

12 August 2025

DRB-HICOM

Flight Path to Space

By Wan Mustaqim Bin Wan Ab Aziz | wanmustaqim@kenanga.com.my

DRBHCOC is paying USD109.8m or RM491.3m cash to take over its key customer in the aerospace business, Spirit Aerosystems Malaysia Sdn Bhd (Spirit MY), which will strengthen DRBHCOC's presence in the booming aerospace business, especially with the recent commitment by Malaysia and Indonesia in securing new Boeing aircraft. We are mildly positive as it should be PE accretive (Spirit MY at 14x vs. DRBHCOC's 16x) though there is more risk at the moment as Spirit MY no longer operates under the Spirit Group and hence, no cost-plus protection. We keep our earnings forecasts, TP of RM0.68 and UNDERPERFORM call, pending shareholders and regulators' approval.

Securing aerospace supply chain. DRBHCOC is paying USD109.8m or RM491.3m cash in a take-over of its key customer in aerospace business, Spirit MY. The purchase consideration of USD109.8m is the sum of the enterprise value of USD95.2m (RM426.1m) plus cash of USD16.1m (RM72.1m), less a debt of USD1.5m (RM6.9m). The proposed acquisition is expected to be completed by 4QCY25, pending shareholders and European and US regulators' approval.

For FY24, Spirit MY registered a net profit of RM70.1m, translating into a PER of 14x which is PE accretive comparing to DRBHCOC's FY26 PER of 16x (most aircraft parts manufacturers are privately listed).

Spirit MY is a key customer of DRBHCOC's subsidiary, Composites Technology Research Malaysia Sdn Bhd (CTRM), contributing 54.1% of CTRM's FY24 revenue. Spirit MY produces advanced technology aerostructures and provides ancillary services to related companies, supplying key components for Airbus and Boeing programmes, including the A220, A320/A321, A350, B737 and B787. Spirit MY is strategically located within the Malaysia International Aerospace Centre in Subang, Selangor and acts as the Southeast Asian hub to the Spirit Group.

Impact on earnings and gearing. For FY24, Spirit MY registered a net profit of RM70.1m and net assets (NA) of RM770.5m. To illustrate (based on guidance), applying interest cost from the borrowings at RM27.8m/year, estimated expenses at RM6.3m and inter-company profits elimination at RM12.7m would translate to a net profit of RM23.3m. There is also one-off negative goodwill at RM223.2m. Based on our calculation, the acquisition will enhance DRBHCOC's FY26F earnings by 22% with a slight increase in net gearing from 0.98x to a still manageable 1.02x.

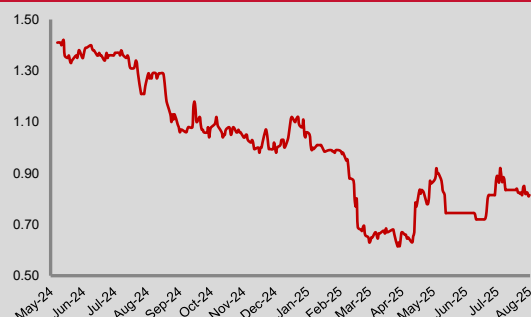
Rationale for the acquisition. DRBHCOC's rationale behind the takeover is based on the following reasons: (i) in terms of scale and growth, the combined entities will benefit from greater business scale in key programmes while deepening its relationships with global OEMs, (ii) a stronger supply chain and strategic leverage for CTRM in supplier negotiations and (iii) enhanced resilience while unlocking growth opportunities, strengthening CTRM's positioning in the aerospace business. We also believe that it is one of the beneficiaries from the recent commitment by Malaysia and Indonesia to purchase Boeing aircraft (30 aircraft by Malaysia and 50 aircraft by Indonesia).

Forecasts. Maintained pending the completion of the deal. Our main concern is on the fluctuation of earnings post-takeover as Spirit MY will be detached from the Spirit Group, thus losing fixed-margin arrangement (pre-takeover, it is under a cost-plus arrangement as any cost incurred is charged back with a fixed mark-up to the respective Spirit AeroSystems' entities). Post-takeover, Spirit MY will be entering into supply agreements directly with Airbus and Boeing with no cost-plus arrangement.

UNDERPERFORM ↔

Price : RM0.82
Target Price : RM0.68 ↔

Share Price Performance



KLCI	1563.2
YTD KLCI chg	-4.8%
YTD stock price chg	-26.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	DRB MK EQUITY
Market Cap (RM m)	1,575.6
Shares outstanding	1,933.2
52-week range (H)	1.31
52-week range (L)	0.60
3-mth avg. daily vol.	1,933,200
Free Float	38%
Beta	1.0

Major Shareholders

Etika Strategi Sdn Bhd	55.9%
Employees Provident Fund	7.3%
Lembaga Tabung Haji	3.7%

Summary Earnings Table

FYE Dec (RM m)	2024A	2025F	2026F
Revenue	16,191	16,878	17,785
EBIT	510	337	423
PBT	247	67	116
Net Profit	23	76	105
Core Profit	60	76	105
Consensus (NP)	-	111	203
Earnings Revision	-	-	-
Core EPS (sen)	3.1	3.9	5.4
C.EPS growth (%)	-77.8	27.4	37.6
NDPS (sen)	2.0	2.0	2.0
BV/Share (RM)	3.83	3.91	4.00
Core PER (x)	27.4	21.5	15.6
P/BV (x)	0.2	0.2	0.2
Gearing (x)	0.7	0.8	0.8
Net Div. Yield (%)	2.4	2.4	2.4

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Valuations. We also maintain our sum-of-parts-derived (SoP) TP of RM0.68 (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 are cautious on DRBHCOM for: (i) its inability to capitalise its position as the second largest player in the local automotive sector, second only to Perodua, with a market share of about 30%, (ii) reduced profit for its banking franchise under Bank Muamalat, and (iii) an uncertain outlook for its postal and properties segments with continuous losses. Maintain **UNDERPERFORM** call.

Risks to our call include: (i) consumers splurging on discretionary spending (particularly big-ticket items like new cars), (ii) significant improvement (including chip shortages) in the global automotive supply chain, (iii) improving capital market activities (Bank Muamalat), and (iv) a global recovery with improving demand for transport and aviation services.

Spirit MY Key Financial Information

	Audited FYE 31 December		
	2022	2023	2024
	RM'000	RM'000	RM'000
Revenue	953,960	1,019,371	1,092,100
Gross profit	74,600	86,202	84,888
Profit before tax	65,828	72,201	74,752
PAT	64,678	70,926	70,082
Total borrowings	-	-	-
Shareholders' fund/NA	597,425	730,928	770,482
Share capital	501	501	501
No. of Spirit MY shares ('000)	501	501	501
Basic earnings per share (RM) ⁽¹⁾	129.10	141.57	139.88
NA per share (RM) ⁽²⁾	1,192.47	1,458.94	1,537.89
Current ratio (times) ⁽³⁾	3.39	4.03	3.63

Spirit MY's revenue rose to RM1,092.1m (+7%) in FY24. The increase in revenue was mainly due to higher delivery volumes under Airbus' A320, A321 and A220 programmes despite a decline in Boeing's B737 programme. In spite of the increase in revenue, Spirit MY recorded a slight decline in PAT RM70.1m (-1.2%) primarily due to income tax expense incurred since 1 October 2024 following the expiry of Spirit MY's exemption from income tax due to its previous pioneer status that was granted by the Malaysian Investment Development Authority (from 6 March 2014 till 30 September 2024). Spirit MY's NA had expanded by RM39.6m FY24 primarily due to the PAT recorded during the year. However, this increase was partly offset by a lower foreign exchange reserve of RM37.6m due to a foreign exchange loss of RM30.5m.

Source: Bursa announcement, Kenanga Research

Sum-of-Parts Valuation

Segment	Valuation (RM m)	Basis
Automotive	1054	PER of 7x
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	4,038	
Net cash / (debt)	-2,724	
Total	1,313	
No. of shares (m)	1,933	
SoP/share (RM)	0.68	

Source: Kenanga Research

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Income Statement					
FY Dec (RM m)	2022A	2023A	2024A	2025F	2026F
Revenue	15,512.0	15,850.5	16,190.8	16,877.9	17,785.3
EBIT	568.1	635.0	510.1	337.4	423.1
Int. Inc/(Exp)	(511.1)	(526.5)	(519.5)	(458.6)	(504.5)
PBT	410.0	446.9	247.4	66.8	116.1
Taxation	(118.9)	(52.5)	(141.6)	(9.4)	(16.3)
Net Profit	187.7	238.9	22.6	76.0	104.6
Core Net Profit	303.7	268.7	59.6	76.0	104.6

Balance Sheet					
FY Dec (RM m)	2022A	2023A	2024A	2025F	2026F
F. Assets	5,304.9	5,243.4	5,280.5	3,273.4	2,562.4
Int. Assets	1,556.8	1,959.9	1,626.0	1,626.0	1,626.0
Other F. Assets	28,846.1	33,929.5	38,503.7	38,503.7	38,503.7
Inventories	2,440.2	2,427.4	2,026.3	2,774.5	2,923.6
Receivables	3,036.7	2,604.3	2,389.5	3,791.8	3,995.6
OthC. Assets	8,116.6	10,400.3	10,304.1	10,304.1	10,304.1
Cash	2,187.9	2,024.5	2,133.9	1,676.1	2,868.1
Total Assets	51,489.2	58,589.3	62,263.9	61,949.4	62,783.5
Payables	4,762.6	4,818.0	4,270.0	3,256.5	3,292.2
ST Borrowings	1,812.7	1,436.9	1,068.7	1,175.5	1,293.1
Other STL	25,562.5	32,001.8	37,202.1	37,043.1	36,884.0
LT Borrowings	6,134.4	5,762.7	6,211.1	6,832.2	7,515.5
Other LT Liability	3,528.7	3,952.9	3,224.8	3,224.8	3,224.8
Net Assets	9,688.4	10,617.1	10,287.2	10,417.3	10,574.0
Ret. Earnings	5,625.4	5,862.3	5,662.3	5,815.9	5,998.0
Share Capital	1,740.3	1,740.3	1,740.3	1,740.3	1,740.3
Others	2,322.7	3,014.5	2,884.6	2,861.1	2,835.7
Total Equity	9,688.4	10,617.1	10,287.2	10,417.3	10,574.0

Cash Flow Statement					
FY Dec (RM m)	2022A	2023A	2024A	2025F	2026F
Operating CF	247.5	4,055.2	4,055.2	(394.2)	1,253.1
Investing CF	(855.2)	(2,238.6)	(2,238.6)	(500.0)	(500.0)
Financing CF	294.8	(174.8)	(174.8)	436.4	438.9
Change In Cash	(312.9)	1,641.8	1,641.8	(457.9)	1,192.1
Free CF	(607.7)	1,816.6	1,816.6	(894.2)	753.1

Source: Kenanga Research

Financial Data & Ratios					
FY Dec	2021A	2022A	2023A	2024F	2025F
Growth					
Turnover	25.3%	2.2%	2.1%	4.2%	5.4%
EBIT	62.5%	3.2%	-8.0%	-14.0%	8.2%
PBT	-240.8%	9.0%	-44.6%	-73.0%	73.7%
Net Profit	-163.3%	27.3%	-90.6%	236.9%	37.6%
Core Net Profit	-244.3%	-11.5%	-77.8%	27.4%	37.6%
Profitability					
Op. Margin	8.3%	8.4%	7.5%	6.2%	6.4%
PBT Margin	2.6%	2.8%	1.5%	0.4%	0.7%
CNP Margin	2.0%	1.7%	0.4%	0.5%	0.6%
ROA	0.4%	0.4%	0.0%	0.1%	0.2%
ROE	2.6%	3.2%	0.3%	1.0%	1.4%
DuPont Analysis					
C. Margin (%)	2.0%	1.7%	0.4%	0.5%	0.6%
Assets T/O (x)	0.3	0.3	0.3	0.3	0.3
Lev. Factor (x)	6.8	7.4	8.1	8.3	8.2
ROE (%)	2.6%	3.2%	0.3%	1.0%	1.4%
Leverage					
Debt/Asset (x)	0.2	0.1	0.1	0.1	0.1
Debt/Equity (x)	0.2	0.1	0.1	0.1	0.1
N. (Cash)/Debt	3,153.5	3,365.3	2,159.5	2,724.2	1,649.7
N. Debt/Eqt (x)	0.8	0.7	0.7	0.8	0.8
Valuations					
Core EPS (sen)	15.7	13.9	3.1	3.9	5.4
NDPS (sen)	2.0	2.0	2.0	2.0	2.0
BV/sh (RM)	381.1	393.3	383.0	390.9	400.3
PER (x)	5.1	8.7	6.8	72.4	21.5
Div. Yield (%)	2.4	2.4	2.4	2.4	2.4
PBV (x)	0.2	0.2	0.2	0.2	0.2
EV/EBITDA (x)	14.3	12.6	17.5	26.6	25.3

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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	0.675	0.850	25.9%	783.7	Y	04/2026	9.4	13.2	-29.9%	40.6%	7.2	5.1	1.2	15.5%	7.5	11.2%
DRB-HICOM BHD	UP	0.815	0.680	-16.6%	1,575.4	Y	12/2025	3.9	5.4	27.4%	37.6%	20.7	15.1	0.2	0.7%	2.0	2.5%
HIL INDUSTRIES BHD	MP	0.750	0.800	6.7%	248.9	Y	12/2025	9.6	9.6	-24.4%	0.0%	7.8	7.8	0.5	6.5%	3.0	4.0%
HONG LEONG INDUSTRIES BHD	OP	12.56	16.70	33.0%	4,118.4	Y	06/2025	139.6	143.5	33.1%	2.8%	9.0	8.8	1.6	19.1%	80.0	6.4%
MBM RESOURCES BHD	OP	4.68	6.90	47.4%	1,829.4	Y	12/2025	86.8	88.0	1.9%	1.4%	5.4	5.3	0.7	12.9%	45.0	9.6%
SIME DARBY BHD	UP	1.58	1.65	4.4%	10,745.6	Y	06/2025	13.9	15.1	-26.0%	8.9%	11.4	10.5	0.5	4.8%	10.0	6.3%
TAN CHONG MOTOR HOLDINGS BHD	UP	0.630	0.300	-52.4%	423.4	Y	12/2025	(27.6)	(24.4)	-179.8%	-188.6%	N.A.	N.A.	0.2	-7.7%	1.0	1.6%
SECTOR AGGREGATE					19,724.8					-10.4%	11.1%	11.1	10.0	0.5	4.6%		5.9%

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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KENANGA INVESTMENT BANK BERHAD (15678-H)
 Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
 Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

