

26 August 2019

# DRB-HICOM Berhad

## 1Q19 Below Expectations

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**1Q19 (due to change in FYE from Mar to Dec) core PATAMI of RM46m (-75% QoQ, core losses of RM67m in 1Q18) came in below our/consensus expectations at 15%/14% of full-year estimates due to weaker-than-expected Automotive segment's contribution. As such we cut our FY19-20E CNP by 43-12%. Downgrade to UP from MP, but with a higher SoP TP of RM2.60 (from RM2.20) based on revised SoP composition.**

**1Q19 (due to change in FYE from Mar to Dec) core PATAMI of RM46m (-75% QoQ, core losses of RM67m in 1Q18) came in below our/consensus expectations at 15%/14% of full-year estimates due to weaker-than-expected Automotive segment's contribution. No interim dividend was declared in this quarter as expected.**

**YoY, 1Q19** recorded core PATAMI of RM46m compared to core losses of RM67m in 1Q18 mainly from stronger sales by PROTON at 25,237 units (+14%) which drove Automotive segment stronger (sales +59%, segment profit RM91m from segment losses of RM188m), and more than offset lower overall profit contribution from Services segment (-34%), Pos Malaysia, Property segment (-33%) and lower share of profits from associates' (-15%), namely Honda, which recorded lower sales at 22,070 units (-23%), as consumers held back purchases in anticipation of newer models. Proton was buoyed by the all-new Proton X70 (CBU), and supported by face-lifted Proton variants. Pos Malaysia's 1Q19 entered into a loss of RM15m compared to net profit of RM5m due to widening losses from mail segment (+65%) as a result of declining mail volumes (-18%).

**QoQ, 1Q19** core PATAMI plunged 75%, despite the marginal decrease in revenue (-1%), affected by lower profit contributions from Automotive segment (-65%), Property segment (-85%), and Associates' share of profit (-64%), but cushioned by Services sector (+85%) which we believe came from better Banking segment's contribution. The Automotive segment registered dismal profit, despite PROTON recording better unit sales (+63%) mainly from unfavourable vehicles mix (PROTON vehicles mix skewed towards lower-margin vehicles with Proton X70 recorded lower sales to 6,615 units (-23% QoQ) as well as unfavourable timing of AV-8 completion (Defence sales: -10%). Whereas, Property segment's lower profit was from lower recognition from construction-related projects, i.e. Media City Development and Associates' lower share of profit, namely Honda, which recorded lower unit sales (-1%).

**Outlook.** Proton is in the midst of finalising a 10-year business road map targeting 30% share of the domestic market and 10% of regional market via introduction of new models. Specifically, the group is targeting to expand its products portfolio in the A, B, SUV and MPV segments for their export market. Proton X70 CBU was rolled out on 12th December 2018, and the CKD version is poised to be realised in Nov 2019. PROTON has recently launched the face-lifted Proton Iriz, Persona and Saga based on the Proton X70 design. For 2H20, PROTON will launch Proton X50 (Geely Binyue).

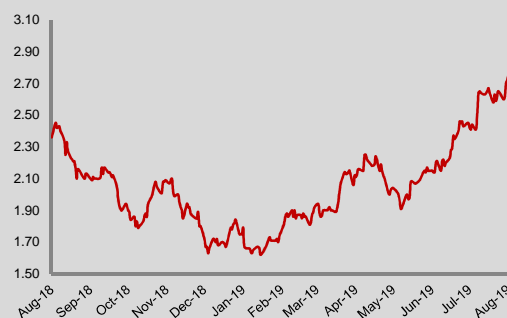
**We cut our FY19-20E CNP by 43-12%.** We cut our FY19-20E CNP by 43-12% to reflect lower-than-expected Automotive segment contribution as well as to reflect changes in FYE from Mar to Dec.

**Downgrade to UP from MP, but with a higher Sum-of-Parts (SoP) TP of RM2.60 (from RM2.20),** to reflect the changes in FYE, higher targeted PER valuation of Proton from 8x to 9x (based on growing national marques market share) and lower POS Malaysia's TP. We are cautious on the potential risk of teething problem arising from the first batch of CKD delivery of Proton X70, which may register lower sales compared to the current CBU. Our TP implied PER of 16x based on FY20E EPS (at peers' average mean PER). **Key risks to our call are:** (i) faster-than-expected roll-out of new models under the new Geely-Proton management, and (ii) higher-than-expected associates' contribution.

# UNDERPERFORM ↓

**Price:** RM2.95  
**Target Price:** RM2.60 ↑

### Share Price Performance



KLCI	1,609.33
YTD KLCI chg	-4.8%
YTD stock price chg	73.5%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	DRB MK EQUITY
Market Cap (RM m)	5,703.0
Shares Outstanding	1,933.2
52-week range (H)	3.00
52-week range (L)	1.60
3-mth avg daily vol:	5,857,063
Free Float	34%
Beta	1.3

### Major Shareholders

Etika Strategi Sdn Bhd	55.9%
Employees Provident Fund	7.2%
Dimensional Fund	2.6%

### Summary Earnings Table

FYE Dec (RM'm)	2018A <sup>^</sup>	2019E <sup>*</sup>	2020E
Turnover	12,477	8,322	13,634
EBIT	477	534	900
PBT	282	359	680
<b>Net Profit (NP)</b>	<b>123</b>	<b>174</b>	<b>308</b>
<b>Core Net Profit</b>	<b>183</b>	<b>174</b>	<b>308</b>
Consensus (NP)	-	329	377
Earnings Revision	-	-43%	-12%
Core EPS (sen)	9.5	9.0	15.9
C.EPS growth(%)	-41.5	-4.8	77.1
NDPS (sen)	3.0	3.0	3.0
BV/Share (RM)	3.47	3.53	3.66
Core PER	30.7	32.2	18.2
P/BV (x)	0.8	0.8	0.8
Gearing (x)	0.6	0.7	0.6
Net Dvd Yield (%)	1.0	1.0	1.0

<sup>^</sup>2018A refer to FYE Mar

<sup>\*</sup>2019E is based on 9 months

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**Result Highlights**

	1Q (Apr-Jun)	4Q (Jan-Mar)	QoQ	1Q (Apr-Jun)	YoY
FYE: Dec (RM'm)	FY19	FY18/19	Chg	FY18/19	Chg
Turnover	3,437	3,467	-0.9%	2,654	29.5%
EBIT/ (LBIT)	195	388	-49.8%	(77)	>100%
Associates	54	149	-63.8%	64	-15.4%
PBT/ (LBT)	147	329	-55.4%	(94)	>100%
Taxation	(37)	(109)	-65.9%	(50)	-25.8%
<b>PATAMI / (LATAMI)</b>	46	128	-63.9%	(67)	>100%
<b>CNP/ (CNL)</b>	46	188	-75.4%	(67)	>100%
EPS/ (LPS) (sen)	2	7	-63.9%	(3)	>100%
EBIT margin	<b>5.7%</b>	<b>11.2%</b>		<b>-2.9%</b>	
PBT margin	4.3%	9.5%		-3.6%	
NP margin	1.3%	3.7%		-2.5%	
Effective tax rate	25.5%	33.3%		-53.3%	

Source: Bursa Malaysia, Kenanga Research

**Segmental Breakdown**

	1Q (Apr-Jun)	4Q (Jan-Mar)	QoQ	1Q (Apr-Jun)	YoY
FYE: Dec (RM'm)	FY19	FY18/19	Chg	FY18/19	Chg
Automotive	2,234	2,077	7.6%	1,404	59.2%
Services	1,087	1,213	-10.4%	1,108	-1.9%
Property	115	177	-34.6%	143	-19.2%
<b>Group Revenue</b>	<b>3,437</b>	<b>3,467</b>	<b>-0.9%</b>	<b>2,654</b>	<b>29.5%</b>
Automotive	91	259	-64.9%	(188)	>100%
Services	49	27	82.4%	74	-33.5%
Property	21	135	-84.7%	31	-32.8%
Investment Holding	34	(92)	>100%	10	>100%
<b>Group Profit</b>	<b>195</b>	<b>329</b>	<b>-40.8%</b>	<b>(73)</b>	<b>&gt;100%</b>

Source: Bursa Malaysia, Kenanga Research

**Sum-of-parts (SoP) valuation**

Proton	51%	Based on 9x PER, which is the same as MBMR ascribed PER	1,966
Puspakom	100%	DCF	286
Alam Flora		Proposed Sale Value	945
Bank Muamalat	70%	1.4x PBV	990
Pos Malaysia	54%	Based on TP of RM1.25 (corresponding downgrade of Kenanga Research TP to RM1.25 from RM1.30)	528
CTRM		12x PER	235
Deftech		13x PER	330
Property and construction	100%	BV	2,403
Others (extricated assets)		BV	565
<b>Subtotal</b>			<b>8,248</b>
Less: Net debt			(1,974)
<b>Total</b>			<b>6,274</b>
<b>Holding co. discount (20%)</b>			<b>(1,255)</b>
No. of shares			1933
<b>SOP/share (TP)</b>			<b>2.60</b>

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## Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
<b><u>AUTOMOTIVE</u></b>																	
BERMAZ AUTO BHD	2.32	2,694.9	Y	04/2020	2.9%	0.5%	0.7%	2.0%	10.2	10.1	9.9	4.7	4.4	45.1%	8.4%	3.00	OP
DRB-HICOM BHD	2.95	5,703.0	Y	12/2019	-33.3%	63.8%	-4.8%	77.1%	31.2	32.8	18.5	0.8	0.8	2.6%	1.0%	2.60	UP
MBM RESOURCES BERHAD	4.26	1,665.2	Y	12/2019	-3.7%	0.3%	13.0%	2.5%	10.1	8.9	8.7	1.1	1.0	11.4%	2.8%	4.40	MP
SIME DARBY BERHAD	2.14	14,553.8	Y	06/2019	2.8%	3.0%	-1.5%	1.9%	17.0	17.2	16.9	1.0	1.0	5.8%	3.5%	2.20	MP
TAN CHONG MOTOR HOLDINGS BHD	1.51	985.5	Y	12/2019	-13.1%	1.0%	-26.1%	13.4%	9.4	12.7	11.2	0.4	0.4	2.8%	2.6%	1.40	MP
UMW HOLDINGS BHD	5.19	6,063.4	Y	12/2019	6.0%	7.0%	-1.3%	21.5%	16.0	16.2	13.3	1.8	1.7	10.8%	1.4%	5.45	MP
<b>Simple Average</b>					<b>-8.9%</b>	<b>13.7%</b>	<b>-3.7%</b>	<b>19.4%</b>	<b>15.6</b>	<b>16.3</b>	<b>13.0</b>	<b>1.6</b>	<b>1.5</b>	<b>13.5%</b>	<b>3.7%</b>		
<b><u>CONSENSUS ESTIMATES</u></b>																	
APM AUTOMOTIVE HOLDINGS BHD	2.42	473.2	Y	12/2019	-0.8%	3.8%	-1.0%	4.5%	12.3	12.4	11.9	0.4	0.4	3.0	0.1	2.63	SELL
PECCA GROUP BHD	1.27	232.9	Y	06/2020	2.4%	5.1%	15.4%	7.6%	14.0	12.1	11.3	1.4	1.3	11.2	0.1	1.40	BUY

Source: Bloomberg, Kenanga Research

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**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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