3 December 2020

Consumer Cyclical | Auto & Autoparts

DRB-HICOM (DRB MK)

Buy (Maintained)

Proton's Growth Plan On Track; BUY

Target Price (Return):	MYR2.50 (25%)
Price:	MYR2.00
Market Cap:	USD948m
Avg Daily Turnover (MYR/USD)	3.82m/0.92m

- **Maintain BUY and MYR2.50 TP, 25% upside.** We remain positive on DRB-HICOM's prospect after our meeting with management yesterday. Proton's growth plan is on track. The company is expected to launch another Geely-based model in 2021, as well as facelifts of its existing product line-up. Proton's overseas ventures faced a temporary hiccup this year, due to the pandemic, but will gear up its efforts to penetrate the regional market in the next two years.
- **Proton X50 bookings reach >30,000 units.** The Tanjung Malim plant's planned capacity for the model is 3,500-4,000 units/month, but the company is looking to improve this, given the positive market response. Proton X50's margins are likely to be lower than the X70, as it is a higher-volume product. Local content is expected to stabilise at a similar level to that of locally-developed models, once key components are manufactured in Malaysia, in the next 2-3 years.
- **Next Geely model on track for launch next year.** Management shared that Proton is on track to introduce another Geely-based model next year. Proton will also continue to launch facelifts of its existing line-up to maintain consumer interest – Proton Persona and Iriz facelifts recently sighted. No sales targets were shared, but management expects Proton to continue to grow its market share in 2021.
- **Composite Technology Research Malaysia remains profitable,** despite revenue declining 30-40% due to some of its aerospace customers pushing back their orders. However, there were no major order cancellations, and its contracts with these customers remain intact.
- **Deftech's contract to supply AV8 armoured vehicles** to the Ministry of Defence will likely be extended to 2021, with 36 more vehicles to be delivered, out of 259. The company recently bid for several government projects with sizeable contract values to replenish its orderbook.
- **Management flagged a potential modification loss** from Bank Muamalat in 4Q20, due to Bank Negara's decision to extend the loan moratorium for the B40 group. However, the amount is likely to be significantly lower than 2Q20's MYR46m.
- **Riding the Proton wave.** We maintain our call and TP. Proton's hopes to expand its local market share, and break into regional markets remain intact. The positive response to the Proton X50 is likely to see its earnings rerated. Also, various attractive embedded assets within DRB provide significant value accretion potential, in our view.
- **Risks:** Weaker-than-expected consumer sentiment and delays in new model launches could pose downside risks to our earnings and TP.

Forecasts and Valuation	Mar-18	Mar-19	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (MYRm)	12,251	12,477	10,536	12,283	14,208	14,732
Recurring net profit (MYRm)	83	130	335	(62)	228	260
Recurring net profit growth (%)	-	55.8	157.9	(118.4)	-	14.0
Recurring P/E (x)	46.43	29.79	11.55	na	16.94	14.87
P/B (x)	0.6	0.6	0.6	0.6	0.5	0.5
P/CF (x)	3.46	na	29.74	5.19	2.74	2.34
Dividend Yield (%)	1.5	na	na	na	0.5	0.5
EV/EBITDA (x)	30.75	na	82.14	na	41.42	22.36
Return on average equity (%)	6.8	1.8	6.1	(0.9)	3.2	3.6
Net debt to equity (%)	30.6	36.4	37.8	39.3	30.2	19.2

Source: Company data, RHB

Analyst

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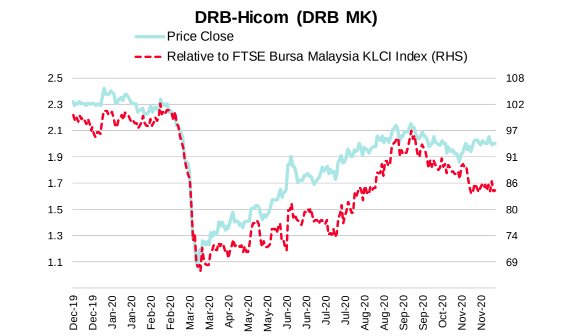
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(16.0)	7.5	(2.0)	23.5	(15.3)
Relative	(16.6)	(1.5)	(6.0)	17.5	(17.1)
52-wk Price low/high (MYR)					1.06 – 2.42



Source: Bloomberg

Note:
Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

Financial Exhibits

Asia
Malaysia
Consumer Cyclical
DRB-HICOM
DRB MK
Buy

Valuation basis

SOP

Key drivers

i. New model launches;
ii. Proton venturing into ASEAN.

Key risks

i. Sluggish consumer sentiment;
ii. Slower-than-expected economic growth.

Company Profile

DRB is a conglomerate with three core business divisions: Automotive, property and services.

Financial summary (MYR)	Mar-18	Mar-19	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring EPS	0.04	0.07	0.17 -	0.03	0.12	0.13
DPS	0.03	-	-	-	0.01	0.01
BVPS	3.42	3.47	3.62	3.59	3.69	3.82
Return on average equity (%)	6.8	1.8	6.1	(0.9)	3.2	3.6

Valuation metrics	Mar-18	Mar-19	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring P/E (x)	46.43	29.79	11.55	na	16.94	14.87
P/B (x)	0.6	0.6	0.6	0.6	0.5	0.5
FCF Yield (%)	8.0	(48.2)	(17.0)	5.8	28.7	35.1
Dividend Yield (%)	1.5	-	-	-	0.5	0.5
EV/EBITDA (x)	30.75	na	82.14	na	41.42	22.36
EV/EBIT (x)	9.10	21.36	13.21	29.17	11.21	8.92

Income statement (MYRm)	Mar-18	Mar-19	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover	12,251	12,477	10,536	12,283	14,208	14,732
Gross profit	1,470	2,209	10,536	2,211	2,557	2,652
EBITDA	296	(270)	115	(282)	221	377
Depreciation and amortisation	705	711	603	614	596	568
Operating profit	1,001	441	718	332	817	946
Net interest	(360)	(380)	(346)	(340)	(327)	(313)
Pre-tax profit	284	282	472	23	593	741
Taxation	(92)	(231)	(33)	2	(118)	(152)
Reported net profit	430	123	419	(62)	228	260
Recurring net profit	83	130	335	(62)	228	260

Cash flow (MYRm)	Mar-18	Mar-19	Dec-19	Dec-20F	Dec-21F	Dec-22F
Change in working capital	166	(1,208)	(893)	(290)	(132)	(36)
Cash flow from operations	1,116	(763)	130	745	1,410	1,655
Capex	(807)	(1,100)	(787)	(520)	(300)	(300)
Cash flow from investing activities	(142)	333	575	(561)	(304)	(301)
Dividends paid	(58)	0	0	0	(19)	(19)
Cash flow from financing activities	(566)	251	(845)	(590)	(596)	(582)
Cash at beginning of period	1,544	1,605	2,510	2,521	2,232	2,742
Net change in cash	409	(180)	(140)	(407)	510	772
Ending balance cash	1,953	1,425	2,370	2,115	2,742	3,514

Balance sheet (MYRm)	Mar-18	Mar-19	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total cash and equivalents	2,701	2,674	2,639	2,232	2,742	3,514
Tangible fixed assets	5,909	6,101	6,434	6,340	6,044	5,776
Total investments	294	340	323	353	383	413
Total assets	42,730	42,677	41,675	41,898	43,215	44,072
Short-term debt	2,324	2,771	1,969	2,019	2,069	2,119
Total long-term debt	3,465	3,548	4,389	4,089	3,789	3,489
Total liabilities	32,632	32,661	31,832	32,030	32,892	33,178
Total equity	10,098	10,016	9,843	9,867	10,324	10,893
Total liabilities & equity	42,730	42,677	41,675	41,898	43,215	44,072

Key metrics	Mar-18	Mar-19	Dec-19	Dec-20F	Dec-21F	Dec-22F
Revenue growth (%)	1.6	1.8	(15.6)	16.6	15.7	3.7
Recurrent EPS growth (%)	0.0	55.8	157.9	(118.4)	0.0	14.0
Gross margin (%)	12.0	17.7	100.0	18.0	18.0	18.0
Operating EBITDA margin (%)	2.4	(2.2)	1.1	(2.3)	1.6	2.6
Net profit margin (%)	3.5	1.0	4.0	(0.5)	1.6	1.8
Dividend payout ratio (%)	13.5	0.0	0.0	0.0	8.5	7.4
Capex/sales (%)	6.6	8.8	7.5	4.2	2.1	2.0
Interest cover (x)	2.78	1.16	2.07	0.98	2.50	3.02

Source: Company data, RHB

Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-11-27	Buy	2.50	2.01
2020-06-26	Buy	2.40	1.72
2020-06-08	Buy	2.45	1.84
2020-03-27	Buy	2.10	1.25
2019-11-29	Buy	3.25	2.31
2019-10-23	Buy	3.30	2.54
2019-08-26	Buy	3.35	2.60
2019-05-31	Buy	3.05	2.08
2019-05-14	Buy	2.63	2.00
2019-03-01	Buy	2.30	1.87
2018-11-30	Buy	2.58	1.85
2018-10-12	Buy	2.92	1.90

Source: RHB, Bloomberg

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