Pecca Group (PECCA MK)

1QFY27: Below Expectations

Highlights

- Pecca's 1QFY27 core net profit of RM11.0m (-9% yoy) was below expectations, accounting for 18% of our forecast, due to softer demand from key automotive customers.
- We expect a modest earnings recovery over the coming quarters, with more meaningful growth likely to materialise after the launch of Perodua's new model.
- Additionally, a potential MRO contract award from a local airline would be a key catalyst to the stock.
- Maintain HOLD with a lower target price of RM1.35 (from RM1.42) as current valuation appears fair, in our view.

1QFY27 Results

Year to 30 Jun (RMm)	1QFY27	qoq%	yoy%
Revenue	**52.1**	1.1	(14.0)
OEM	41.9	2.3	(16.9)
REM	1.5	(26.8)	(1.9)
Others	3.2	(1.2)	(24.7)
PT Gemilang	2.7	(12.2)	51.1
Aviation	1.2	84.9	57.5
EBIT	14.0	3.0	(28.4)
Net Profit	**11.0**	0.6	(28.7)
Margin			
EBIT	26.9	0.5	(5.4)
Net Profit	21.1	(0.1)	(4.4)

Source: Pecca, UOB Kay Hian

Analysis

- **Below expectations.** Pecca Group (Pecca) reported 1QFY27 net profit of RM11.0m (+0.6% qoq, -28.7% yoy), which came in below expectations, accounting for 18% of our and consensus full-year estimates. The negative deviation was primarily attributable to weaker-than-expected order volume from key customers in the OEM segment.

Key Financials

Year to 30 Jun (RMm)	FY25	FY26	FY27F	FY28F	FY29F
Net turnover	224.5	222.0	238.7	269.3	289.1
EBITDA	77.6	72.4	73.1	88.5	96.6
Operating profit	71.8	65.6	66.1	80.6	89.2
Net profit (rep./act.)	57.1	51.8	52.3	63.3	70.0
Net profit (adj.)	57.1	51.8	52.3	63.3	70.0
EPS	7.9	7.2	7.2	8.7	9.7
PE (x)	17.9	19.9	19.7	16.3	14.7
P/B (x)	5.0	4.8	4.8	4.6	4.3
EV/EBITDA (x)	10.6	11.4	11.3	9.2	8.3
Dividend yield (%)	3.5	4.2	4.2	4.9	5.3
Net margin (%)	25.4	23.4	21.9	23.5	24.2
Net debt/(cash) to equity(%)	-47.7	-47.5	-47.3	-48.8	-51.3
Interest cover (x)	N/A	N/A	N/A	N/A	N/A
ROE (%)	27.4	24.0	24.3	28.0	29.3
Consensus net profit	n.a	n.a	62.2	68.4	70.4
UOBKH/Consensus (x)	n.a	n.a	0.84	0.92	1.00

Source: Pecca, Bloomberg, UOB Kay Hian

Analyst(s)

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HOLD (Maintained)

Share Price	RM1.42
Target Price	RM1.35
Upside	-4.9%
Previous TP	RM1.42

Stock Data

Sector	Autoparts
Bloomberg ticker	PECCA MK
Shares issued (m)	752
Market cap (RMm)	1,067.8
Market cap (US$m)	259.5
3-mth avg daily t'over (US$m)	0.1

Price Performance (%)

52-week high/low				RM1.79/RM1.29
1mth	**3mth**	**6mth**	**1yr**	**YTD**
6.0	9.2	(4.7)	(3.4)	(15.5)

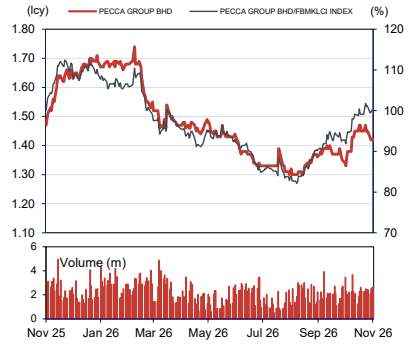
Major Shareholders (%)

MRZ Leather Holdings Sdn Bhd	51.1
Sam Yin Thing	7.3

Balance Sheet Metrics

FY26 NAV/Share (RM)	0.3
FY26 Net Debt/Share (RM)	xx

Price Chart



Source: Bloomberg

Company Description

A leading provider of leather upholstery and interior products, serving automotive and aviation industries with a strong focus on high margin segments and global expansion.

- Net profit declined 28.7% yoy in 1QFY27 mainly due to lower sales contribution from the OEM segment (-16.9% yoy), following softer orders from key customers. EBIT margin contracted 5.4ppt to 26.9% due to unfavourable sales mix from lower proportion of OEM sales, and additional cost incurred for expanding the group's operation into the aviation and railway segments. On qoq basis, sales and earnings were broadly flattish, with lower contribution from Gemilang (-12.2% qoq) offset by higher aviation earnings (+85% qoq).
- A dividend of 1.5 sen was declared, which translates into a 100% payout, above the group's policy of 40%.
- **Perodua sales growth likely to remain limited ahead of potential new model launch.** The lack of new launches and intensifying competition from Proton have weighed on Perodua's sales, which declined 3% yoy in 9M26, based on TIV data. Looking ahead, we expect Perodua's sales to lack meaningful growth, but remain supported by ongoing promotional efforts, ahead of new model launches, potentially in mid-27. Given that OEM remains the largest earnings contributor, we expect only a modest earnings recovery over the coming quarters, with more meaningful growth likely to materialise after the anticipated new model launch.
- **Aviation contribution improved; MRO contract award as a key catalyst.** Revenue from the aviation segment rebounded to above RM1m, after two quarters of soft performance, likely driven by an increased in MRO jobs. Pecca has participated in a tender for an umbrella contract from a local airline, with the award expected in 1Q27. We believe Pecca has a high chance of securing sizeable contract, given its position as a local player with an EASA certificate. A successful award would provide a meaningful boost to the segment's earnings, potentially raising its contribution to double-digit of the group's revenue over the medium term.
- **Serendah facility commissioning delayed to end-27.** We now expect a ramp-up in seat assembly venture could only take place in 2HFY28. The group aims to capitalise on the expanding local assembly plan by Chinese EV makers.

Valuation/Recommendation

- **Maintain HOLD with a lower target price of RM1.35** (previously RM1.42), as we rolled forward our valuation base to 2027F pegged to 17x PE (+0.5SD of five-year mean). Current valuation also appears fair in our view, at 17.8x 2027F PE, having factored in most of the growth opportunity.

Earnings Revision/Risk

- **Reduce our FY27/28 earnings forecasts by 13%/10% respectively,** as we now factor in a more conservative sales growth assumption for the OEM segment considering soft orders from key automotive customers and the delay in commissioning the Serendah facility.

Key Assumption

Segmental Revenue (RMm)	FY26	FY27F	FY28F
OEM	179.3	182.9	205.7
REM	8.2	8	10
PT Gemilang	8.9	12.5	14.0
Aviation	2.8	5	10
Total Revenue	222.0	238.7	269.3

Source: Pecca, UOB Kay Hian

Environmental, Social and Governance (ESG)

Environmental
- Pecca has achieved a 19.8% reduction in GHG emission intensity in FY25 compared to the FY22 baseline. - The waste diversion rate increased to 22.4% in FY25 through reductions in hazardous waste and recycling initiatives.
Social
- Zero workplace fatalities were reported. - Employees received an average of 8.5 hours of training, focusing on technical skill, ISO certificate and personal development.
Governance
- Zero incident of corruption. - 25% female representation aligns with MCGG recommendation.

Profit & Loss

Year to 30 Jun (RMm)	FY26	FY27F	FY28F	FY29F
Net turnover	222.0	238.7	269.3	289.1
EBITDA	72.4	73.1	88.5	96.6
Deprec. & amort.	(6.8)	(7.0)	(7.9)	(7.4)
EBIT	65.6	66.1	80.6	89.2
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	3.0	2.7	2.7	2.9
Pre-tax profit	68.5	68.8	83.2	92.1
Tax	(16.7)	(16.5)	(20.0)	(22.1)
Minorities	0.0	0.0	0.0	0.0
Net profit	51.8	52.3	63.3	70.0
Net profit (adj.)	51.8	52.3	63.3	70.0

Balance Sheet

Year to 30 Jun (RMm)	FY26	FY27F	FY28F	FY29F
Fixed assets	85.4	88.4	85.5	83.0
Other LT assets	0.6	0.6	0.6	0.6
Cash/ST investment	116.9	116.0	124.4	136.9
Other current assets	53.3	59.7	66.3	70.5
Total assets	256.2	264.8	276.7	291.1
ST debt	2.3	2.3	2.3	2.3
Other current liabilities	18.0	20.1	21.6	22.6
LT debt	11.9	11.9	11.9	11.9
Other LT liabilities	7.5	14.6	14.6	14.6
Shareholders' equity	216.1	215.5	225.9	239.2
Minority interest	0.5	0.5	0.5	0.5
Total liabilities & equity	256.2	264.8	276.7	291.1

Cash Flow

Year to 30 Jun (RMm)	FY26	FY27F	FY28F	FY29F
Operating	50.7	54.4	66.2	74.2
Pre-tax profit	68.5	68.8	83.2	92.1
Tax	(16.7)	(16.5)	(20.0)	(22.1)
Deprec. & amort.	6.8	7.0	7.9	7.4
Working capital changes	(7.9)	(4.9)	(5.0)	(3.3)
Other operating cashflows				
Investing	(0.9)	(6.5)	(1.5)	(1.3)
Capex (maintenance)	(4.5)	(10.0)	(5.0)	(5.0)
Investments	3.5	3.5	3.5	3.7
Proceeds from sale of assets	0.1	0.0	0.0	0.0
Others				
Financing	(38.1)	(46.1)	(53.7)	(56.6)
Dividend payments	(45.1)	(45.3)	(52.9)	(56.6)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	7.8	0.0	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(0.8)	(0.8)	(0.8)	0.0
Net cash inflow (outflow)	11.6	1.8	11.0	16.3
Beginning cash & cash equivalent	104.9	116.9	116.0	124.4
Changes due to forex impact				
Ending cash & cash equivalent	116.9	116.0	124.4	136.9

Key Metric

Year to 30 Jun (%)	FY26	FY27F	FY28F	FY29F
Profitability				
EBITDA margin	32.6	30.6	32.9	33.4
Pre-tax margin	30.9	28.8	30.9	31.9
Net margin	23.4	21.9	23.5	24.2
ROA	20.2	19.8	22.9	24.0
ROE	24.0	24.3	28.0	29.3
Growth				
Turnover	(1.1)	7.5	12.8	7.3
EBITDA	(6.7)	1.0	21.1	9.1
Pre-tax profit	(9.3)	0.4	21.0	10.6
Net profit	(9.2)	0.9	21.0	10.6
Net profit (adj.)	(9.2)	0.9	21.0	10.6
EPS	(9.2)	0.9	21.0	10.6
Leverage				
Debt to total capital	5.5	5.4	5.1	4.9
Debt to equity	6.6	6.6	6.3	5.9
Net debt/(cash) to equity	(47.5)	(47.3)	(48.8)	(51.3)
Interest cover	N/A	N/A	N/A	N/A

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