

28 February 2025

DRB-HICOM

Banking Provisions Losses

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DRBHCOC's FY24 results disappointed. Its core net profit plunged 45% YoY, largely due to wider sequential quarter losses at its Postal segment, lower profit recognition under Banking segment, and higher tax. It plunged to losses in the 4Q due to various provisions under Banking segment. We reduced FY25F net profit by 62%, our SoP-derived TP by 35% to RM0.85 from RM1.30, and downgrade the stock to MARKET PERFORM from OUTPERFORM.

DRBHCOC's FY24 core net profit (excluding one-offs at RM37m) came in at only 25% of both our forecast and the consensus estimate. The key variance against our forecast was due to the wider-than-expected losses at Postal segment and lower-than-expected profit recognition for Banking segment.

YoY, its FY24 revenue rose marginally (+2%) dragged by: (i) weaker automotive sales (-2%) due to the lower sales volume from Proton at 147,587 units (-2%), Mitsubishi at 16,617 units (-26%), and Isuzu at 13,268 units (-22%) from intense competition in the mid-market segments, and (ii) postal service (+14%) which continued to be affected by slowdown in online shopping and lower demand from major e-commerce players, and (iii) properties and others (-5%). This offset: (i) higher financing income from Bank Muamalat (+23%), (ii) stronger aviation services (+12%) in line with the rising number of flights by Pos Aviation, and (iii) stronger aerospace & defence (+12%) due to higher product deliveries of single-aisle and certain aircraft parts. Its share of associates' profit was weaker (-7%) on higher discounting to boost the sales volume by 34%-owned Honda Malaysia (+2% to 81,699 units).

However, its core net profit plunged 78% largely due to wider losses at Postal segment, reduced profit in the Banking segment, which was impacted by higher credit loss allowances on customer financing and investment impairments, and a higher effective tax rate.

QoQ, its 4QFY24 revenue declined 4% dragged by: (i) automotive sales (-6%) losing out to competitors, (ii) banking (-6%), (iii) aerospace, and defence (-1%) and (iv) services (-81%), which partially offset: (i) postal service (+87%), (ii) properties and others (>100%). It plunged into the losses with core net loss of RM48m vs. core net profit of RM38m in 3QFY24 largely due to the banking segment turned into losses.

Forecasts. We reduced FY25F net profit by 62% as we factored in the wider losses at Postal segment and reduced profit in the Banking segment. We introduced FY26F net profit of RM157m (+26%).

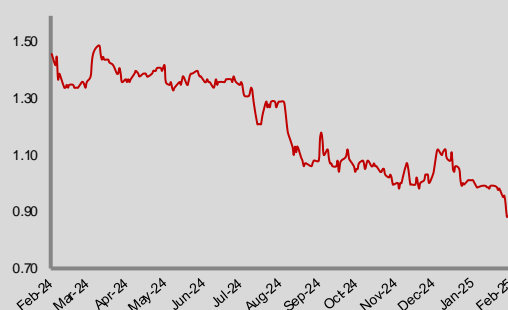
Valuations. Correspondingly, we cut our Sum-of-Parts (SoP)-derived TP by 35% to RM0.85 from RM1.30 (see Page 3). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

Investment case. We like DRBHCOC 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 improving banking franchise under Bank Muamalat. However, with the rising competition in the automotive segment especially within the target market of Proton (mid-market segment), and uncertainties in profit recognition under Banking segment, we downgrade the stock to **MARKET PERFORM** from **OUTPERFORM**.

MARKET PERFORM ↓

Price: **RM0.80**
Target Price: **RM0.85** ↓

Share Price Performance



KLCI 1,586.60
YTD KLCI chg -3.4%
YTD stock price chg -27.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	DRB MK EQUITY
Market Cap (RM m)	1,546.6
Shares Outstanding	1,933.2
52-week range (H)	1.50
52-week range (L)	0.76
3-mth avg. daily vol.	1,142,357
Free Float	38%
Beta	0.9

Major Shareholders

Etika Strategi Sdn Bhd	55.9%
Employees Provident Fund	7.5%
Lembaga Tabung Haji	3.7%

Summary Earnings Table

FYE Dec (RM m)	2024A	2025F	2026F
Revenue	16,191	16,878	17,785
EBIT	510	421	514
PBT	247	151	207
Net Profit	23	125	157
Core Profit	60	125	157
Consensus (NP)	-	302.7	368.5
Earnings Revision	-	-62%	NEW
Core EPS (sen)	3.1	6.4	8.1
C.EPS Growth (%)	-77.8	109.0	26.2
NDPS (sen)	2.0	2.0	2.0
BV/Share (RM)	3.83	3.93	4.06
Core PER (x)	25.9	12.4	9.8
P/BV (x)	0.2	0.2	0.2
Gearing (x)	0.7	0.8	0.7
Net Div. Yield (%)	2.5	2.5	2.5

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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								
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM m)	FY24	FY24	Chg	FY23	Chg	FY24	FY23	Chg
Revenue	3,966	4,134	-4%	3,769	5%	16,191	15,851	2%
EBIT/ (LBIT)	52	177	-71%	139	-63%	547	665	-18%
Interest Expenses	(134)	(129)	4%	(131)	2%	(519)	(526)	-1%
Associates	19	26	-28%	19	1%	159	171	-7%
Joint Venture	27	14	87%	21	26%	98	168	-42%
EI	1	(43)		(3)		(37)	(30)	
PBT/ (LBT)	(35)	46	-177%	46	-177%	247	447	-45%
Taxation	(21)	(35)	-39%	(5)	306%	(142)	(53)	170%
Sukuk Holders & MI	10	(16)		(14)		(83)	(155)	
Net Profit / (NL)	(47)	(5)	804%	26	-276%	23	239	-91%
Core net profit / (CNL)	(48)	38	-226%	29	-265%	60	269	-78%
EPS/ (LPS) (sen)	(2)	(0)	804%	1	-276%	1	12	-91%
EBIT margin	1.3%	4.3%		3.7%		3.4%	4.2%	
PBT margin	-0.9%	1.1%		1.2%		1.5%	2.8%	
CNP margin	-1.2%	0.9%		0.8%		0.4%	1.7%	
Effective tax rate	-60.3%	75.8%		11.4%		57.2%	11.8%	

Source: Bursa Malaysia, Kenanga Research

Segmental Breakdown								
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM m)	FY24	FY24	Chg	FY23	Chg	FY24	FY23	Chg
Automotive	2,696	2,869	-6%	2,577	5%	11,153	11,337	-2%
Aerospace & Defence	188	190	-1%	217	-14%	772	688	12%
Postal	447	239	87%	261	71%	1,218	1,073	14%
Banking	524	555	-6%	456	15%	2,114	1,716	23%
Services	49	255	-81%	224	-78%	741	834	-11%
Properties and others	62	26	139%	34	82%	193	202	-5%
Group Revenue	3,966	4,134	-4%	3,769	5%	16,191	15,850	2%
Automotive	96	103	-7%	147	-35%	477	473	1%
Aerospace & Defence	2	(2)	-184%	(12)	-113%	17	(16)	-201%
Postal	(73)	(34)	114%	(81)	-10%	(195)	(179)	9%
Banking	(20)	35	-156%	96	-121%	115	327	-65%
Services	(11)	(7)	59%	(24)	-56%	6	20	-68%
Properties and others	(29)	(49)	-41%	21	-240%	(175)	62	-383%
Group Profit	(35)	46	-177%	145	-124%	244	686	-64%

Source: Bursa Malaysia, Kenanga Research

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Sum-of-Parts Valuation		
Segment	Valuation (RM m)	Basis
Automotive	1356	PER of 9x
Puspakom	362	DCF
Bank Muamalat (70%-owned)	495	1.0x PBV
CTRM	235	12x PER
Deftech	330	13x PER
Property and construction	1202	0.5x BV
Other services	360	
Subtotal	4,339	
Net cash / (debt)	-2,677	
Total	1,662	
No. of shares	1,933	
SoP/share (TP)	0.85	

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.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BERMAZ AUTO BHD	OP	1.19	2.20	84.9%	1,381.6	Y	04/2025	19.4	22.8	-35.9%	17.5%	6.1	5.2	1.5	24.2%	17.5	14.7%
DRB-HICOM BHD	MP	0.800	0.850	6.3%	1,546.4	Y	12/2024	6.4	8.1	109.1%	26.2%	12.4	9.8	0.1	1.2%	2.0	2.5%
HIL INDUSTRIES BHD	OP	0.830	1.00	20.5%	275.5	Y	12/2024	13.9	14.2	9.5%	1.7%	5.9	5.8	0.5	9.3%	3.0	3.6%
HONG LEONG INDUSTRIES BHD	OP	13.48	15.90	18.0%	4,420.1	Y	06/2025	132.7	136.5	26.6%	2.8%	10.2	9.9	1.8	18.1%	70.0	5.2%
MBM RESOURCES BHD	OP	5.47	6.90	26.1%	2,138.2	Y	12/2024	86.8	88.0	1.9%	1.4%	6.3	6.2	0.8	12.9%	45.0	8.2%
SIME DARBY BHD	OP	2.29	2.90	26.6%	15,574.3	Y	06/2025	20.1	20.8	7.5%	3.4%	11.4	11.0	0.8	7.0%	13.5	5.9%
TAN CHONG MOTOR HOLDINGS BHD	UP	0.360	0.440	22.2%	241.9	Y	12/2024	(28.6)	(21.4)	-248.6%	-174.8%	N.A.	N.A.	0.1	-7.3%	1.0	2.8%
SECTOR AGGREGATE					25,578.0					3.2%	7.9%	10.9	10.1	0.6	5.9%		6.1%

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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