

Trading idea: DRBHC0M – Downside risks cushioned by the imminent Proton FSP announcement

March 29, 2017

DRBHC0M (RM1.38/Vol:6.02m)

HOURLY CHART: BOTTOMING UP



Source: HLeBroking

DAILY CHART: BUILDING BASE NEAR 50-D SMA FOR A RESUMPTION OF UPTREND TOWARDS RM1.46-1.55 ZONES



Source: HLeBroking

- DRBHC0M's MD cleared the air.** The stock retraced from YTD high of RM1.46 (27 Feb, 3 & 20 Mar) to a low of RM1.34 lately (27 & 28 Mar) following Hong Kong-based newspaper South China Morning Post reported that Geely Automobile Holdings (Geely) has pulled out its bid to acquire an equity stake in DRB's wholly-owned subsidiary, Proton. Geely was earlier reported to be the leading candidate for Proton's foreign strategic partner (FSP) by local newswires. Moreover, Geely's decision to pull out for the bid also reduces the possibility of DRBHC0M getting maximum value for its stake in Proton.
- Nevertheless, DRBHC0M's share prices rebounded 4 sen to end at RM1.38 yesterday following DRB-Hicom managing director Datuk Seri Syed Faisal Albar's statement that the detailed FSP's evaluation (with three key criteria, namely strategic, operational and cultural fit) is still ongoing, given a new proven partner that can offer technology, capabilities and new markets, will push Proton as a brand to be reckoned with.
- Syed Faisal also reaffirmed the group's statement last Friday that all bidders are still in the running to be selected as Proton's FSP after news reports stating that Proton was only left with only one bidder. DRBHC0M is expected to make the final decision by mid-2017. To recap, Proton needs to find a strategic foreign technical partner to fulfil conditions set by the government for its approval of its RM1.5bn soft loan to Proton last year.

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Risk Profile

Low Risk Moderate Risk High Risk



FIG1: Financials and technical snapshots

Last price (RM)	1.38
1 Day Change (%)	2.99
5 Day Change (%)	-2.82
1 Day Range (%)	100.00
5D High	1.38
5 Day Range (%)	100.00
52Wk High (RM)	1.55
52Wk Low (RM)	0.775
52Week Range (%)	78.06
Outlook (2-4 weeks)	Bottom up
Daily RSI	Inching up
Daily Stochastics	Inching up
Daily MACD	Pending golden cross
Avg volumes 100D ('mln)	6.29
S1/S2 (RM)	1.34 / 1.31
R1/R2 (RM)	1.43 / 1.46
LT Technical Objective (RM)	1.55
Upside reward (%)	12.32
Stop Loss (RM)	1.30
Downside risk (%)	-5.80
HLIB Institutional TP (RM)	2.00
Bloomberg TP (RM)	1.55
Trading period (max)	4 Weeks
BVPS (RM)	3.29
P/BV (x)	0.42
Dividend yield	1.45

Source: HLIB, Bloomberg

EARNINGS SUMMARY

	FYE 31 Mar	FY16	FY17E	FY18E	FY19E
Revenue (RM'm)	12,173	14,105	15,570	16,926	
Core PATAMI (RM'm)	(459)	(324)	23	298	
Issued shrs (m)	1,933	1,933	1,933	1,933	
EPS (sen)	(23.7)	(16.8)	1.2	15.4	
Dividend (sen)	2.0	2.0	2.0	2.0	
P/E (x)	(5.8)	(8.2)	116.0	9.0	
Yield (%)	1.4	1.4	1.4	1.4	

Source: HLIB

- **HLIB institutional research maintains BUY rating with RM2.00 target price (+45% upside), based on 20% discount to SOP.** Currently, DRBHCOM is trading at undemanding valuation at 0.42x P/B, which is 26% lower than its 10-year historical average of 0.57x. Overall, DRBHCOM's core PATAMI is expected to leapfrog to RM298m in FY19 from a loss of RM324m in FY17E, premised on: (1) the potential entry of Proton's FSP; (2) steady earnings from the RM7.5bn AV8 contract; (3) ongoing plans to dispose of non-core assets to relieve the balance sheet. 4) long term positive outlook of POS, following the launch of Malaysia Digital Free Trade Zone (DFTZ) due to its direct involvement in the e-fulfilment hub and potential synergies with its other business areas (last mile delivery, haulage, freight forwarding, etc.).
- **Bottoming up to retest RM1.46-1.55 zones.** Despite recent selling pressures, DRBHCOM has maintained a strong support above the 50-SMA near RM1.31 amid undemanding valuation and imminent Proton FSP announcement by June. On the back of bullish hourly chart and bottoming up daily indicators, share prices are likely to test immediate resistances at RM1.43 (daily upper Bollinger band) and YTD high at RM1.46 soon. A decisive break above RM1.46 could potentially signal that the next leg up towards 52-week high at RM1.55. Key supports are RM1.34 and RM1.31. Cut loss at RM1.30.

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TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
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