

24 May 2024

DRB-HICOM

Higher Tax Weighs

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DRBHCOM's 1QFY24 results met expectations. Its 1QFY24 core net profit plunged 22% YoY as improved operating results were negated by a higher tax. We are cautious on its outlook as rival Perodua is turning up the heat with aggressive new launches. We maintain our forecasts, TP of RM1.40 and MARKET PERFORM call.

DRBHCOM's 1QFY24 core net profit (excluding one-offs at RM7m) met expectations at 28% and 25% of our full-year forecast and the full-year consensus estimate, respectively.

YoY, its 1QFY24 revenue rose 6% YoY driven by: (i) automotive sales (+1%) on higher-priced new models launches led by Proton at 38,472 units (-4%), Mitsubishi at 4,483 units (-27%), and Isuzu at 3,341 units (-17%), (ii) higher financing income from Bank Muamalat (+35%), (iii) postal service (+5%) buoyed by some one-time postal services rendered to the government, (iv) aviation services (+6%) in line with the rising number of flights by Pos Aviation, (v) aerospace & defence (+11%) due to higher product deliveries of single-aisle and certain aircraft parts, and (vi) properties and others (+63%). Its share of associates' profit eased (-10%) on higher discounting to boost the sales volume by 34%-owned Honda Malaysia (+23% to 21,568 units).

However, its core net profit plunged 22% largely due to a higher effective tax rate of 29% vs 21% in 1QFY23.

QoQ, its 1QFY24 revenue rose 15% on a seasonally stronger quarter driven by Proton (+6%), Banking (+12%) and Postal (+11%). However, its core net profit almost tripled as losses from the postal and service segments narrowed, coupled with improved associates' profit (+71%) despite lower sales volume from 34%-owned Honda Malaysia (-17%).

Forecasts. Maintained.

Valuations. We also maintain our Sum-of-Parts (SoP)-derived TP of 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).

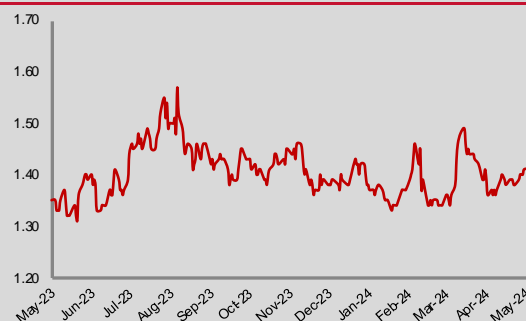
Investment case. We like DRBHCOM for: (i) being the second largest player in the local automotive sector, second only to Perodua, with a market share of about 30%, (ii) its strong Proton and Honda franchises, and (iii) its improving banking franchise under Bank Muamalat. However, its outlook has weakened with rival Perodua turning up the heat with aggressive new launches, coupled with earnings drags from certain non-performing units. 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.

MARKET PERFORM ↔

Price: RM1.42
Target Price: RM1.40 ↔

Share Price Performance



KLCI 1,629.18
YTD KLCI chg 12.0%
YTD stock price chg 2.2%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker DRB MK EQUITY
Market Cap (RM m) 2,745.2
Shares Outstanding 1,933.2
52-week range (H) 1.57
52-week range (L) 1.31
3-mth avg. daily vol. 1,788,720
Free Float 30%
Beta 1.0

Major Shareholders

Etika Strategi Sdn Bhd 55.9%
Employees Provident Fund 8.6%
Lembaga Tabung Haji 3.7%

Summary Earnings Table

FYE Dec (RM m)	2023A	2024F	2025F
Revenue	15,851	16,943	17,939
EBIT	635	763	891
PBT	447	488	580
Net Profit	239	307	359
Core Profit	269	307	359
Consensus (NP)	-	338	435
Earnings Revision	-	-	-
Core EPS (sen)	13.9	15.9	18.6
C.EPS Growth (%)	-11.5	14.2	17.0
NDPS (sen)	2.0	2.0	2.0
BV/Share (RM)	3.93	4.13	4.36
Core PER (x)	10.2	8.9	7.6
P/BV (x)	0.4	0.3	0.3
Gearing (x)	0.7	0.6	0.3
Net Div. Yield (%)	1.4	1.4	1.4

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Result Highlights								
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY24	FY23	Chg	FY23	Chg	FY24	FY23	Chg
Revenue	4,333	3,769	15%	4,104	6%	4,333	4,104	6%
EBIT/ (LBIT)	239	139	72%	215	11%	239	215	11%
Interest Expenses	(129)	(131)	-2%	(127)	1%	(129)	(127)	1%
Associates	71	19	275%	78	-10%	71	78	-10%
Joint Venture	23	21	7%	36	-36%	23	36	-36%
EI	7	(3)		(1)		7	(1)	
PBT/ (LBT)	211	46	362%	201	5%	211	201	5%
Taxation	(62)	(5)	1085%	(42)	47%	(62)	(42)	47%
Sukuk Holders & MI	(57)	(14)		(51)		(57)	(51)	
Net Profit / (NL)	92	26	246%	108	-15%	92	108	-15%
Core net profit / (CNL)	85	29	190%	109	-22%	85	109	-22%
EPS/ (LPS) (sen)	5	1	246%	6	-15%	5	6	-15%
EBIT margin	5.5%	3.7%		5.2%		5.5%	5.2%	
PBT margin	4.9%	1.2%		4.9%		4.9%	4.9%	
CNP margin	2.0%	0.8%		2.6%		2.0%	2.6%	
Effective tax rate	29.4%	11.4%		21.0%		29.4%	21.0%	

Source: Bursa Malaysia, Kenanga Research

Segmental Breakdown								
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY24	FY23	Chg	FY23	Chg	FY24	FY23	Chg
Automotive	3,048	2,577	18%	3,024	1%	3,048	3,024	1%
Aerospace & Defence	188	217	-14%	169	11%	188	169	11%
Postal	291	261	11%	278	5%	291	278	5%
Banking	510	456	12%	379	35%	510	379	35%
Services	217	224	-3%	204	6%	217	204	6%
Properties and others	79	34	134%	49	63%	79	49	63%
Group Revenue	4,333	3,769	15%	4,104	6%	4,333	4,104	6%
Automotive	118	147	-20%	151	-22%	118	151	-22%
Aerospace & Defence	12	(12)	-199%	5	152%	12	5	152%
Postal	(21)	(81)	-74%	(33)	-36%	(21)	(33)	-36%
Banking	81	96	-15%	61	34%	81	61	34%
Services	23	(24)	-193%	29	-23%	23	29	-23%
Properties and others	37	21	81%	3	1185%	37	3	1185%
Group Profit	250	145	73%	216	16%	250	216	16%

Source: Bursa Malaysia, Kenanga Research

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Sum-of-Parts Valuation		
Segment	Valuation (RM m)	Basis
Automotive	2851	PER of 11x
Puspakom	362	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	6,527	
Net cash / (debt)	-3,796	
Total	2,731	
No. of shares	1,933	
SoP/share (TP)	1.40	

Source: Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current 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.				
Stocks Under Coverage																	
BERMAZ AUTO BHD	MP	2.44	2.30	-5.7%	2,832.8	Y	04/2024	26.1	22.7	-0.3%	-13.0%	9.4	10.8	3.4	37.9%	20.1	8.2%
DRB-HICOM BHD	MP	1.42	1.40	-1.4%	2,744.9	Y	12/2024	15.9	18.6	14.2%	17.0%	8.9	7.6	0.2	3.1%	2.0	1.4%
HIL INDUSTRIES BHD	MP	1.20	0.940	-21.7%	398.3	Y	12/2024	13.6	14.3	11.9%	4.6%	8.8	8.4	0.8	9.7%	2.0	1.7%
HONG LEONG INDUSTRIES BHD	OP	11.58	12.60	8.8%	3,797.1	Y	06/2024	98.3	105.3	10.9%	7.2%	11.8	11.0	1.9	16.0%	107.0	9.2%
MBM RESOURCES BHD	OP	5.00	5.80	16.0%	1,954.5	Y	12/2024	72.5	73.3	-7.2%	1.1%	6.9	6.8	0.9	12.9%	40.0	8.0%
SIME DARBY BHD	MP	2.89	2.80	-3.1%	19,654.9	Y	06/2024	17.7	19.3	4.4%	9.1%	16.3	14.9	1.2	7.4%	12.0	4.2%
TAN CHONG MOTOR HOLDINGS BHD	UP	0.850	0.720	-15.3%	571.2	Y	12/2024	(16.8)	(16.2)	-187.2%	-196.8%	N.A.	N.A.	0.2	-4.2%	1.0	1.2%
SECTOR AGGREGATE					31,953.7					5.3%	6.6%	13.6	12.7	0.9	6.6%		4.8%

Source: Kenanga Research

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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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