Hong Leong Industries

Guocera's New Plant Takes Off

OUTPERFORM ↔

Price : **RM18.02**
Target Price : **RM21.00** ↔

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Following our recent visit to HLIND's Guocera Tiles' new Industry 4.0 (iR4.0) manufacturing facility in Kluang, Johor, we remain optimistic of the expansion of its non-core business operation. The new automated plant doubled the tiles production capacity, expanding its offering to high-margin large-format porcelain slabs and larger export market share. HLIND expects net margin expansion for Guocera, reaching above 10% (from c.3%), gradually within the next three years, but still pales in comparison to its core business operations of Yamaha motorcycles manufacturing which still holds the lion's share. We maintain our forecasts, TP of RM21.00, and OUTPERFORM call.

Guocera, the pioneer of large format slabs in Malaysia. According to Spherical Insights (see exhibit 3), the global porcelain tiles market is experiencing robust structural growth, projected to exceed USD18b (CAGR at +6%) by 2035, expanding faster than traditional ceramic tiles (current market size c.USD200b with CAGR at +2%). This was driven by porcelain's superior density, ultra-low water absorption (0.5% or less), and high mechanical strength, making it the preferred choice for both heavy commercial traffic (Hotel & Healthcare) and modern residential design.

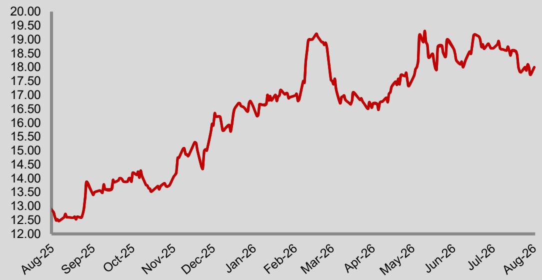
Guocera partnered with Italy's Siti B&T Gruppo to install advanced slab production technology at its Industry 4.0 (iR4.0) manufacturing facility plant in Kluang, Johor (see exhibit 2) at a total cost of RM420m with payback period of 5-6 years. The automated facility adds 6–7m sq m/year of production capacity, doubling Guocera's tile capacity to c.13.5m sq m/year. This expansion enables it to be the first domestic manufacturer in Malaysia capable of producing large-format tiles (up to 120x240 cm, recommended retail price (RRP) of up to RM1.3k per slab vs existing production of 60x60cm ceramic tiles, RRP of up to RM40 per piece).

Currently, the large-format tiles are below 5% of the total sales, and will expand to 25% of the total sales within the next three years. This directly addresses growing architectural demand for seamless, low-grout surfaces, a high-margin segment historically dominated by European imports. Guocera stand to expands its high-margin export market from 20% export: 80% local, to 30% export: 70% local within the next three years which includes Thailand, Vietnam, US, Singapore and Indonesia. Guocera currently exports to over 30 countries across the Asia-Pacific region, the Middle East, Europe, and North America.

Bigger tiles, higher margin, sustained profitability. Under Guocera segmental performance, for FY24-FY26, it recorded revenue in a range of RM250m-RM320m with segmental PAT in a range of RM5m-RM10m. This translated into c.9% of the group revenue and c.2% of the group net profit (at c.3% profit margin), as Yamaha motorcycles manufacturing still holds the lion's share. With the doubling in manufacturing capacity, higher-margin large-format porcelain slabs production and expansion in export market share, HLIND expects net margin expansion for Guocera to reach above 10% (from current c.3%), gradually within the next three years (which also includes the recognition of start-up costs), but the total contribution to the group revenue will still be below 10% as it also focuses on expanding its core business operation of Yamaha motorcycles manufacturing. Thus, Guocera division will still be treated as non-core business operation.

Outlook. For FY26, it introduced seven new models which boosted its volume and margins. These includes Yamaha NVX (RRP at RM11,998, Sept 2025), Yamaha YZF-R25 (RRP at RM23,098, Oct 2025), Yamaha Ego Gear Pro (RRP at RM6,198, Nov 25), Yamaha MT-09 & MT-09 SP

Share Price Performance



KLCI	1,748.17
YTD KLCI chg	4.1%
YTD stock price chg	7.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	HLI MK EQUITY
Market Cap (RM'm)	5,756.9
Shares Outstanding	319.5
52-week range (H)	19.30
52-week range (L)	12.46
3-mth avg daily vol:	74,724
Free Float	19%
Beta	0.92

Major Shareholders

Hong Leong Co Malaysia	75.2%
Ambank M Bhd	2.0%
Norges Bank	1.5%

Summary Earnings Table

FY June (RM m)	2025A	2026F	2027F
Revenue	3,570.4	3,562.0	3,597.6
EBIT	771.9	1,087.6	1,129.5
PBT	865.9	971.9	1,000.4
Net Profit	**486.0**	**561.3**	**577.7**
Core Net Profit	**502.4**	**561.3**	**577.7**
Consensus (NP)	-	555.0	603.0
Earnings Revision	-	-	-
Core EPS (sen)	153.2	171.2	176.2
Core EPS (%)	46.1	11.7	2.9
NDPS (sen)	80.0	100.0	100.0
BVPS (RM)	7.03	7.75	8.51
PER (x)	11.8	10.5	10.2
PBV (x)	2.6	2.3	2.1
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	4.4	5.5	5.5

(RRP at RM57,998, Feb 26), Yamaha Tenere 700 (RRP at RM58,999, Mar 26), Yamaha TMax Tech Max (RRP at RM75,888, Apr 26), and Yamaha 135LC (RRP at RM8,298, June 26). In the next 2-3 years pipeline, HLIND plans to introduce a total of 15-17 all-new and face-lifted models with attractive pricing within their respective target market range. Its new Guocera's manufacturing facility plant in Kluang, Johor started production in July 2026, added 6–7m sq m/year of production capacity, doubling Guocera's tile capacity to c.13.5m sq m/year. Fully automated, the plant can produce bigger format size tiles (up to 120x240 cm) which command higher margins (including expansion in high-margin export market).

Forecasts. Maintained.

Valuations. We also maintain our TP at **RM21.00** based on unchanged PER of 12x on FY27F EPS, at 1x multiple premium to passenger vehicle sector's average forward PER of 11x given its strong market position in the local motorcycle segment which prospects are buoyed by the booming gig economy. There is no adjustment to our target price based on ESG given a 3-star rating as appraised by us (see Page 4).

Investment case. We continue to like HLIND: (i) as it is a strong proxy to the booming gig economy given the critical role of motorised two-wheelers in executing online delivery transactions, (ii) for its association with the strong Yamaha motorcycle brand in Malaysia and the brand's market leader position in the local motorcycle segment, and (iii) for its solid war chest with a net cash of RM1.9b that could be deployed for earnings-accretive acquisitions. Its dividend yield is also attractive at 6%. Maintain **OUTPERFORM.**

Risks to our call include: (i) consumers cutting back on discretionary spending (particularly big-ticket items like new motorcycles) amidst high inflation, (ii) supply chain disruptions, (iii) escalating input costs, and (iv) a global recession hurting demand for the export of its motorcycles and tiles.

Exhibit 1 : Guocera Tiles

Source: Company, Kenanga Research

Exhibit 2 : Guocera Tiles New Industry 4.0 (Ir4.0) Manufacturing Facility in Kluang, Johor,

Source: Company, Kenanga Research

Exhibit 3 : Global Porcelain Tiles Market Size

Source: Spherical Insights (https://www.sphericalinsights.com/our-insights/porcelain-tiles-market#:~:text=Porcelain%20Tiles%20Market%20Summary%2C%20Size%20%26%20Emerging,of%205.93%25%20during%20the%20Forecast%20Period%202025%2D2035), Kenanga Research

Income Statement

FY June (RM m)	2023A	2024A	2025A	2026F	2027F
Revenue	3,416.4	3,111.4	3,570.4	3,562.0	3,597.6
EBIT	**411.7**	**560.6**	**771.9**	**1,087.6**	**1,129.5**
Depreciation	-78.5	-64.7	-48.9	-56.8	-52.8
Interest Inc/(Exp)	50.9	63.3	71.7	80.9	88.9
Associate	49.6	37.7	22.3	34.8	40.1
Profit Before Tax	**512.1**	**661.6**	**865.9**	**971.9**	**1,000.4**
Taxation	-118.6	-146.8	-204.1	-223.5	-230.1
Minority Interest	-102.9	-126.9	-175.7	-187.1	-192.6
Core Net Profit	**290.6**	**343.8**	**502.4**	**561.3**	**577.7**

Balance Sheet

FY June (RM m)	2023A	2024A	2025A	2026F	2027F
F.Assets	19.1	24.8	30.1	210.5	314.5
Int. Assets	49.9	28.2	20.9	20.9	20.9
Other F.Assets	478.0	484.1	661.7	661.7	661.7
Inventories	336.5	209.3	244.4	448.9	453.4
Receivables	272.2	306.8	267.3	400.1	404.1
Other C.Assets	59.5	1.0	0.2	0.2	0.2
Cash	1,487.6	1,753.2	2,016.8	2,187.3	2,403.1
Total Assets	**2,702.8**	**2,807.3**	**3,241.4**	**3,929.6**	**4,257.8**
Payables	406.7	402.5	490.3	595.3	601.2
S.T Borrowings	0.0	0.0	0.0	0.0	0.0
Other S.T Liability	78.1	79.0	109.5	0.0	0.0
L.T Borrowings	0.0	0.0	0.0	0.0	0.0
Other L.T Liability	29.8	22.7	128.3	0.0	0.0
Net Assets	**2,188.2**	**2,303.2**	**2,513.3**	**2,746.7**	**2,996.5**
S.Equity	2,027.9	2,106.4	2,306.3	2,539.6	2,789.5
MI	160.3	196.8	207.1	207.1	207.1
Total Equity	**2,188.2**	**2,303.2**	**2,513.3**	**2,746.7**	**2,996.5**

Cashflow Statement

FY June (RM m)	2023A	2024A	2025A	2026F	2027F
Operating CF	441.8	668.8	714.8	389.2	554.8
Investing CF	-898.8	145.8	-977.7	-100.0	-100.0
Financing CF	-279.7	-436.4	-282.9	-118.7	-239.0
Change In Cash	-736.7	378.2	-545.8	170.5	215.8
Free CF	381.8	608.8	654.8	289.2	454.8

Financial Data & Ratios

FY June (%)	2023A	2024A	2025A	2026F	2027F
Growth					
Turnover	38.5	-8.9	14.8	-0.2	1.0
EBIT	23.2	36.2	37.7	40.9	3.9
PBT	35.9	29.2	30.9	12.2	2.9
CNP	53.3	18.3	46.1	11.7	2.9
Profitability (%)					
EBIT Margin	12.0	18.0	21.6	30.5	31.4
PBT Margin	15.0	21.3	24.3	27.3	27.8
Core Margin	8.5	11.1	14.1	15.8	16.1
ROA	11.0	14.1	16.1	15.7	14.1
ROE	14.8	18.8	22.0	23.2	21.7
DuPont Analysis					
Net Margin (%)	8.5	11.1	14.1	15.8	16.1
Assets T/O (x)	1.3	1.1	1.1	0.9	0.8
Lev. Factor(x)	1.3	1.3	1.4	1.5	1.5
ROE (%)	14.8	18.8	22.0	23.2	21.7
Leverage					
Debt/Asset (x)	-	-	-	-	-
Debt/Equity(x)	-	-	-	-	-
N.(Cash)/Debt	(1,487.6)	(1,753.2)	(2,016.8)	(2,187.3)	(2,403.1)
N.Debt/Eqt (x)	(0.7)	(0.8)	(0.9)	(0.9)	(0.9)
Valuations					
C. EPS (sen)	88.6	104.9	153.2	171.2	176.2
NDPS (sen)	57.0	107.0	80.0	100.0	100.0
BV/share (RM)	6.2	6.4	7.0	7.7	8.5
PER (x)	20.3	17.2	11.8	10.5	10.2
Div. Yield (%)	3.2	5.9	4.4	5.5	5.5
PBV (x)	1.6	2.9	2.8	2.6	2.3
EV/EBITDA(x)	4.8	4.1	3.3	5.1	5.1

Source: Kenanga Research

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	0.970	1.22	25.8%	1,126.2	Y	04/2026	11.5	14.5	27.7%	25.9%	8.4	6.7	1.6	18.4%	9.2	9.5%
DRB-HICOM BHD	UP	0.980	0.770	-21.4%	1,894.3	Y	12/2026	7.2	7.7	119.9%	6.0%	13.6	12.8	0.2	1.3%	3.0	3.1%
HIL INDUSTRIES BHD	OP	0.650	0.850	30.8%	215.7	Y	12/2026	11.2	11.4	2.8%	2.3%	5.8	5.7	0.4	7.2%	2.0	3.1%
HONG LEONG INDUSTRIES BHD	OP	18.02	21.00	16.5%	5,908.8	Y	06/2026	171.0	174.4	11.6%	2.0%	10.5	10.3	2.4	23.3%	100.0	5.5%
MBM RESOURCES BHD	MP	4.97	4.90	-1.4%	1,942.8	Y	12/2026	81.6	82.2	-5.9%	0.7%	6.1	6.0	0.7	11.5%	45.0	9.1%
SIME DARBY BHD	OP	2.21	2.75	24.4%	15,030.2	Y	06/2026	19.8	21.5	15.6%	8.1%	11.1	10.3	0.8	7.0%	14.0	6.3%
TAN CHONG MOTOR HOLDINGS BHD	UP	0.480	0.360	-25.0%	322.6	Y	12/2026	(19.7)	(17.2)	-164.4%	-187.7%	N.A.	N.A.	0.1	-5.2%	1.0	2.1%
SECTOR AGGREGATE					**26,440.5**					**19.9%**	**7.6%**	**11.0**	**10.2**	**0.7**	**6.1%**		**5.5%**

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 Engine 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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