

14 June 2024

DRB-HICOM

Transitioning to EV

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DRBHCOM guided for flattish vehicle sales in FY24. It is riding on parent Zhejiang Geely group's technology and eco-system for the transition to EV. It will put onto the market the all-new Proton e.MAS EV (CBU) using the Global Modular Architecture (GMA) platform by end-2024. We maintain our forecasts, TP of RM1.40 and MARKET PERFORM call.

We came away from DRBHCOM's 1QFY24 results briefing yesterday feeling mixed about its near-term prospects. The key takeaways are as follows

1. DRBHCOM guided for sales of 160k unit (+3.4% YoY) of Proton vehicles and around 80k units of Honda vehicle (flattish YoY) in 2024. Meanwhile, it expects subdued sales for less popular brands such as Mitsubishi and Isuzu due to limited new model offerings. We keep our assumptions of unit sales of 158k and 80k in FY24 and 166k and 80k in FY25 for Proton and Honda, respectively.
2. DRBHCOM is riding on parent Zhejiang Geely group's technology and eco-system for the transition to EV. Proton will transition to EV in three phases, i.e. (i) Phase 1 in 2023-2027 (EV Pioneering), (ii) Phase 2 in 2025-2030 (EV growth), and (iii) Phase 3 in 2027-2030 (EV right-hand development hub).
3. Proton recently launched X50 RC, and will be launching X70-facelift soon. By end-2024, it will launch the all-new Proton e.MAS EV (CBU) using the GMA platform. It hopes to sell 200k units yearly built on the platform by 2030.
4. It plans to pare down its stake in Bank Muamalat to 40% (from 70%) by 2025 in accordance with Bank Negara guidelines. It hopes to turn around **POS (UP; TP: RM0.33)** over the next three years while its defence unit is poised to secure a new assembly contract for four-wheeler and six-wheeler armoured vehicles by 2025.

Forecasts. Maintained.

Valuations. We also maintain our Sum-of-Parts (SoP)-derived TP of RM1.40 (see Page 2). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

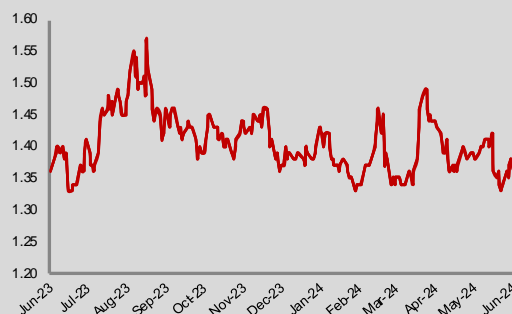
Investment case. We like DRBHCOM for: (i) being the second largest player in the local automotive sector, second only to Perodua, with a market share of about 30%, (ii) its strong Proton and Honda franchises, and (iii) its improving banking franchise under Bank Muamalat. However, its outlook has weakened 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 : RM1.39
Target Price : RM1.40 ↔

Share Price Performance



KLCI	1,610.17
YTD KLCI chg	10.7%
YTD stock price chg	0.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	DRB MK EQUITY
Market Cap (RM m)	2,687.2
Shares outstanding	1,933.2
52-week range (H)	1.57
52-week range (L)	1.31
3-mth avg. daily vol.	2,267,492
Free Float	30%
Beta	1.0

Major Shareholders

Etika Strategi Sdn Bhd	55.9%
Employees Provident Fund	8.5%
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)	-	320	428
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)	9.9	8.7	7.4
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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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 (m)	1,933	
SoP/share (RM)	1.40	

Source: Kenanga Research

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Income Statement

FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F
Revenue	12,378.1	15,512.0	15,850.5	16,943.2	17,939.3
EBIT	42.7	568.1	635.0	762.9	891.0
Int. Inc/(Exp)	(485.8)	(511.1)	(526.5)	(453.6)	(498.9)
PBT	(291.3)	410.0	446.9	488.4	580.2
Taxation	(57.7)	(118.9)	(52.5)	(73.3)	(87.0)
Net Profit	(296.4)	187.7	238.9	306.8	359.1
Core Net Profit	(210.4)	303.7	268.7	306.8	359.1

Balance Sheet

FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F
F. Assets	5,434.3	5,304.9	5,243.4	4,758.4	2,581.2
Int. Assets	1,410.7	1,556.8	1,959.9	1,959.9	1,959.9
Other F. Assets	25,502.6	28,846.1	33,929.5	33,929.5	33,929.5
Inventories	1,586.2	2,440.2	2,427.4	2,785.2	2,948.9
Receivables	2,845.8	3,036.7	2,604.3	3,806.4	4,030.2
OthC. Assets	7,560.7	8,116.6	10,400.3	10,400.3	10,400.3
Cash	2,804.5	2,187.9	2,024.5	3,288.6	6,441.5
Total Assets	47,144.8	51,489.2	58,589.3	60,928.5	62,291.6
Payables	4,315.5	4,762.6	4,818.0	4,649.5	4,917.7
ST Borrowings	2,535.2	1,812.7	1,436.9	1,580.5	1,738.6
Other STL	22,244.7	25,562.5	32,001.8	31,842.7	31,683.7
LT Borrowings	5,503.9	6,134.4	5,762.7	6,339.0	6,972.9
Other LT Liability	3,447.7	5,503.9	5,503.9	5,503.9	5,503.9
Net Assets	9,097.8	7,713.2	9,066.1	11,012.8	11,474.9
Ret. Earnings	5,462.4	5,625.4	5,862.3	6,246.7	6,683.4
Share Capital	1,740.3	1,740.3	1,740.3	1,740.3	1,740.3
Others	1,895.1	347.5	1,463.5	3,025.8	3,051.2
Total Equity	9,097.8	7,713.2	9,066.1	11,012.8	11,474.9

Cashflow Statement

FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F
Operating CF	426.2	247.5	4,055.2	(120.3)	1,612.1
Investing CF	(1,684.1)	(855.2)	(2,238.6)	(500.0)	(500.0)
Financing CF	59.1	294.8	(174.8)	1,884.4	2,040.8
Change In Cash	(1,198.8)	(312.9)	1,641.8	1,264.2	3,152.9
Free CF	(1,257.9)	(607.7)	1,816.6	(620.3)	1,112.1

Source: Kenanga Research

Financial Data & Ratios

FY Dec	2021A	2022A	2023A	2024F	2025F
Growth					
Turnover	-5.9%	25.3%	2.2%	6.9%	5.9%
EBIT	-53.9%	62.5%	3.2%	11.2%	8.7%
PBT	-153.9%	-240.8%	9.0%	9.3%	18.8%
Net Profit	-153.5%	-163.3%	27.3%	28.4%	17.0%
Core Net Profit	-26.1%	-244.3%	-11.5%	14.2%	17.0%

Profitability

Op. Margin	6.4%	8.3%	8.4%	8.7%	8.9%
PBT Margin	-2.4%	2.6%	2.8%	2.9%	3.2%
CNP Margin	-1.7%	2.0%	1.7%	1.8%	2.0%
ROA	-0.6%	0.4%	0.4%	0.5%	0.6%
ROE	-4.0%	2.6%	3.2%	3.9%	4.4%

DuPont Analysis

C. Margin (%)	0.2	0.2	0.1	0.1	0.1
Assets T/O (x)	0.2	0.2	0.1	0.1	0.1
Lev. Factor (x)	3,178.4	5,128.7	4,916.2	3,795.8	800.9
ROE (%)	0.7	0.8	0.7	0.6	0.3

Leverage

Debt/Asset (x)	0.2	0.2	0.1	0.1	0.1
Debt/Equity (x)	0.2	0.2	0.1	0.1	0.1
N. (Cash)/Debt	3,178.4	5,128.7	4,916.2	3,795.8	800.9
N. Debt/Eqt (x)	0.7	0.8	0.7	0.6	0.3

Valuations

Core EPS (sen)	(10.9)	15.7	13.9	15.9	18.6
NDPS (sen)	2.0	2.0	2.0	2.0	2.0
BV/sh (RM)	372.6	381.1	393.3	413.2	435.8
PER (x)	5.1	N.M	14.2	11.2	8.7
Div. Yield (%)	1.4%	1.4%	1.4%	1.4%	1.4%
PBV (x)	0.4	0.4	0.4	0.3	0.3
EV/EBITDA (x)	197.6	16.2	14.2	14.0	16.1

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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.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BERMAZ AUTO BHD	MP	2.51	2.45	-2.4%	2,930.9	Y	04/2025	24.0	24.9	-20.6%	3.7%	10.5	10.1	3.3	32.8%	20.2	8.0%
DRB-HICOM BHD	MP	1.39	1.40	0.7%	2,687.2	Y	12/2024	15.9	18.6	14.2%	17.0%	8.8	7.5	0.2	3.1%	2.0	1.4%
HIL INDUSTRIES BHD	MP	1.21	1.10	-9.1%	401.6	Y	12/2024	13.7	15.6	12.4%	14.1%	8.8	7.8	0.8	9.8%	3.0	2.5%
HONG LEONG INDUSTRIES BHD	OP	11.40	12.60	10.5%	3,642.0	Y	06/2024	98.3	105.3	10.9%	7.2%	11.6	10.8	1.9	16.0%	107.0	9.4%
MBM RESOURCES BHD	OP	5.39	6.30	16.9%	2,106.9	Y	12/2024	75.9	78.7	-2.8%	3.7%	7.1	6.8	0.9	13.5%	40.0	7.4%
SIME DARBY BHD	OP	2.57	2.90	12.8%	17,516.1	Y	06/2024	18.4	20.2	8.1%	10.0%	14.0	12.7	1.1	7.7%	12.0	4.7%
TAN CHONG MOTOR HOLDINGS BHD	UP	0.870	0.740	-14.9%	567.0	Y	12/2024	(11.7)	(9.8)	-160.9%	-183.9%	N.A.	N.A.	0.2	-2.9%	1.0	1.1%
SECTOR AGGREGATE					29,851.7					6.1%	10.0%	12.3	11.2	0.8	6.8%		4.9%

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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