



# DRB-HICOM

(DRB MK EQUITY, DRBM.KL)

1 June 2021

*Bright prospects with extension of SST exemption*

## BUY

(Maintained)

Jeremie Yap

jeremie-yap@ambankgroup.com

+603-2036 2304

**Rationale for report: Company results**

Price RM1.81  
Fair Value RM2.38  
52-week High/Low RM2.25/RM1.57

### Key Changes

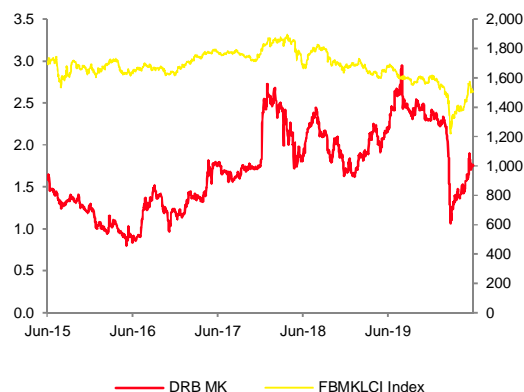
Fair value ⬇  
EPS ⬇

YE to Dec	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	13,155.5	12,198.3	12,622.8	13,019.1
Core net profit (RM mil)	(96.1)	165.0	200.8	213.0
FD Core EPS (sen)	(5.0)	8.5	10.4	11.0
FD Core EPS growth (%)	(128.6)	(271.7)	21.7	6.1
Consensus Net Profit (RM mil)	-	242.3	323.3	258.3
DPS (sen)	3.0	3.0	3.0	3.0
PE (x)	nm	21.2	17.4	16.4
EV/EBITDA (x)	4.6	7.8	8.2	8.2
Div yield (%)	1.7	1.7	1.7	1.7
ROE (%)	7.6	2.3	2.9	3.0
Net Gearing (%)	65.3	68.4	65.2	64.3

### Stock and Financial Data

Shares Outstanding (million)	1,933.2
Market Cap (RM mil)	3,499.2
Book Value (RM/share)	3.92
P/BV (x)	0.5
ROE (%)	7.6
Net Gearing (%)	65.3
Major Shareholders	Etika Strategi (55.9%) EPF (7.6%) Lembaga Tabung Haji (6.8%)
Free Float	20.4
Avg Daily Value (RM mil)	3.9

Price performance	3mth	6mth	12mth
Absolute (%)	(0.5)	(9.0)	9.7
Relative (%)	(0.9)	(10.2)	2.1



### Investment Highlights

- We maintain our BUY recommendation for DRB-Hicom with a lower SOP-based fair value (FV) of RM2.38/share (from RM2.55/share previously).
- We trim our FY21–23F net profit forecasts by 29%, 22% and 21% respectively after cutting our revenue and profit contribution from the services segment, predominantly 53.5%-owned Pos Malaysia.
- DRB-Hicom's 1Q21 core net loss of RM17.0mil missed expectations (vs. our full-year forecast of RM233.6mil and full-year consensus estimates of RM242.3mil). However, core net loss significantly narrowed from RM120.5mil in 1Q20, largely due to the earnings vacuum from MCO 1.0 last year.
- DRB's automotive division recorded a 1Q21 revenue of RM2.6bil (+42% YoY) with a PBT of RM78.3mil. We believe that the increase from 1Q20's LBT of RM90.4mil was due to: i) delayed deliveries of AV8 tanks and CTRM composite materials due to the MCO and global down cycle of the aviation industry throughout 1Q20 (with orders from Airbus and Boeing being pushed back; and ii) fiery demand for Proton's flagship PIES models and X-series.
- Proton sold a total of 32.4K units of vehicles (+49% YoY) in 1Q21, driven by overwhelming sales of the groups PIES models, X50 and X70 SUVs given its value propositions with affordable price points. Collectively, the Proton X70 and X50 contributed 12.5K of the total sales in 2020, 39% of total sales volume in 1Q20.
- DRB's services division posted a higher revenue in 1Q21 of RM863.7mil (+4% YoY) and the division reported a PBT of RM2.9mil (from an LBT of RM51.8mil in 1Q20). We believe that the improved results of the division was due to the better performance from Bank Muamalat as the unit moves on from the loan moratorium in 1Q20.
- DRB's PAC division reported a 1Q21 revenue of RM69.7mil (-25% YoY) and a lower PBT of RM3.8mil (-54% YoY). This is due to the fact that construction-related activities for Media City Development and ICQS have been fully completed. Going forward, this division will only recognize minimal revenue and will break even at best going forward into FY21–22F.
- With the extension of the SST exemption till 31 December 2021, we strongly believe that Proton's PIES models, and both the Geely-inspired Proton X70 and X50 CKDs are expected to lift Proton's sales volume and earnings in the future as its SUVs are competitively priced with advanced features for better consumer experience and are extremely value-for-money. We are also expecting a new Geely-inspired model (either MPV or Sedan) in 2021. Maintain BUY.

## EXHIBIT 1: EARNINGS SUMMARY

	1Q20	4Q20	1Q21	QoQ	YoY
<b>Revenue</b>	<b>2,736.8</b>	<b>4,850.1</b>	<b>3,511.5</b>	-28%	28%
Cost of sales and operating expenses	(2,787.8)	(4,110.8)	(3,433.8)	-16%	23%
Other income	75.1	434.9	100.6	-77%	34%
Other expenses	(86.2)	(202.7)	(62.9)	-69%	-27%
<b>Profit/(loss) from operations</b>	<b>(62.1)</b>	<b>971.5</b>	<b>115.5</b>	-88%	-286%
Finance costs	(111.6)	(119.1)	(112.1)	-6%	0%
Share of results of JV (net of tax)	(4.5)	28.1	21.7	-23%	-584%
Share of results of associates (net of tax)	(7.1)	68.3	11.3	-83%	-259%
<b>Profit/(loss) before taxation</b>	<b>(185.3)</b>	<b>948.8</b>	<b>36.3</b>	-96%	-120%
Taxation	(30.5)	82.3	(22.3)	-127%	-27%
<b>Net profit/(loss)</b>	<b>(215.8)</b>	<b>1,031.1</b>	<b>14.0</b>	-99%	-106%
Holder of perpetual sukuk	11.4	6.1	5.9	-2%	-48%
Holder of RCCPS	0.0	0.0	0.0	NA	NA
Minority interest	(53.9)	39.1	25.0	-36%	-146%
<b>Net profit attributable to owners</b>	<b>(173.3)</b>	<b>986.0</b>	<b>(17.0)</b>	-102%	-90%
Exceptional Items	122.1	(964.4)	66.5	-107%	-46%
<b>Core net profit</b>	<b>(51.1)</b>	<b>21.6</b>	<b>49.5</b>	129%	-197%
<b>Margins</b>					
EBITDA margin	6.0%	25.5%	10.2%		
EBIT margin	-2.3%	20.0%	3.3%		
PBT margin	-6.8%	19.6%	1.0%		
Net profit margin	-6.3%	20.3%	-0.5%		
Core net profit margin	-1.9%	0.4%	1.4%		
<b>Segmental Information</b>					
Revenue					
Automotive	1,813.0	2,617.3	2,578.2	-1%	42%
Services	830.5	877.4	863.7	-2%	4%
Property, Asset & Construction	93.3	1,355.3	69.7	-95%	-25%
Investment Holding	0.0	0.0	0.0	NA	NA
<b>Total</b>	<b>2,736.8</b>	<b>4,850.1</b>	<b>3,511.5</b>	<b>-28%</b>	<b>28%</b>
<b>Operating Profit</b>					
Automotive	(44.1)	205.6	80.9	-61%	-283%
Services	(24.9)	(1.2)	26.7	-2371%	-207%
Property, Asset & Construction	18.8	861.1	13.6	-98%	-28%
Investment Holding	(1.3)	(115.2)	8.4	-107%	-745%
<b>Total</b>	<b>(51.5)</b>	<b>950.4</b>	<b>129.5</b>	<b>-86%</b>	<b>-351%</b>
<b>PBT</b>					
Automotive	(90.4)	262.8	78.3	-70%	-187%
Services	(51.8)	(29.8)	2.9	-110%	-106%
Property, Asset & Construction	8.3	852.1	3.8	-100%	-54%
Investment Holding	(51.4)	(136.4)	(48.7)	-64%	-5%
<b>Total</b>	<b>(185.3)</b>	<b>948.7</b>	<b>36.3</b>	<b>-96%</b>	<b>-120%</b>
<b>Operating margin</b>					
Automotive	-2%	8%	3%		
Services	-3%	0%	3%		
Property, Asset & Construction	20%	64%	19%		
<b>PBT margin</b>					
Automotive	-5%	10%	3%		
Services	-6%	-3%	0%		
Property, Asset & Construction	9%	63%	5%		

Source: AmInvestment Bank Bhd

## EXHIBIT 2: SEGMENTAL RESULTS

	1Q20	4Q20	1Q21	QoQ	YoY
<b>Further segmental breakdown</b>					
<b>Automotive - Revenue</b>					
Proton	1,270.0	1,995.1	2,006.7	1%	58%
Automotive Distribution (AD)	131.0	230.2	274.9	19%	110%
Automotive Component (AC)	94.8	185.1	158.3	-14%	67%
Defence & Aviation (D&A)	317.2	206.9	138.3	-33%	-56%
<b>Total</b>	<b>1,813.0</b>	<b>2,617.3</b>	<b>2,578.2</b>	<b>-1%</b>	<b>42%</b>
<b>Services - Revenue</b>					
Banking	268.3	326.0	272.8	-16%	2%
Concession	31.9	39.7	35.2	-11%	10%
Logistic	527.4	509.8	553.4	9%	5%
Education	2.9	1.9	2.3	21%	-21%
<b>Total</b>	<b>830.5</b>	<b>877.4</b>	<b>863.7</b>	<b>-2%</b>	<b>4%</b>

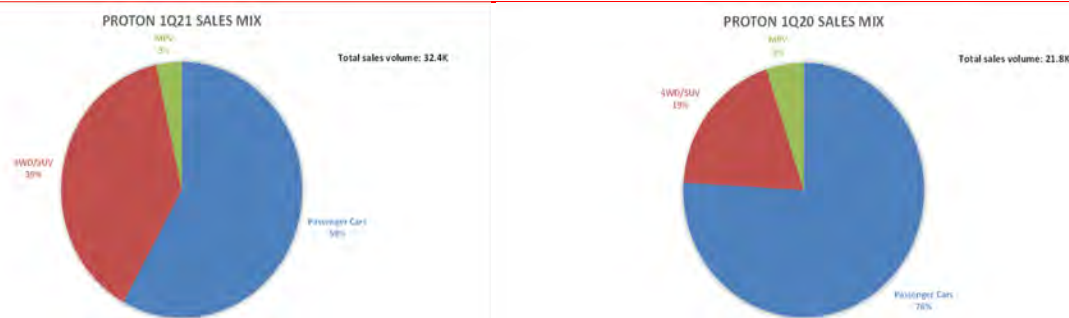
Source: AmInvestment Bank Bhd

## EXHIBIT 3: SOP VALUATION

	Stake	Method	Value (RM mil)
<b>Automotive division</b>			
Proton	50.1%	FY18 Book Value of 1.0x	1,647.3
Automotive Distribution		Based on FY21 PE of 3x	631.3
Deftech		Based on CY18 P/E of 5x	354.9
<b>Services</b>			
Puspakom		FY18 Book Value of 1.0x	1,050.2
Bank Muamalat	70.0%	FY18 Book Value of 0.4x	644.0
Pos Malaysia	53.5%	FY18 Book Value of 0.64x (inhouse estimates)	662.9
<b>Property, asset and construction</b>			
		FY18 Book Value	2603.6
<b>Sub-total</b>			<b>7,594.1</b>
Less: Net debt/(cash)			(1,461.6)
<b>Total</b>			<b>6,132.5</b>
Number of shares			1,933.2
<b>SOP/share</b>			<b>3.17</b>
SOP discount			25%
Fair value			<b>2.38</b>

Source: AmInvestment Bank Bhd

## EXHIBIT 4: PROTON SALES COMPOSITION 1Q21 VS. 1Q20



Source: AmInvestment Bank Bhd

## EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	14,003.0	13,155.5	12,198.3	12,622.8	13,019.1
EBITDA	1,884.2	1,824.3	1,052.6	978.8	991.3
Depreciation/Amortisation	778.0	903.6	569.7	567.5	580.0
Operating income (EBIT)	1,106.2	920.7	482.9	411.3	411.2
Other income & associates	123.3	54.8	242.2	247.0	252.0
Net interest	(444.3)	(458.1)	(322.1)	(316.0)	(310.5)
<b>Exceptional items</b>	-	-	-	-	-
Pretax profit	801.3	540.1	403.0	342.4	352.7
Taxation	(142.8)	8.7	(96.7)	(82.2)	(84.7)
<b>Minorities/pref dividends</b>	<b>(181.9)</b>	<b>5.3</b>	<b>(141.3)</b>	<b>(59.4)</b>	<b>(55.0)</b>
Net profit	476.6	554.1	165.0	200.8	213.0
Core net profit	335.5	(96.1)	165.0	200.8	213.0
<b>Balance Sheet (RMmil, YE 31 Dec)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>
Fixed assets	5,902.4	6,182.1	5,674.9	5,800.3	6,065.0
Intangible assets	-	1,410.7	-	-	-
<b>Other long-term assets</b>	<b>21,464.6</b>	<b>22,035.1</b>	<b>21,464.6</b>	<b>21,464.6</b>	<b>21,464.6</b>
Total non-current assets	26,257.5	29,627.9	27,139.6	27,264.9	27,529.6
Cash & equivalent	2,521.2	2,406.1	673.9	704.7	540.3
Stock	1,803.4	1,924.8	2,052.6	2,116.8	2,206.8
Trade debtors	3,479.9	3,077.1	4,010.4	4,150.0	4,315.9
<b>Other current assets</b>	<b>9,294.1</b>	<b>8,560.1</b>	<b>9,294.1</b>	<b>9,294.1</b>	<b>9,294.1</b>
Total current assets	15,417.9	15,968.2	16,031.0	16,265.5	16,357.2
Trade creditors	5,056.3	4,658.9	5,737.2	5,991.2	6,222.7
Short-term borrowings	1,968.7	2,096.4	2,083.8	2,031.6	1,987.4
<b>Other current liabilities</b>	<b>19,400.9</b>	<b>21,436.2</b>	<b>19,400.9</b>	<b>19,400.9</b>	<b>19,400.9</b>
Total current liabilities	25,599.1	28,191.4	27,221.8	27,423.7	27,611.0
Long-term borrowings	4,389.1	5,263.0	3,266.0	3,220.6	3,177.6
<b>Other long-term liabilities</b>	<b>2,316.9</b>	<b>2,284.6</b>	<b>2,316.9</b>	<b>2,316.9</b>	<b>2,316.9</b>
<b>Total long-term liabilities</b>	<b>6,233.4</b>	<b>7,547.6</b>	<b>5,582.9</b>	<b>5,537.6</b>	<b>5,494.6</b>
Shareholders' funds	6,995.9	7,579.7	6,831.5	6,974.3	7,187.3
Minority interests	1,553.8	1,316.0	3,534.4	3,593.8	3,648.8
BV/share (RM)	3.62	3.92	3.53	3.61	3.72
<b>Cash Flow (RMmil, YE 31 Dec)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>
Pretax profit	801.3	540.1	403.0	342.4	352.7
Depreciation/Amortisation	(778.0)	(903.6)	(569.7)	(567.5)	(580.0)
Net change in working capital	(269.5)	(10.5)	(88.5)	50.4	(24.5)
<b>Others</b>	<b>761.2</b>	<b>1,903.7</b>	<b>1,042.7</b>	<b>1,052.8</b>	<b>1,075.4</b>
Cash flow from operations	515.0	1,529.7	787.5	878.1	823.6
Capital expenditure	(475.1)	(1,006.4)	(547.5)	(692.8)	(844.7)
Net investments & sale of fixed assets	-	85.8	-	-	-
<b>Others</b>	-	<b>973.6</b>	-	-	-
Cash flow from investing	(475.1)	53.0	(547.5)	(692.8)	(844.7)
Debt raised/(repaid)	(110.7)	(270.8)	(107.8)	(97.5)	(87.2)
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(58.0)	(37.3)	(58.0)	(58.0)	(58.0)
<b>Others</b>	<b>(58.1)</b>	<b>496.3</b>	<b>(77.5)</b>	-	-
<b>Cash flow from financing</b>	<b>(226.8)</b>	<b>188.3</b>	<b>(243.3)</b>	<b>(155.5)</b>	<b>(145.2)</b>
<b>Net cash flow</b>	<b>(186.9)</b>	<b>1,771.0</b>	<b>(3.3)</b>	<b>29.8</b>	<b>(166.4)</b>
<b>Net cash/(debt) b/f</b>	<b>848.3</b>	<b>2,772.3</b>	<b>677.2</b>	<b>673.9</b>	<b>704.7</b>
Net cash/(debt) c/f	661.4	4,543.2	673.9	704.7	540.3
<b>Key Ratios (YE 31 Dec)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>
Revenue growth (%)	12.2	(6.1)	(7.3)	3.5	3.1
EBITDA growth (%)	76.9	(3.2)	(42.3)	(7.0)	1.3
Pretax margin (%)	5.7	4.1	3.3	2.7	2.7
Net profit margin (%)	3.4	4.2	1.4	1.6	1.6
Interest cover (x)	2.5	2.0	1.5	1.3	1.3
Effective tax rate (%)	17.8	1.6	24.0	24.0	24.0
Dividend payout (%)	12.2	6.7	35.2	28.9	27.2
Debtors turnover (days)	99	91	106	118	119
Stock turnover (days)	62	60	65	65	66
Creditors turnover (days)	174	156	170	184	185

Source: Company, AmInvestment Bank Bhd estimates

**DISCLOSURE AND DISCLAIMER**

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad (“AmInvestment”) without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures or investment products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment’s views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment’s affiliates and/or related corporations (collectively, “AmBank Group”).

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment’s prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees and agents (“Relevant Person”) accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.