Pecca Group (PECCA MK)

Improved Perodua Sales To Drive Earnings Recovery, Growth Prospects Remain Intact

Highlights

- Pecca's earnings is anticipated to sequentially recover in 4QFY26, driven by an improvement in Perodua's sales performance and a growing contribution from export sales and the aviation business.
- Management is positive on securing an MRO contract with the national airline worth around RM10m.
- The new seat assembly business venture is expected to meaningfully contribute at latter part of 2027 with Chery and GWM as potential clients.
- Maintain BUY with an unchanged target price of RM1.66 based on 17x FY27F PE.

Analysis

- **Earnings recovery to be driven by improved Perodua sales.** To recap, Pecca Group's (Pecca) 3QFY26 results were hit by a 34% qoq seasonal decline in earnings to RM10.2m, following a temporary plant shutdown during the festive break. Looking into 4QFY26, we expect earnings to recover to RM13m-15m, which implies a growth of 37% qoq and 1.5% yoy. This will be mainly driven by a recovery in Perodua's production volume, in line with the national marque's improved sales performance, which rose 13% qoq to 84,062 units during Apr-Jun 26. In addition, we also expect higher contribution from the aviation segment as its operations were partly affected by the relocation of its manufacturing base during the previous quarter.
- **Perodua's price revision strategy is expected to further solidify its market competitiveness.** We expect Perodua to sustain its sales momentum throughout the year and continue commanding more than 40% of the total industry volume (TIV), despite rising competition from the rival national automaker. The automaker's recent pricing strategy, which includes: a) reducing the price of its EV model from RM87,500 to RM63,500 under the Battery-as-a-Service (BaaS) option, b) introduces an outright purchase option, and c) lowers the price of the Perodua Axia by up to RM4,700, is anticipated to support overall sales growth, particularly for the EV model. Based on our channel checks, Perodua has also recently revised upward its production forecasts for the EV model, which should directly benefit Pecca as the supplier of instrument panel wraps for the vehicle.

Key Financials

Year to 30 June (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	242.5	224.5	242.4	270.0	300.6
EBITDA	73.8	77.6	73.7	86.7	101.0
Operating profit	68.3	71.8	68.6	81.7	96.0
Net profit (rep./act.)	55.0	57.1	56.7	66.9	78.4
Net profit (adj.)	55.0	57.1	56.7	66.9	78.4
EPS (sen)	7.3	7.6	7.8	9.2	10.4
PE (x)	23.0	22.1	18.8	15.9	13.6
P/B (x)	5.4	6.1	4.8	4.6	4.2
EV/EBITDA (x)	15.1	15.0	15.6	13.2	11.2
Dividend yield (%)	3.9	3.0	4.1	4.8	5.4
Net margin (%)	22.7	25.4	23.4	24.8	26.1
Net debt/(cash) to equity (%)	(62.8)	(47.7)	-46.0	-46.6	-47.8
Interest cover (x)	19.2	20.5	186.7	222.1	261.1
ROE (%)	23.5	27.4	25.8	28.6	31.1
Consensus net profit	-	-	58.0	65.5	75.2
UOBKH/Consensus (x)	-	-	0.98	1.02	1.04

Source: Pecca Group, Bloomberg, UOB Kay Hian

BUY (Maintained)	
Share Price	RM1.33
Target Price	RM1.66
Upside	24.8%

Analyst(s)
Amerul Iqmal
ameruliqmal@uobkh.com
+603 2147 1988

Stock Data

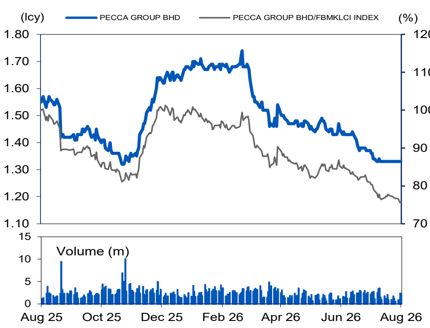
GICS sector	Autoparts
Bloomberg ticker:	PECCA MK
Shares issued (m):	752
Market Cap (RMm):	1,000.2
Market Cap (US$m)	244.3
3-mth avg turnover (US$m)	0.2

Price Performance (%)

52-week high/low				RM1.79/RM1.26
1mth	3mth	6mth	1yr	YTD
(2.9)	(8.3)	(21.3)	(14.2)	(20.8)

Major Shareholders	**%**
MRZ Leather Holdings Sdn Bhd	51.1
Sam Yin Thing	7.3
Huaren Holdings	4.8

Price Chart



Source: Bloomberg

Company Description

Pecca Group is a leading provider of leather upholstery and interior products, serving automotive, and aviation with a strong focus on high-margin segments and global expansion.

- **Cost pressures remain manageable.** On the cost front, management does not anticipate significant cost pressures arising from the Middle East conflict. The only potential impact is on selected raw materials, such as plastic and resin, which together account for less than 10% of total production costs. Moreover, Pecca's contract with its key customer includes a cost pass-through mechanism, allowing the company to mitigate the impact of unexpected increases in raw material costs resulting from external factors such as foreign exchange volatility and commodity price fluctuations.
- **Export sales start picking up.** Following earlier delays in executing export sales, we understand that Pecca managed to deliver three shipments to its US-based client in 3QFY26, which we estimate would contribute around RM1m to REM sales. Pecca has also started delivering orders to its Saudi-based client, which is a prominent sole distributor of Toyota in the country. Moving forward, Pecca expects increased shipment volumes to the client and is also working on introducing additional templates for FY27. We forecast the REM segment's revenue to double in FY26 following the sales contribution from these new export markets.
- **Multiple aviation MRO jobs ahead.** Management expects to secure sizeable recurring maintenance, repair and overhaul (MRO) contracts from a Myanmar-based airline, with potential annual revenue exceeding that of its current largest aviation customer. In addition, Pecca has submitted a tender for an umbrella MRO contract with the national airline, with management targeting contract wins worth around RM10m p.a.. We believe securing this contract would be a key catalyst for its aviation segment and could enable Pecca to surpass its FY27 aviation revenue target of RM5m.
- **New Serendah facility to support Tier 1 venture.** We note that Pecca has completed the audit process for its seat assembly line by two major Chinese automakers, Chery and GWM. However, we expect contributions from this new venture to materialise only in the latter part of 2027, pending the tender submission process. The commissioning of the new Serendah facility remains on track for Jan 27, with management targeting a 60–70% utilisation rate for the first-phase capacity of 150,000 units. supported by existing and prospective contract flows across the OEM, aviation, and seat assembly businesses.

Valuation/Recommendation

- **Maintain BUY with an unchanged target price of RM1.66,** based on 17x 2027F PE (+1SD to five-year mean). While this implies a premium to the sector average of 11x PE, we believe Pecca’s valuation is justified by its resilient earnings supported by Perodua’s sustained sales volumes, the growth prospects from its strategic diversification into the export market and the high-margin, high-barrier aviation industry as well as its above-industry average net margin of 25%.

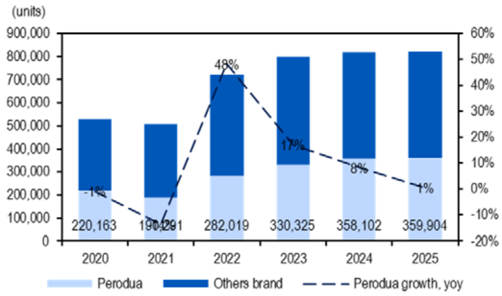
Earnings Revision/Risk

- No changes to our earnings forecast. We expect Pecca to deliver a 17% earnings CAGR over FY26-28, driven by: a) growth in export sales, b) a rising contribution from the aviation segment, and c) incremental capacity expansion.

Share Price Catalyst

- Higher-than-expected Perodua sales.
- Winning a sizeable MRO contract from the national airline.
- Securing seat assembly jobs from Chinese automakers.

Perodua Sales Volume



Source: MAA, UOB Kay Hian

Environmental, Social And Governance (ESG) Updates

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.

Source: Pecca Group, UOB Kay Hian

Profit & Loss

Year to 30 Apr (RMm)	2025	2026F	2027F	2028F
Net turnover	224.5	242.4	270.0	300.6
EBITDA	77.6	73.7	86.7	101.0
Deprec. & amort.	(5.1)	(5.0)	(5.1)	(5.5)
EBIT	71.8	68.6	81.7	96.0
Associate contributions	0	0	0	0
Net interest income/(expense)	4	4	4	5
Pre-tax profit	75.8	72.6	85.7	100.0
Tax	(19.0)	(18.2)	(21.4)	(25.0)
Minorities	0	0	0	0
Net profit	57.1	56.7	66.9	78.4
Net profit (adj.)	57.1	56.7	66.9	78.4

Balance Sheet

Year to 30 Apr (RMm)	2025	2026F	2027F	2028F
Fixed assets	42	43	41	40
Other LT assets	24	24	24	24
Cash/ST investment	154	105	111	131
Other current assets	69	74	83	94
Total assets	289	245	259	290
ST debt	2	1	1	1
Other current liabilities	41	24	19	21
LT debt	5	4	4	4
Other LT liabilities	6	7	7	7
Shareholders' equity	234	208	227	256
Minority interest	1	1	1	1
Total liabilities & equity	289	245	259	290

Cash Flow

Year to 30 Apr (RMm)	2025	2026F	2027F	2028F
Operating	48	56	77	90
Pre-tax profit	76	86	109	125
Tax	-21	-19	-24	-28
Deprec. & amort.	5	6	6	6
Associates	0	0	0	0
Working capital changes	-8	-14	-10	-8
Other operating cashflows	-4	-4	-4	-5
Investing	-1	0	0	1
Capex (growth)	-5	-5	-5	-5
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	0	0	0	0
Financing	-95	-49	-57	-64
Dividend payments	-63	-49	-57	-64
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	8	2	0	0
Others/interest paid	-33	0	0	0
Net cash inflow (outflow)	-48	6	20	27
Beginning cash & cash equivalent	154	105	111	131
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	105	111	131	158

Key Metrics

Year to 30 Apr (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	30.4	34.6	34.3	36.9
Pre-tax margin	29.7	33.7	33.5	36.3
Net margin	22.7	25.4	26.2	28.4
ROA	19.1	23.3	26.1	29.4
ROE	23.5	27.4	29.8	33.3
Growth				
Turnover	10%	-7%	15%	16%
EBITDA	48%	5%	14%	25%
Pre-tax profit	54%	5%	14%	26%
Net profit	55%	4%	18%	26%
Net profit (adj.)	55%	4%	18%	26%
EPS	7.3	7.6	9.0	11.3
Leverage				
Debt to total capital	-62.8	-47.7	-46.6	-49.2
Debt to equity	-0.6	-0.5	-0.5	-0.5
Net debt/(cash) to equity	30.4	34.6	34.3	36.9
Interest cover (x)	29.7	33.7	33.5	36.3