V). Honda Malaysia plans to launch Honda WR-V by 3QFY23 to target the small SUV segment. We raise our FY23-24F net profit forecasts by 7% and 9%, respectively, lift our TP by 4% to RM1.45 (from RM1.40) but maintain our MARKET PERFORM call.

DRBHCOC's 1QFY23 earnings beat expectations, making up 37% and 33% of our full-year forecast and the full-year consensus estimate, respectively. The key variance against our forecast came from a better showing from 34%-owned associate Honda Malaysia.

YoY, 1QFY23 revenue rose 34% YoY driven by: (i) strong automotive sales by Proton at 39,871 units (+56%), Mitsubishi at 6,182 units (+5%), and Isuzu at 4,014 units (+17%), (ii) improving aviation segment with the re-opening of international borders which drove sales for aerospace & defence segment (+5%) as well as services segment (+11%), and (iii) higher financing income from Bank Muamalat (+33%). Associates recorded a strong share of profit at RM78m (+132%) at 34%-owned Honda Malaysia driven by favourable production mix toward high-margin HR-V despite dwindling sales unit (-14% to 17,507 units).

Overall, it returned to the black with a core net profit of RM109m (excluding one-offs at RM1m) driven by: (i) equally strong sales and margins at both automotive distribution channels (due to high-margin new models, i.e. X50 and Honda City), (ii) resilient Bank Muamalat's earnings, (iii) lower postal division's losses on unrelenting cost cutting initiatives, and (iv) recovery in aviation industry.

QoQ, 1QFY23 revenue decreased by 6% mainly from weak aerospace & defence segment (-50%) with the delivery of the last batch of 18 units AV8 to MINDEF in 4QFY22, as well as slowdown in automotive sector (-2%) from the record base of prior year-end that was boosted by promotional campaign. Nonetheless, the postal segment's losses more than halved on better cost absorption as volumes recovered and was further boosted by the share of profit from associates (+337%), mainly contributed by Honda Malaysia, driven by favourable sales mix skewed towards the high-margin Honda HR-V, and significant reduction in costs as prices of commodities and key components have since softened. Consequentially, core net profit rose 42%.

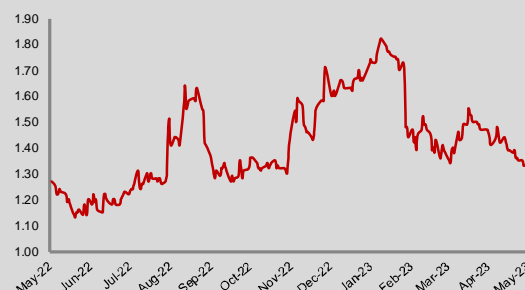
Forecasts. We raise our FY23-24F net profit forecasts by 7% and 9%, respectively, to account for stronger contribution from associate, Honda Malaysia, driven by the production of best-selling HR-V, and upcoming new production of the all-new Honda WR-V (to fill the void in Honda offerings of small-SUV, by 3QFY23). We raise our Honda sales assumption to 80k units (from 75k units) to match Honda Malaysia's guidance, and to 85k units (from 78k units) for FY24. No change to our Proton sales assumptions of 140k units for FY23 and 142k units for FY24.

Consequently, we raise our Sum-of-Parts (SoP)-derived TP by 4% to RM1.45 (from RM1.40) (see Page 3). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

MARKET PERFORM ↔

Price: RM1.35
Target Price: RM1.45 ↑

Share Price Performance



KLSE 1,402.98
YTD KLSE chg -6.2%
YTD stock price chg -15.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	DRB MK EQUITY
Market Cap (RM m)	2,609.9
Shares Outstanding	1,933.2
52-week range (H)	1.83
52-week range (L)	1.11
3-mth avg daily vol:	1,398,712
Free Float	28%
Beta	0.9

Major Shareholders

Etika Strategi Sdn Bhd	55.9%
Employees Provident Fund	10.1%
Lembaga Tabung Haji	3.7%

Summary Earnings Table

FYE Dec (RM m)	2022A	2023F	2024F
Revenue	15,512	16,045	16,558
EBIT	568	618	644
PBT	410	477	476
Net Profit	188	318	341
Core Profit	304	318	341
Consensus (NP)	-	335	387
Earnings Revision	-	+7%	+9%
Core EPS (sen)	15.7	16.5	17.7
C.EPS growth (%)	-244.3	4.9	7.2
NDPS (sen)	2.0	2.0	2.0
BV/Share (RM)	3.81	4.02	4.23
Core PER (x)	8.6	8.2	7.6
P/BV (x)	0.4	0.3	0.3
Gearing (x)	0.8	0.7	0.7
Net Div. Yield (%)	1.5	1.5	1.5

29 May 2023

We like DRBHCOM for: (i) being the second largest player in the local automotive sector, second only to Perodua, with a market share of about 30%, (ii) its strong Proton and Honda franchises, and (iii) its improving banking franchise under Bank Muamalat. However, its outlook has weakened with rival Perodua turning up the heat with aggressive new launches. Maintain **MARKET PERFORM**.

Risks to our call include: (i) consumers cutting back on discretionary spending (particularly big-ticket items like new cars) amidst high inflation, (ii) persistent disruptions (including chip shortages) in the global automotive supply chain, (iii) a slowdown in capital market activities (Bank Muamalat), and (iv) a global recession hurting the demand for transport and aviation services.

Result Highlights								
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY23	FY22	Chg	FY22	Chg	FY23	FY22	Chg
Turnover	4,104	4,348	-6%	3,070	34%	4,104	3,070	34%
EBIT/ (LBIT)	214	7	>100%	52	311%	214	52	311%
Associates	78	18	337%	34	132%	78	34	132%
PBT/ (LBT)	201	(73)	>100%	4	>100%	201	4	>100%
Taxation	(42)	(6)	561%	(48)	-12%	(42)	(48)	-12%
Net Profit / (NL)	108	(100)	>100%	(26)	>100%	108	(26)	>100%
Core net profit / (CNL)	109	76	42%	(26)	>100%	109	(26)	>100%
EPS/ (LPS) (sen)	6	(5)	>100%	(1)	>100%	6	(1)	>100%
EBIT margin	5.2%	0.2%		1.7%		5.2%	1.7%	
PBT margin	4.9%	N.M		0.1%		4.9%	0.1%	
CNP margin	2.6%	1.8%		N.M		2.6%	N.M	
Effective tax rate	21.0%	N.M		N.M		21.0%	N.M	

Source: Bursa Malaysia, Kenanga Research

Segmental Breakdown								
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY23	FY22	Chg	FY22	Chg	FY23	FY22	Chg
Automotive	3,024	3,080	-2%	2,067	46%	3,024	2,067	46%
Aerospace & Defence	169	335	-50%	160	5%	169	160	5%
Postal	278	275	1%	307	-9%	278	307	-9%
Banking	379	346	10%	285	33%	379	285	33%
Services	204	189	8%	185	11%	204	185	11%
Properties	49	123	-61%	65	-26%	49	65	-26%
Group Revenue	4,104	4,348	-6%	3,070	34%	4,104	3,070	34%
Automotive	151	127	19%	24	525%	151	24	525%
Aerospace & Defence	5	64	-93%	(2)	-364%	5	(2)	-364%
Postal	(33)	(137)	-76%	(37)	-11%	(33)	(37)	-11%
Banking	61	59	3%	67	-9%	61	67	-9%
Services	29	(185)	-116%	(38)	-176%	29	(38)	-176%
Properties	3	(48)	-106%	(10)	-130%	3	(10)	-130%
Group Profit	216	(119)	-281%	4	5303%	216	4	5303%

Source: Bursa Malaysia, Kenanga Research

29 May 2023

Sum-of-Parts Valuation		
Segment	Valuation (RM m)	Basis
Automotive	2536	PER of 8x
Puspakom	318	DCF
Bank Muamalat (70%-owned)	707	1.0x PBV
CTRM	235	12x PER
Deftech	330	13x PER
Property and construction	1682	0.7x BV
Other services	360	
Subtotal	6,169	
Net cash / (debt)	-3,432	
Total	2,736	
No. of shares	1,933	
SOP/share (TP)	1.45	

Source: Kenanga Research

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29 May 2023

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Curren t FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net. Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BERMAZ AUTO BHD	OP	2.14	2.90	35.51%	2,542.6	Y	04/2023	21.6	22.8	61.1%	5.6%	9.9	9.4	3.5	37.2%	15.1	7.1%
DRB-HICOM BHD	MP	1.35	1.45	7.41%	2,609.6	Y	12/2023	16.5	17.7	4.9%	7.2%	8.2	7.6	0.3	3.6%	2.0	1.5%
MBM RESOURCES BHD	OP	3.45	4.70	36.23%	1,379.9	Y	12/2023	65.6	67.7	14.5%	3.2%	5.3	5.1	0.6	12.0%	26.0	7.5%
SIME DARBY BHD	OP	2.06	2.40	16.50%	14,418.1	Y	06/2023	15.0	17.2	-14.6%	14.9%	13.7	11.9	0.9	6.3%	12.0	5.8%
TAN CHONG MOTOR HOLDINGS BHD	UP	1.09	0.800	-26.61%	759.4	N	12/2023	(7.4)	(4.8)	-232.2%	-164.6%	N.A.	N.A.	0.3	-1.8%	2.0	1.8%
UMW HOLDINGS BHD	OP	3.66	4.80	31.15%	4,416.2	Y	12/2023	35.5	37.9	5.3%	6.7%	10.3	9.7	0.9	9.3%	15.0	4.1%
SECTOR AGGREGATE					26,125.7					-1.0%	11.0%	11.8	10.6	0.7	6.1%		4.6%

Source: Kenanga Research

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29 May 2023

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Community Investment	★	★	★	★	
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★		
SPECIFIC	Electric & Hybrid Vehicles Availability	★	★	★		
	Supply Chain Management	★	★	★	★	
	Energy Efficiency	★	★	★		
	Effluent & Water Management	★	★	★	★	
	Training & Education	★	★	★	★	
	OVERALL	★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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