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Pecca Group Berhad

Resilient Earnings Amid Industry Normalization

Initiate Coverage

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Friday, December 19, 2025

Price: RM1.66

Fair Value: RM1.46

Valuation

We initiate coverage on Pecca Group Berhad with a HOLD recommendation and a target price of RM1.46, based on a 16x target P/E multiple applied to our FY2027E EPS of 9.0 sen. This reflects a 30% premium to the industry's two-year historical average P/E of 12.4x, supported by (i) Pecca's superior profitability profile, (ii) its larger market capitalisation of approximately RM1.2 billion, and (iii) its leading position within Malaysia's domestic automotive supply chain.

Investment Highlights

Strong National OEM Partnerships. Pecca is an entrenched supplier to national OEMs, anchoring recurring demand through long-standing relationships with Perodua, and aligning the Group with domestic production trends and new model cycles.

Riding on Normalising but Structurally Elevated TIV. Pecca derives ~93% of Group revenue from Malaysia, with significant exposure to national carmakers that accounted for ~63% of domestic TIV in 1H2025, supporting a higher post-pandemic TIV base despite the normalisation.

Capacity Expansion and Incremental Diversification. Pecca's new Serendah plant lifts annual capacity by ~300k sets, enhancing flexibility to support OEM programmes, while aviation and rail interiors remain small (~1% of FY2025 revenue) and serve as medium-term diversification.

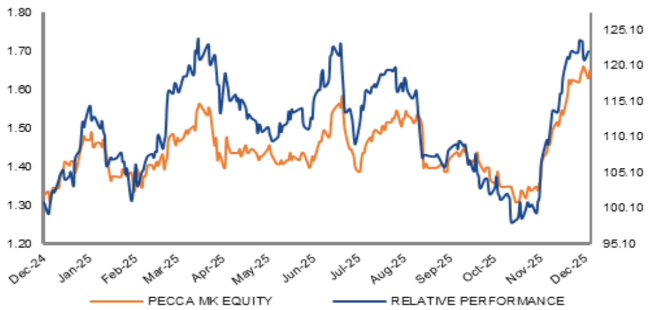
Industry Leading Margin Structure. Pecca continues to deliver margins 2–3x higher than the industry average. Despite a 7% YoY revenue decline in FY2025, margins expanded further from FY2024: gross margin from 39% to 43%, EBITDA from 31% to 34%, and PAT from 23% to 25%. This structurally strong margin profile reinforces the Group's competitive edge and ability to sustain profitability across industry cycles.

Financial Highlights. Pecca delivered a 10% CAGR over FY2018–FY2025, with 17% pre-COVID and 12% post-COVID growth. The GP and PAT margin over the same period were at c.31% (Pre-COVID: 27%, Post-COVID: 34%) and c.15% (Pre-COVID: 11%, Post-COVID: 18%). We expect FY26E-FY28E topline growth of 1%-14%, while PAT margins staying resilient at 25%–25.6% through FY2028E, due to operational efficiency.

Recommendation. We assign a **HOLD** rating on PECCA. While near-term industry volumes are expected to normalise, Pecca's strong earnings resilience, balance sheet strength, and entrenched customer relationships provide downside support. That said, we believe upside is more gradual rather than immediate, with current valuations broadly capturing these strengths. Consequently, we view the risk–reward as mildly favourable, warranting a HOLD recommendation at this juncture.

Key risks; (i) High Local Client Concentration, (ii) Exposure to Domestic TIV Cycles, and (iii) Competition Risk from Low-Cost Asean Suppliers.

Share Price Performance



Business Overview

Pecca Group Berhad engages in styling, manufacturing, distribution and installation of leather upholstery for seat covers for automotive and aviation industries through its subsidiaries. The Company is listed on the Main Market under Industrial Products.

Return Information	
KLCI (pts)	1,646.90
YTD KLCI chg	0.3%
YTD Stock Price chg	13.7%

Price Performance	1M	3M	12M
Absolute (%)	13.9%	15.5%	25.3%
Relative to KLCI (%)	11.9%	12.5%	22.3%

Stock Information	
Market Cap (RM m)	1,202.6
Issued Shares (m)	724.5
52-week High (RM)	1.70
52-week Low (RM)	1.26
Estimated Free Float (%)	26%
Beta vs FBM KLCI	0.5
3-month Average Vol.(m)	2,908,278
Shariah Compliant	Yes
Bloomberg Ticker	PECCA MK EQUITY

Top 3 Shareholders	%
Mrz Leather Holdings	51.5%
Sam Yin Thing	7.6%
Huaren Holdings	4.8%

FY Dec (RM m)	FY25A	FY26E	FY27E
Revenue	224.5	238.4	269.2
EBITDA	76.1	80.8	91.2
EBIT	71.8	74.8	85.2
PBT	75.6	78.2	89.5
Core Net Profit	57.1	59.4	68.0
Core EPS (sen)	**7.60**	**7.90**	**9.04**
Core EPS Growth (%)	3.9%	4.1%	14.4%
Net Div. Yield (%)	4.11	1.90	2.18
BVPS (sen)	27.72	32.46	37.89
PER (x)	21.9	21.0	18.4
PBV (x)	6.0	5.1	4.4
Net Gearing (x)	(0.5)	(0.5)	(0.5)

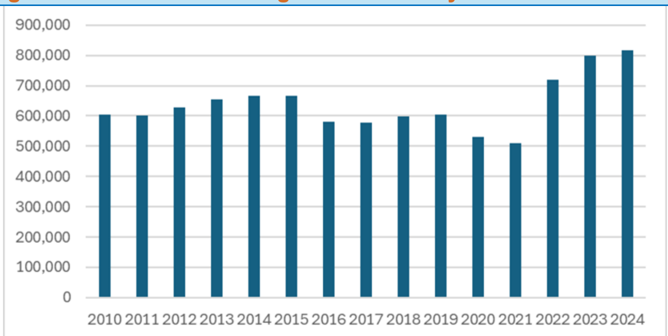
Company Overview.

Pecca Group Berhad is an investment holding company that designs, manufactures, distributes and installs leather upholstery and interior components primarily for the automotive and aviation industries. The Group specialises in car seat cover solutions across the OEM, Pre-Delivery Inspection (PDI) and Replacement/Aftermarket (REM) segments, and also supplies leather cut pieces and selected interior components such as door trim covers, steering wheels and gearshift knobs. Beyond automotive, Pecca is also going towards the aerospace sector by providing aircraft seat cover and cabin interior management services, including production, replacement, repair and refurbishment. The Group has also begun expanding into railway and broader transportation interiors, focusing on the physical integration and compliance of in-train seating and cabin platforms, leveraging its established upholstery and cabin-integration expertise.

Industry Overview

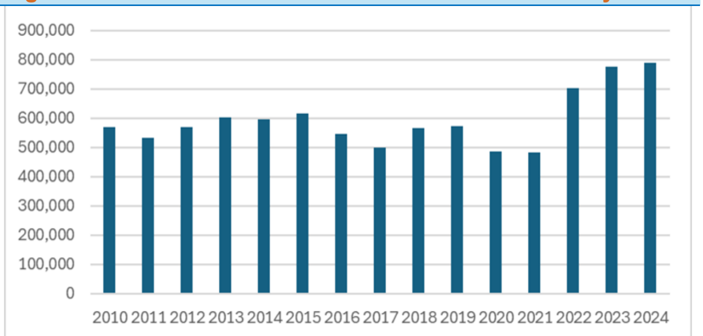
Historic TIV Milestone. Malaysia's passenger-vehicle industry recorded a landmark performance in 2024, with Total Industry Volume (TIV) reaching 816,747 units, the highest annual level on record. However, momentum eased in 1H25 as TIV moderated to 373,636 units (-4.6% YoY), prompting the Malaysian Automotive Association (MAA) to maintain a more conservative full-year projection of c.780,000 units in view of the high base and the pull-forward effect from late-2024 promotional activity. Vehicle production (TIP) trends have broadly mirrored registration movements, indicating that OEM demand for interior components remains tightly correlated to the sector's volume trajectory. Seat-trim and interior-component demand is supported by three structural channels: (i) OEM production programmes, which provide the most predictable multi-year volume visibility based on model cycles; (ii) Pre-Delivery Inspection (PDI) activity, which creates incremental and smoothing demand tied to new-vehicle deliveries; and (iii) the Replacement/Aftermarket (REM) segment, underpinned by an ageing vehicle parc and consumer refurbishment preferences. Historically, OEM and PDI flows anchor utilisation, while REM serves as a margin-accretive buffer during periods of softer new-car sales.

Figure 1: Total Vehicles Registered in Malaysia



Source: MAA, Mercury Securities

Figure 2: Total Vehicles Produced & Assembled in Malaysia



Source: MAA, Mercury Securities

Robust Government Policies. From a structural standpoint, policy direction continues to favour long-term supplier development. The New Industrial Master Plan (NIMP 2030) emphasises deeper domestic linkages, higher value-added manufacturing, automation and digitalisation in key sectors including automotive. Complementary efforts by Malaysia Automotive Robotics and IoT Institute (MARii), Malaysia Investment Development Authority (MIDA) and other agencies focus on capability building, robotics/IoT integration, and attracting EV-related investments—developments that expand local-content opportunities but also increase capital-intensity and certification requirements for suppliers aiming to participate in new platforms or advanced interior-component programmes.

Against this backdrop, the automotive growth outlook is moderately positive. While volumes are expected to ease from 2024's peak, the 2025 forecast remains supportive of component demand if deliveries track MAA's expectations. Structural improvements under NIMP and the National Automotive Policy (NAP) are likely to deepen localisation and platform participation opportunities over the medium term. Crucially, this localization push is being accelerated by policy changes in the Electric Vehicle (EV) segment. Specifically, the tax exemption for CBU (Completely Built-Up) EVs is set to expire by the end of 2025, reinstating import and excise duties. Industry sources, such as Great Wall Motor (GWM) Malaysia COO Roslan Abdulah, project that prices for imported EVs could spike by up to 100% due to the re-imposition of import duties (c.10-30%) and excise duties (c.50-100%). This upcoming tariff change triggered a rush for current CBU models, evidenced by a 33% spike in CBU EV units sold in November 2025 (4,282 units) compared to October (3,211 units). Subsequently, more car manufacturers are setting up local assembly bases as tax incentives for CKD (Completely Knocked-Down) EVs will be maintained up to the end of 2027. This development strongly aligns with the NIMP's localization agenda and reinforces the medium-term component demand outlook for domestic suppliers.

However, this CKD expansion is being concurrently challenged by the impending implementation of the revised Open Market Value (OMV) calculation under P.U. (A) 402/2019, also scheduled for January 2026. This new valuation method for excise duty on CKD vehicles, which includes non-manufacturing costs (e.g., sales and marketing), could potentially increase the price of locally assembled models (EVs included) by 10% to 30%, potentially dampening the long-term volume growth driven by localization. Key risks, therefore, include a prolonged TIV slowdown, input-cost volatility (leather, PU, petrochemicals, FX), and the massive cost uncertainty associated with the OMV/402 policy and the rising capex burden for automation and compliance.

Growing Aerospace Industry. In parallel, Malaysia's aerospace industry, particularly Maintenance, Repair & Overhaul (MRO), represents a growing sector of strategic importance. MIDA identifies MRO as a core pillar within the national aerospace roadmap, supported by tax incentives, specialised clusters and regulatory frameworks designed to attract both domestic and international operators. The country aims to generate RM55.2 billion in aerospace industry revenue by 2030, with RM20.4 billion expected from the MRO segment alone. The growth trajectory is underpinned by rising regional fleet size, increased aircraft utilisation, and the shift toward localising component-level servicing, cabin refurbishment, interiors maintenance and specialised materials work.

Malaysia's MRO ecosystem also benefits from strong policy support for talent development, certification pathways, digital MRO adoption, and supply-chain localisation—all of which aim to increase the depth and sophistication of domestic aerospace capabilities. For interior-component vendors, the aerospace segment presents opportunities in certified upholstery, seat refurbishment, cabin equipment maintenance and interior trimming—areas that require stringent documentation, traceability and compliance standards.

Emerging Rail & Transportation Interiors Market. Malaysia's rail sector continues to expand, supported by rising urbanisation, sustained passenger demand and ongoing network upgrades. Annual urban rail ridership increased from approximately 71 million passenger trips in 2021 to over 301 million trips in 2024, implying a c.62% CAGR over the period, largely reflecting post-pandemic normalisation and network expansions, including the Putrajaya MRT Line. The Malaysian rail market was valued at approximately RM30.3 billion in 2024 and is projected to grow to around RM51.7 billion by 2032 (c.7% CAGR). Growth is underpinned by sustained government investment under the 13th Malaysia Plan and Budget 2026, which allocates RM430 billion in federal development expenditure, with public transport upgrades aimed at lifting public-transport modal share to 40% by 2030. Key rail initiatives, including MRT3, LRT extensions, Klang Valley Double Track Phase 2 (KVDT2) and rolling-stock replacement programmes for the Kelana Jaya Line, support ongoing demand for rolling stock, refurbishment and associated interior components as operators prioritise fleet modernisation, safety and passenger comfort.

Overall, Malaysia's automotive, aerospace and rail industries offer complementary, structurally supported growth avenues. Automotive provides scale and earnings visibility through OEM, PDI and REM channels, while aerospace MRO offers a long-term expansion platform backed by national policy commitments and rising regional aircraft-maintenance demand. The rail sector adds an emerging diversification avenue supported by sustained infrastructure investment and rising passenger utilisation. Suppliers with strong quality systems, automation readiness and certification pathways stand to benefit across multiple transportation value chains.

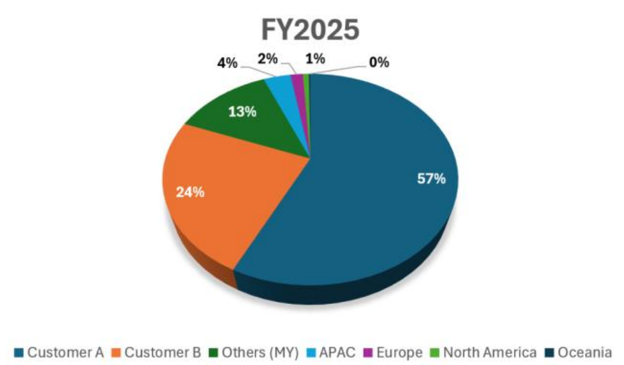
Investment Merits

Strong National OEM Partnerships. Pecca is an established supplier of seat covers and interior components to Malaysia's national OEM customer (Customer A), supplying multiple high-volume models across their respective product line-ups. The Group's long operating history, qualification standards and localisation capabilities have enabled it to maintain recurring supply relationships with its customers, supporting its relevance within the domestic automotive manufacturing ecosystem. This positioning also allows Pecca to participate in broader industry developments, including early-stage EV initiatives and ongoing model and platform updates undertaken by national OEMs.

Malaysia's national brands continue to dominate the domestic market, representing over 60% of annual TIV, which has largely stabilised in recent years following post-pandemic normalisation. Several structural and policy-driven catalysts underpin long-term demand for national vehicles, including: (i) the RM4,000 upgrade grant proposed under *Budget 2026* for owners replacing vehicles older than 20 years; (ii) the 15% salary adjustment for civil servants announced in 2024, with the first phase implemented in December 2024 and the second phase scheduled for January 2026; and (iii) rising household income, with Malaysia's average monthly household income increasing to RM9,155 in 2024, while median household income reached RM7,017, growing 5.1% annually. Supportive market conditions, such as new model launches, promotional campaigns, EV adoption momentum ahead of upcoming excise duty changes, and a stable labour market, further reinforce demand in the mass-market segment where Customer A remains dominant.

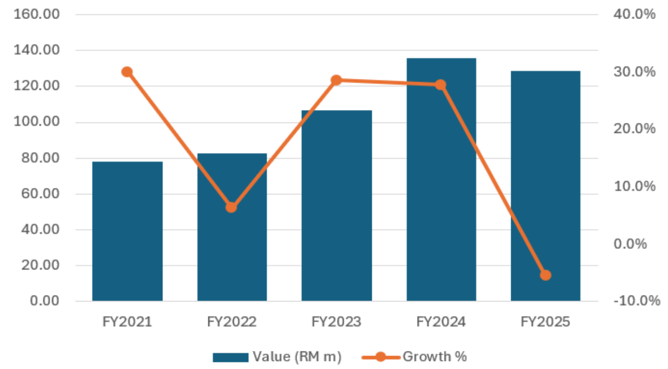
Against this backdrop, Pecca's established customer relationships with national OEMs and alignment with long-term domestic automotive trends strengthen the durability of its core OEM business and its strategic role within Malaysia's automotive supply chain.

Figure 3: Estimated Revenue Breakdown by Customer



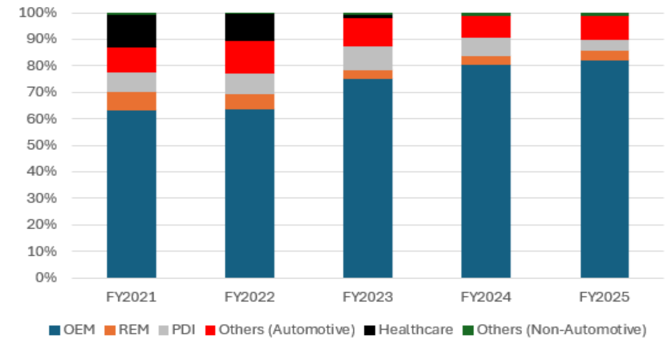
Source: Company, Mercury Securities

Figure 4: Estimated Customer A Revenue Trend and YoY Growth



Source: Company, Mercury Securities

Figure 5: Revenue Breakdown by Segment (%)



Source: Company, Mercury Securities

Figure 6: Participation in National OEM Supplier Ecosystem

Source: Company

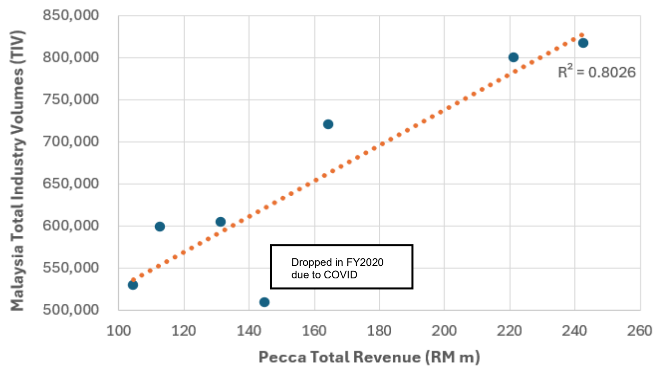
Riding on Stable but Structurally Elevated TIV. Malaysia's automotive market has reset to a materially higher operating base post-pandemic, structurally expanding the addressable market for interior and seating suppliers. National TIV has stabilised at ~720k–820k units over FY2022–FY2024, compared with a ~600k-unit pre-COVID baseline (*refer to Figure 9 Chart*), representing a meaningful step-up in underlying industry volumes. This reset has translated into tangible operating leverage for Pecca, with group revenue rising from RM144.8m in FY2021 to RM242.5m in FY2024, delivering an 18.8% revenue CAGR over the recovery phase.

While short-term revenue movements (*refer to Figure 7 Chart*) may diverge from annual TIV growth due to production timing, backlog dynamics and channel mix, Pecca's earnings remain closely tied to industry volumes over the cycle, supported by a ~90% correlation between revenue and Malaysia's TIV over FY2018–FY2024 (*refer to Figure 8 Chart*). This reflects the Group's deep integration within OEM production programmes and its diversified exposure across OEM, PDI and replacement channels. As the industry transitions away from post-pandemic volatility, Pecca is positioned to benefit from a structurally larger automotive market, where scale, OEM entrenchment and content per vehicle matter more than headline unit growth alone.

Figure 7: Malaysia TIV and Pecca Revenue Growth (%)

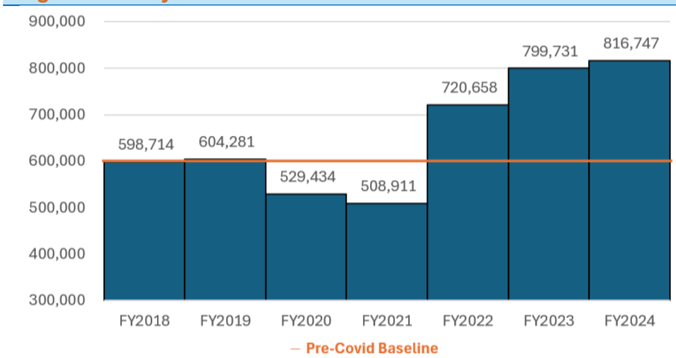
Source: MAA, Mercury Securities

Figure 8: Correlation Between TIV and Pecca Rev. (FY18-FY24)



Source: MAA, Mercury Securities

Figure 9: Malaysia TIV Post-Covid Elevated Volumes



Source: MAA, Mercury Securities

Capacity Expansion and Incremental Diversification. Pecca's ongoing capacity expansion provides operational flexibility and long-term growth optionality. The commissioning of the new Serendah manufacturing plant is expected to increase annual production capacity by approximately 300,000 sets, on top of the Group's existing combined capacity of around 372,000 sets across its Kepong and Indonesia facilities. While management has indicated a measured ramp-up in utilisation, the additional capacity enhances Pecca's ability to support future OEM programme requirements, accommodate volume fluctuations and pursue incremental business without immediate capital constraints.

In parallel, Pecca has been gradually diversifying beyond its core automotive upholstery business into aviation and rail interiors, leveraging its existing capabilities in seat upholstery, trim and interior finishing. These adjacent segments offer exposure to different demand cycles and end-markets, providing incremental diversification benefits over the medium term. While contributions from aviation and rail interiors remain small at present (FY2025: 1.1%), they represent a logical extension of Pecca's core competencies rather than a step-change in business risk or capital intensity.

Overall, capacity expansion and non-automotive diversification should be viewed as strategic enablers rather than near-term earnings drivers. Together, they strengthen Pecca's long-term positioning, enhance operational resilience and provide optional upside should demand conditions improve, while maintaining discipline around capital deployment.

Industry Leading Margin Structure. Pecca consistently delivers a structurally superior margin profile relative to domestic automotive part suppliers, with profitability metrics that are significantly above peer averages across the value chain. For FY2025, Pecca recorded GP margin of 43.0% (Post Pandemic: c.34.0%, Pre Pandemic: c.27%). EBITDA of 34% (Post Pandemic: c.25%, Pre Pandemic: c.16%), and PAT margin of 25% (Post Pandemic: 18%, Pre Pandemic: 11%), compared with peer averages of 18%, 10%, and 5%, respectively.

This margin strength translates into materially superior returns, with Pecca generating an ROE of 27%, ROA of 23%, and ROIC of 26%, all well above its domestic peer averages. Importantly, these returns are achieved alongside a net cash balance sheet position, as reflected by negative net gearing (–47.3x) and an exceptionally high interest coverage ratio of over 200x, indicating that profitability is driven by operational efficiency and disciplined cost management rather than financial leverage. As a result, Pecca is better positioned to absorb volume volatility and input cost pressures, reinforcing the sustainability of its earnings across industry cycles.

Figure 10: Peers Profitability Margin Comparison (As per the Latest Financial Year)

Latest Financial Year		MARGIN (%)				RETURN (%)		
Company	**Bloomberg Ticker**	**GP**	**EBITDA**	**PBT**	**PAT**	**ROE**	**ROA**	**ROIC**
SMIS Corp Berhad	SMIS MK EQUITY	16.1	9.2	5.8	1.8	3.5	2.1	5.9
APM Automotive Holdings	APM MK EQUITY	15.2	10.5	7.4	4.1	6.0	3.8	7.3
Feytech Holdings Berhad	FEYTECH MK EQUITY	36.7	32.3	28.8	21.5	25.6	18.1	23.2
KHPT Holdings Berhad	KHB MK EQUITY	12.1	6.0	4.3	2.5	6.0	3.9	5.7
MBM Resources Berhad	MBM MK EQUITY	8.5	3.5	15.9	13.4	15.3	12.5	2.6
DRB-HICOM Berhad	DRB MK EQUITY	14.7	10.2	1.5	0.4	0.8	1.8	1.1
Tan Chong Motor Holdings	TCM MK EQUITY	20.8	(0.9)	(10.3)	(10.3)	(8.2)	(4.2)	(4.1)
Bermaz Auto Berhad	BAUTO MK EQUITY	16.8	9.5	8.5	5.9	21.1	8.6	18.3
Simple Average		**17.6**	**10.0**	**7.7**	**4.9**	**8.8**	**5.8**	**7.5**
Pecca Group Berhad	PECCA MK EQUITY	43.0	33.9	33.7	25.4	27.4	23.3	25.9

Source: Bloomberg, Company, Mercury

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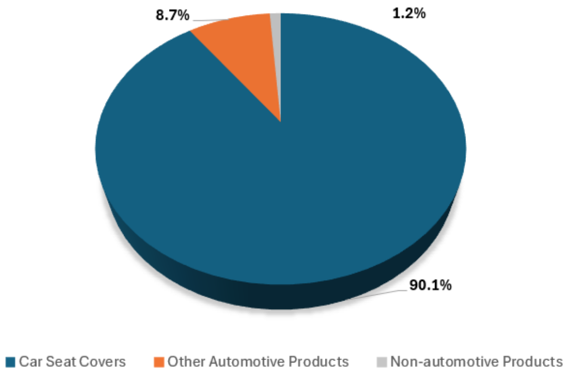
Financial Highlights

Revenue Performance & Mix. Pecca's revenue trajectory reflects a normalisation phase following the post-pandemic surge, rather than a deterioration in underlying demand. Group revenue expanded sharply by +34.6% YoY in FY2023, followed by a more moderate +9.6% YoY increase in FY2024, before easing -7.4% YoY in FY2025 to RM224.5m. The FY2025 moderation primarily reflects the unwinding of backlog-driven deliveries accumulated during the post-COVID recovery, alongside the normalisation of domestic Total Industry Volume (TIV). Notwithstanding the near-term pullback, FY2025 revenue remains structurally above pre-pandemic levels, indicating a higher operating base despite softer volume conditions.

From a segmental perspective, revenue remains overwhelmingly driven by the automotive segment, which accounted for approximately 99% of Group revenue in FY2025, in which mostly are driven by car seat covers, which accounted for approximately 90.1% (FY2024: 90.7%) of Group revenue in FY2025 (Figure 9). Other automotive products contributed 8.7% (FY2024: 8.5%), while non-automotive revenue remained immaterial at 1.2% (FY2024: 0.8%), underscoring the Group's concentrated exposure to the automotive value chain. Within the car seat cover segment, OEM sales dominate, accounting for 91% of car seat cover revenue in FY2025 (FY2024: 89%), with the balance derived from REM (4%) and PDI (5%) channels (Figure 10). This mix reflects Pecca's strong positioning with national OEMs, while aftermarket and pre-delivery channels provide limited incremental volume support but remain closely tied to overall vehicle production trends.

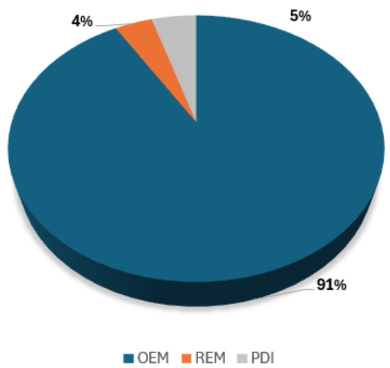
Overall, Pecca's revenue mix highlights a highly concentrated but stable automotive exposure, with performance largely dictated by national OEM production volumes and TIV conditions. While this concentration constrains diversification and limits re-rating potential, it also explains the Group's ability to sustain revenue at elevated levels despite industry normalisation. Recent revenue moderation therefore appears cyclical rather than structural, consistent with our neutral stance on the stock.

Figure 11: Revenue Segments Breakdown by Products FY2025



Source: Company, Mercury Securities

Figure 12: Revenue Segment Within Car Seat Covers Profile



Source: Company, Mercury Securities

Earnings Robust Amid TIV Normalisation Trends. Following two years of elevated automotive demand, industry conditions began to ease as post-pandemic backlog effects unwound. Against this backdrop, Pecca recorded a 7.4% YoY decline in revenue in FY2025. Despite softer topline conditions, the Group delivered resilient earnings performance from FY2023 to FY2025, with gross margin expanding from 30.6% to 43.0% (+12.4ppts), EBITDA margin improving from 23.4% to 33.9% (+10.5ppts), and PAT margin increasing from 16.0% to 25.4% (+9.4ppts).

The GP margin expansion was primarily driven by tighter cost discipline and improved execution at the operating level. Direct labour efficiency improved through better workforce deployment and production planning, resulting in higher output per labour hour and reduced reliance on incremental labour costs. On the materials side, the Group achieved stronger raw material utilisation, with actual consumption tracking favourably against internal benchmarks, reflecting improved process control and lower wastage.

In addition, procurement efficiencies supported margins, as Pecca benefited from volume-based purchasing advantages and supplier incentives, including early settlement discounts. Collectively, these initiatives lifted manufacturing efficiency and supported margin expansion despite softer revenue conditions.

The ability to sustain and expand margins during a period of moderating industry volumes highlights Pecca's earnings resilience through the cycle and provides a useful reference point for assessing profitability beyond peak demand conditions, consistent with our neutral stance on the company.

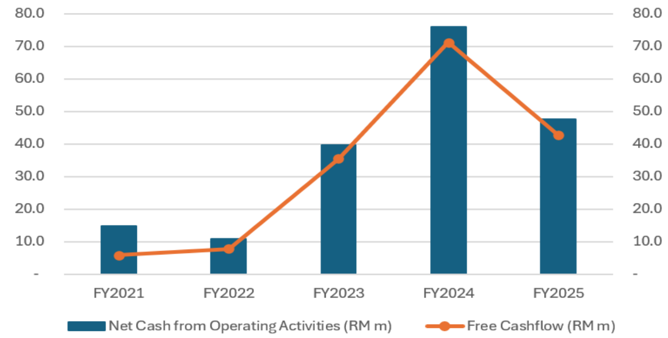
Balance Sheet and Cash Flows. Pecca generated net cash from operating activities of RM47.6m in FY2025 (FY2024: RM76.0m), with the year-on-year reduction largely attributable to working capital movements and higher tax payments, rather than any deterioration in underlying operating profitability or cash generation ability. Consequently, reported free cash flow declined to RM42.7m from RM71.2m in FY2024, although the Group remained firmly free-cash-flow positive.

Over FY2022–FY2025, Pecca generated cumulative net operating cash flow of c.RM43.6m, while average annual capital expenditure remained modest at c.RM4.1m, underscoring the Group's strong cash-generative business model and low capital intensity.

Net cash used in financing activities amounted to RM95.3m in FY2025, primarily due to dividend payments of RM62.5m and share buybacks of RM30.9m, resulting in a higher-than-policy dividend payout of 89.8% for the year (stated policy: 40%). Despite these elevated cash outflows, Pecca ended the year with a cash balance of RM104.9m, supported by substantial opening cash of RM153.7m, underscoring the Group's strong liquidity buffer and balance sheet resilience.

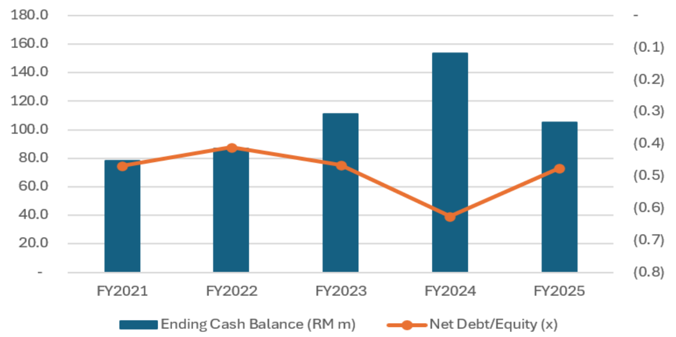
Internally generated cash has been deployed primarily towards organic expansion, including investments in production and manufacturing facilities such as the Serendah plant, where total capital expenditure is estimated at ~RM42–52m across land, building and machinery to be executed in phases. These investments have been funded without a material increase in leverage, allowing the Group to maintain a net cash position. This financial flexibility supports Pecca's ability to fund incremental capacity expansion, manage industry cyclicality and sustain its core OEM operations over the long term.

Figure 13: Net Cash Operating Activities & Free Cash Flow Trend



Source: Company, Mercury Securities

Figure 14: Cash Balance and Net Gearing Profile



Source: Company

Liquidity metrics remain robust relative to peers. Pecca's balance sheet strength is further reflected in its liquidity ratios, which remain well above industry averages. As at FY2025, the Group recorded a current ratio of 7.4x and quick ratio of 5.9x, significantly higher than the peer average of 3.0x and 2.2x, respectively. This is underpinned by Pecca's sizeable cash balance and absence of material leverage, with net debt-to-equity and net debt-to-capital remaining negative (net cash) at -47.3% and -89.7, compared with a peer average of -15.6% and -39.5%. As a result, Pecca maintains a stronger liquidity buffer relative to peers, reducing reliance on external financing amid a normalising automotive operating environment.

Figure 15: Peers Liquidity Ratio Comparison (As per the Latest Financial Year)

As per the latest Financial Year Recorded		Ratio				Net Debt/Equity	Net Debt/Capital
Company	Bloomberg Ticker	Cash	Current	Quick	Interest Cover		
SMIS Corp Berhad	SMIS MK EQUITY	1.6	3.2	2.3	28.5	(36.7)	(58.0)
APM Automotive Holdings	APM MK EQUITY	1.1	2.5	1.6	9.7	(18.2)	(22.2)
Feytech Holdings Berhad	FEYTECH MK EQUITY	5.3	9.2	7.2	37.6	(47.2)	(91.3)
KHPT Holdings Berhad	KHB MK EQUITY	1.7	2.5	2.3	15.9	(59.5)	(146.7)
MBM Resources Berhad	MBM MK EQUITY	1.4	3.1	2.4	36.0	(7.9)	(8.6)
DRB-HICOM Berhad	DRB MK EQUITY	0.1	0.4	0.2	0.8	25.2	20.1
Tan Chong Motor Holdings	TCM MK EQUITY	0.3	1.1	0.5	(2.2)	49.5	33.1
Bermaz Auto Berhad	BAUTO MK EQUITY	0.7	2.0	1.0	18.0	(29.7)	(42.2)
Simple Average		**1.5**	**3.0**	**2.2**	**18.0**	**(15.6)**	**(39.5)**
Pecca Group Berhad	PECCA MK EQUITY	4.3	7.4	5.9	202.1	(47.3)	(89.7)

Source: Bloomberg, Company, Mercury

Working capital management supported by strong liquidity. While Pecca's receivable days of 71.3 days in FY2025 were higher than the peer average of 44.6 days, reflecting customer mix and OEM payment terms, the Group's working capital position remains manageable given its substantial cash reserves (FY2025: RM104.9m) and minimal short-term borrowings (FY2025: RM1.3m). Strong inventory discipline, with inventory days of 68.5 days below the peer average of 80.1 days, partially offsets longer receivables, resulting in a cash conversion cycle of 79.3 days, broadly in line with the peer average of 82.7 days. Importantly, Pecca's net cash balance and low reliance on short-term debt mitigate funding risk and keep interest costs minimal despite longer receivable cycles.

As illustrated in *Figure 14 Chart*, Pecca's working capital cycle experienced a temporary expansion during the COVID-affected period, driven by supply chain disruptions, precautionary inventory build-up and uneven production schedules across the automotive value chain. Following the post-pandemic normalisation, the Group's cash conversion cycle has trended lower, declining from elevated levels in FY2022–FY2023 to 79.3 days in FY2025. The improvement has been supported by better inventory turnover, more stable collection patterns, and steadier payable cycles, indicating a return to more disciplined working capital management as operating conditions normalised.

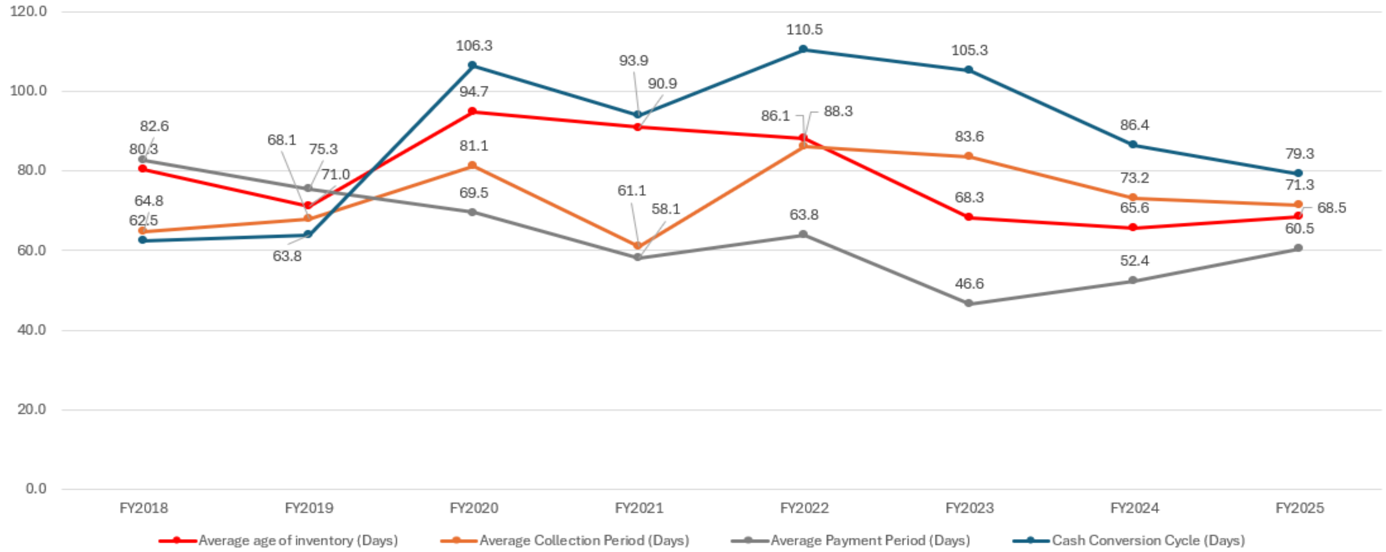
Quarterly results. For 1QFY26, Pecca reported revenue of RM60.6m, representing an increase of 14.7% QoQ from RM52.8m in 4QFY25 and 8.4% YoY from RM55.9m in 1QFY25. The sequential improvement was primarily driven by higher contributions from the OEM segment, reflecting the timing of OEM deliveries within the quarter. On a year-on-year basis, revenue growth was similarly supported by stronger OEM volumes, partially offset by continued moderation in non-core segments. Gross profit margin eased marginally to 42.1% in 1QFY26 (1QFY25: 43.1%), reflecting year-on-year variation in product mix and cost absorption, although margins remained elevated relative to historical levels (1QFY24: 37.0%; 1QFY23: 28.9%). The Group recorded PBT of RM20.3m and PAT of RM15.4m in 1QFY26, compared with RM17.7m and RM13.5m in 4QFY25, respectively. Corresponding PBT and PAT margins improved sequentially, supported by a stronger revenue base and controlled operating expenses. Overall, quarterly performance reflects a recovery from the softer 4QFY25, although earnings remain subject to normal seasonality and production timing inherent in the automotive supply chain.

Figure 16: Peers Working Capital Comparison (As per the Latest Financial Year)

As per the latest Financial Year Recorded		Working Capital Cycle			
Company	Bloomberg Ticker	Receivable Days	Payables Days	Inventory Days	Cash Conversion Cycle
SMIS Corp Berhad	SMIS MK EQUITY	52.0	42.1	60.6	70.0
APM Automotive Holdings	APM MK EQUITY	43.8	38.1	76.6	82.3
Feytech Holdings Berhad	FEYTECH MK	75.4	82.9	125.9	118.4
KHPT Holdings Berhad	KHB MK EQUITY	45.4	50.6	12.3	7.1
MBM Resources Berhad	MBM MK EQUITY	24.1	13.9	22.2	32.4
DRB-HICOM Berhad	DRB MK EQUITY	31.4	45.0	59.0	45.4
Tan Chong Motor Holdings	TCM MK EQUITY	62.7	30.5	184.7	216.9
Bermaz Auto Berhad	BAUTO MK EQUITY	21.9	32.7	99.4	88.6
Simple Average		**44.6**	**42.0**	**80.1**	**82.7**
Pecca Group Berhad	PECCA MK EQUITY	71.3	60.5	68.5	79.3

Source: Bloomberg, Company, Mercury

Figure 17: Pecca's Working Capital Cycle (Days)



Source: Company, Mercury Securities

Moving Forward. We expect Pecca to sustain a stable earnings trajectory, underpinned by (i) government policy measures supporting mass-market vehicle demand, including the proposed RM4,000 vehicle replacement grant under Budget 2026 and the civil servant salary adjustment, (ii) its entrenched role within the domestic automotive supply chain with greater exposure to national carmakers, and (iii) the gradual expansion into adjacent segments such as aviation and rail interiors.

Revenue is projected to grow by +6.2%/+12.9%/+0.8% YoY over FY2026E–FY2028E, following a temporary revenue decline in FY2025 amid the drop in year-on-year industry volumes. Growth is expected to be driven primarily by resilient demand from national carmakers, which continue to dominate the Malaysian automotive market, with a combined market share of approximately 63% in 1H2025 (FY2024: 62%). Demand within the national OEM segment is expected to remain more resilient than the broader industry amid TIV normalisation. Budget 2026 initiatives and the scheduled expiry of tax exemptions for imported EVs by end-2025 may lead to pricing shifts that favour domestically produced and national brand vehicles, supporting demand for Pecca's key customer base. In addition, seasonal promotional campaigns and model refreshes typically rolled out by national OEMs around key festive periods in early calendar 2026 may offer incremental volume support, aligning favourably with Pecca's June financial year-end.

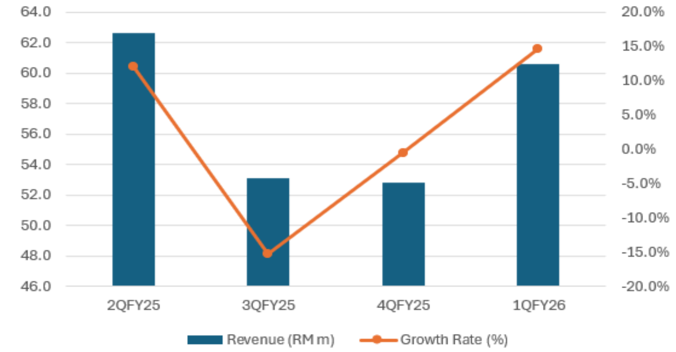
Automotive-related tax policy changes further reinforce this dynamic. The expiry of import and excise duty exemptions for fully imported EVs at end-2025, while incentives for locally assembled vehicles remain in place until 2027, is expected to lead to pricing shifts that favour domestically produced and national brand vehicles. Coupled with Malaysia's historically high duties on imported cars, these policy settings reinforce relative demand for national OEM models, which align closely with Pecca's customer base.

The revenue growth for FY2027E and FY2028E reflecting steady expansion in the core automotive segment alongside incremental contributions from aviation and rail interiors, which are expected to remain supplementary in the near term. Profitability is expected to remain stable, with EBITDA margins sustained at around 33.9% over FY2025–FY2028E. Margins are expected to remain constant supported by cost control and operating leverage, even as pricing pressure persists within the OEM supply chain. The balance sheet is expected to remain resilient, underpinned by a net cash position.

In addition, the appreciation of the ringgit provides a supportive cost backdrop. As at December 2025, the ringgit strengthened to around RM4.12 per US dollar, compared with approximately RM4.80 in early FY2024, representing an appreciation of about 16.5%. A stronger ringgit in FY2025 and potentially beyond may help to ease imported input costs for Pecca, given its material exposure to overseas raw materials, thereby supporting profitability and cost discipline.

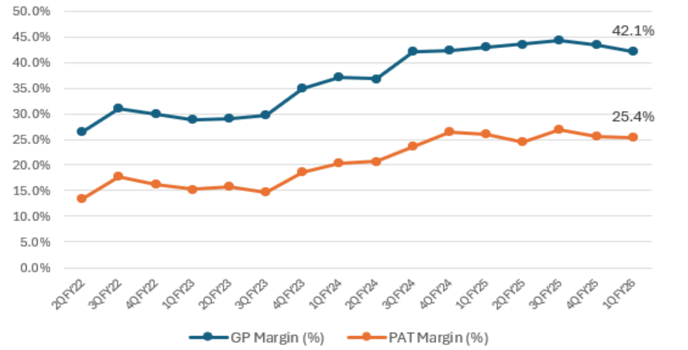
Overall, while near-term earnings may moderate alongside industry normalisation, Pecca's core fundamentals remain intact, supported by its established positioning within the national automotive ecosystem and gradual diversification into non-automotive segments.

Figure 18: Pecca Revenue (RM m) and QoQ Growth Rate (%)



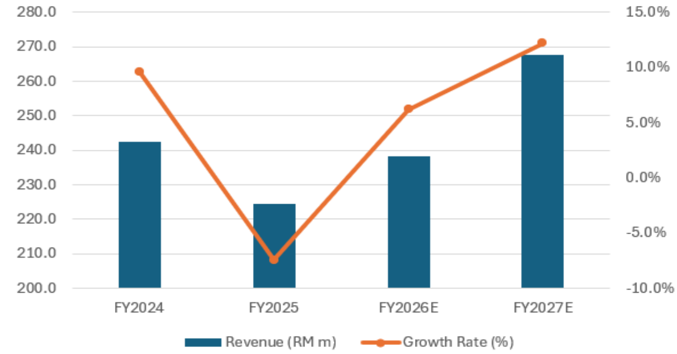
Source: Company, Mercury Securities

Figure 19: Pecca QoQ GP and PAT Margin (%)



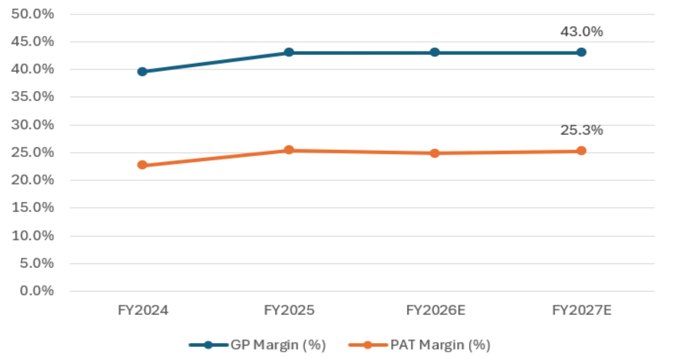
Source: Company, Mercury Securities

Figure 20: Pecca Revenue (RM m) and YoY Growth Rate (%)



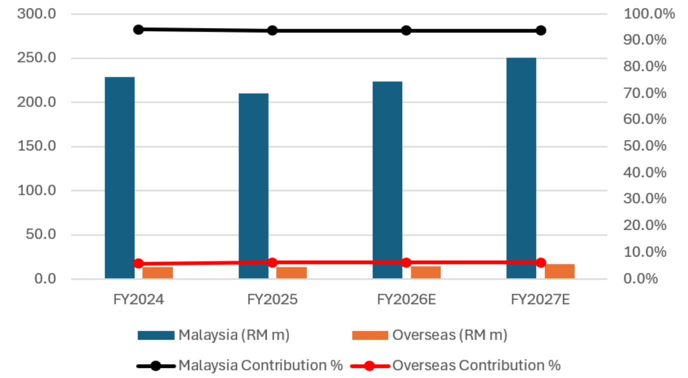
Source: Company, Mercury Securities

Figure 21: Pecca YoY GP and PAT Margin (%)



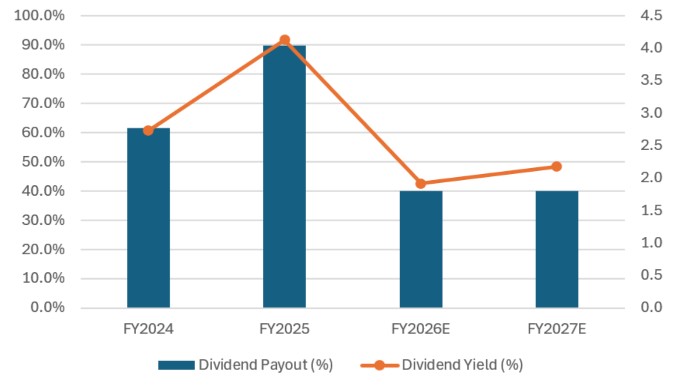
Source: Company, Mercury Securities

Figure 22: Geographical Revenue Breakdown (RM m, %)



Source: Company, Mercury Securities

Figure 23: Dividend Payout Ratio & Yield (%)



Source: Company, Mercury Securities

Valuation. We derive a Target Price (TP) of **RM1.46** for Pecca Group Berhad, based on a **target P/E multiple** of **16x** applied to its **FY2027E EPS of 9.0 sen**. We apply a 30% premium to the industry's 2-year historical average P/E of 12.4x, arriving at our target multiple of 16x. At current valuation, this implies a -0.5SD below its 2-year average PER (mean of 16.7x). The premium reflects (i) Pecca's structurally higher profitability, with margins and returns consistently above peers, as well as (ii) its larger market capitalisation and scale, which support stronger earnings stability and balance sheet resilience. In contrast, recently listed peers such as (i) Feytech Holdings Berhad and (ii) KHPT Holdings Berhad are excluded from the core peer set due to their limited earnings track records, which may not yet provide a representative valuation benchmark across a full industry cycle. We also do not benchmark Pecca against pure-play upholstery peers, given differences in business mix, margin structure, customer dynamics and scale, which reduce direct comparability.

Figure 24: 2-Year Historical P/E Direct Peers Comparison

Company	Bloomberg Ticker	2-Year Historical P/E (x)		2- Years Average
		2024	2025	
SMIS Corporation Berhad	SMIS MK EQUITY	11.7	9.3	10.5
APM Automotive Holdings	APM MK EQUITY	5.8	7.7	13.5
Pecca Group Berhad	PECCA MK	19.5	20.5	20.0
Average		**12.3**	**12.5**	**12.4**

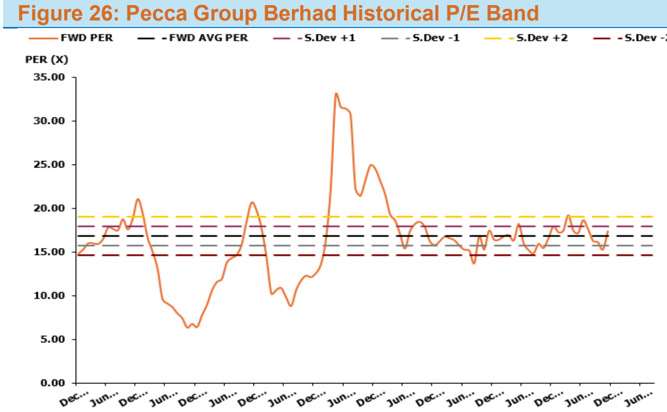
Source: Bloomberg, Company, Mercury

Figure 25: Direct Peers Margins Comparison (as per the latest Financial Year recorded)

Latest Financial Year		MARGIN (%)				RETURN (%)		
Company	Bloomberg Ticker	GP	EBITDA	PBT	PAT	ROE	ROA	ROIC
SMIS Corp Berhad	SMIS MK EQUITY	16.1	9.2	5.8	1.8	3.5	2.1	5.9
APM Automotive Holdings	APM MK EQUITY	15.2	10.5	7.4	4.1	6.0	3.8	7.3
Simple Average		**15.7**	**9.9**	**6.6**	**3.0**	**4.8**	**2.9**	**6.6**
Pecca Group Berhad	PECCA MK EQUITY	43.0	33.9	33.7	25.4	27.4	23.3	25.9

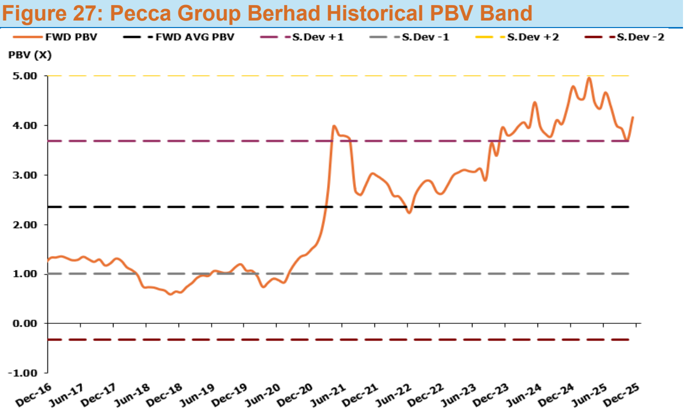
Source: Bloomberg, Company, Mercury

Figure 26: Pecca Group Berhad Historical P/E Band



Source: Bloomberg, Mercury Securities

Figure 27: Pecca Group Berhad Historical PBV Band



Source: Bloomberg, Mercury Securities

Recommendation. We assign a **HOLD** rating on Pecca Group Berhad with a target price of **RM1.46**, representing a **-9.9% downside** from the current share price, partially mitigated by an estimated **2.2% dividend yield**. While domestic TIV has stabilised at a structurally higher post-pandemic level, localisation under NIMP and the National Automotive Policy continues to support domestic component demand structurally, near-term industry dynamics are being influenced by policy-driven pricing distortions. The expiry of import and excise duty exemptions for CBU EVs by end-2025 is expected to raise imported EV prices materially, which may temper overall demand momentum once front-loaded purchases normalise. In addition, the scheduled implementation of the revised Open Market Value (OMV) calculation under P.U. (A) 402/2019 from January 2026, which incorporates non-manufacturing costs into excise duty assessments for CKD vehicles (including EVs), could increase locally assembled vehicle prices by an estimated 10–30%. This introduces demand uncertainty and may constrain volume growth despite ongoing localisation efforts. Furthermore Japanese carmakers remain indirectly exposed to Japanese-sourced components and technical inputs through long-standing partnerships with Japanese OEMs and suppliers, and any sustained yen appreciation could raise imported component costs, potentially pressuring vehicle affordability and moderating production volumes in the mass-market segment.

The applied target multiple reflects Pecca's established earnings quality and remains broadly in line with its long-term historical valuation range. Looking ahead, earnings are expected to remain stable, supported by (i) government policy measures benefiting national carmakers, (ii) Pecca's entrenched positioning within the domestic automotive supply chain, and (iii) gradual expansion into adjacent segments such as aviation and rail interiors.

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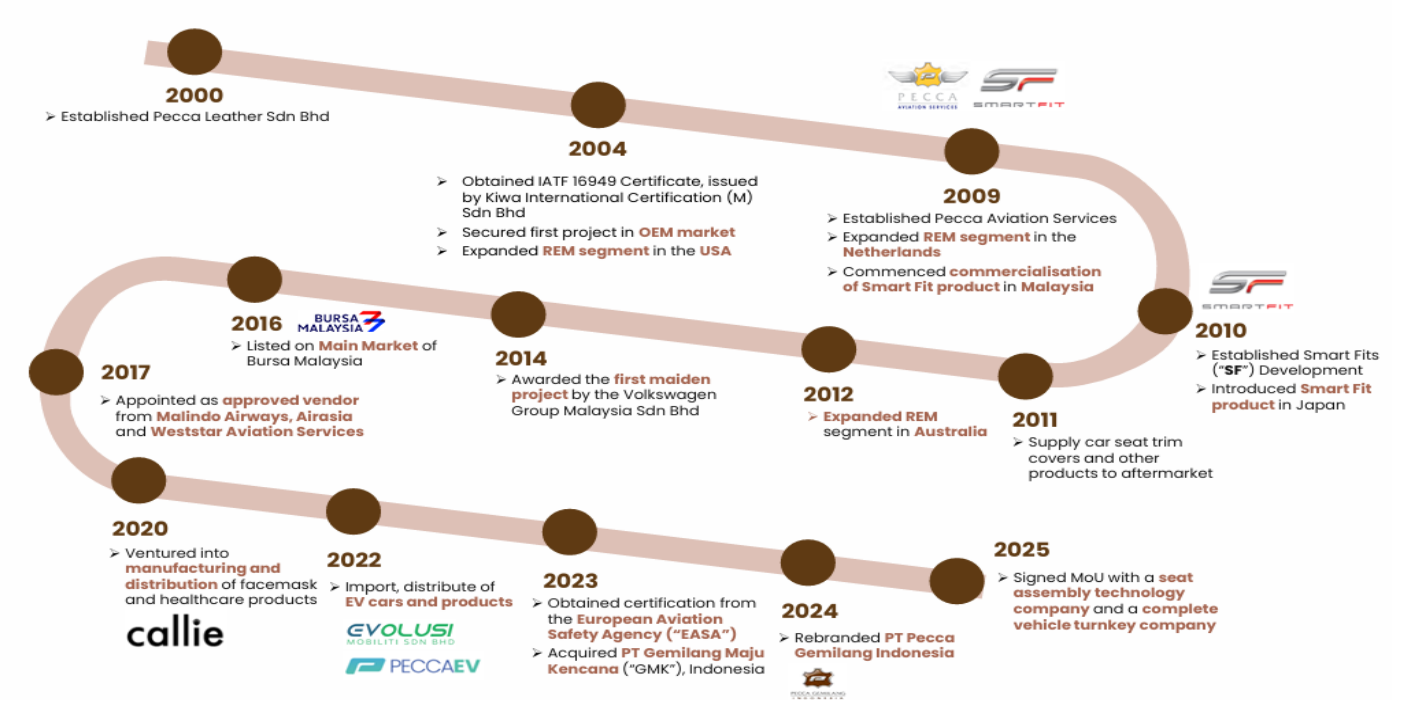
Company Background

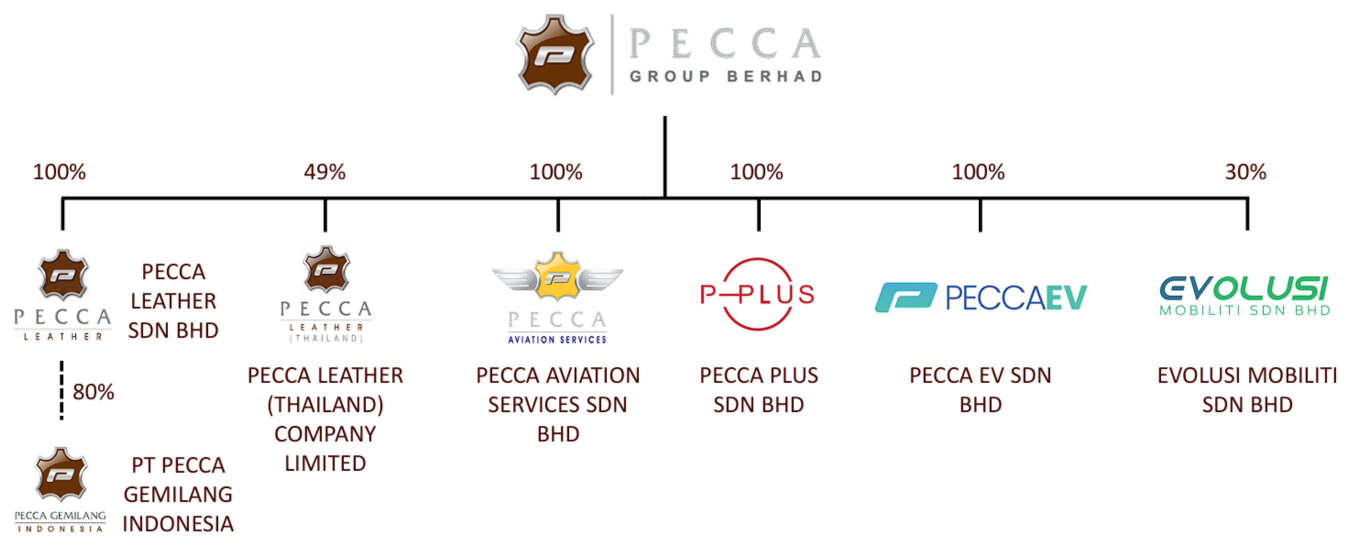
Pecca Group Berhad ("Pecca" or "the Group") is one of Malaysia's leading automotive upholstery specialists, focusing on the styling, manufacturing, distribution, and installation of car seat covers for the Original Equipment Manufacturer (OEM), Pre-Delivery Inspection (PDI), and Replacement Equipment Manufacturer (REM) markets. Listed on the Main Market of Bursa Malaysia on 19 April 2016, the Group has established a strong track record supported by advanced technology, in-house design expertise, and long-term partnerships with major automotive brands including Perodua, Toyota, Nissan, and Mitsubishi. Its product offerings extend beyond seat covers to include leather cut pieces, door trim covers, steering wheels, gearshift knobs, and sewing services. In line with its strategy to move into higher-margin, high-barrier industries, Pecca has diversified into the aviation MRO segment, providing aircraft seat cover manufacturing, replacement, repair, refurbishment, and cabin interior management solutions. The Group has also strengthened its regional presence through expansion into Indonesia's fast-growing automotive market, while its healthcare division supports demand for face masks, face shields, and PPE garments. With a strong commitment to quality, innovation, sustainability, and continuous improvement, Pecca is evolving into a diversified solutions provider with growing exposure across automotive, aviation, and healthcare sectors.

Figure 28: Company Milestone (2000-2024)



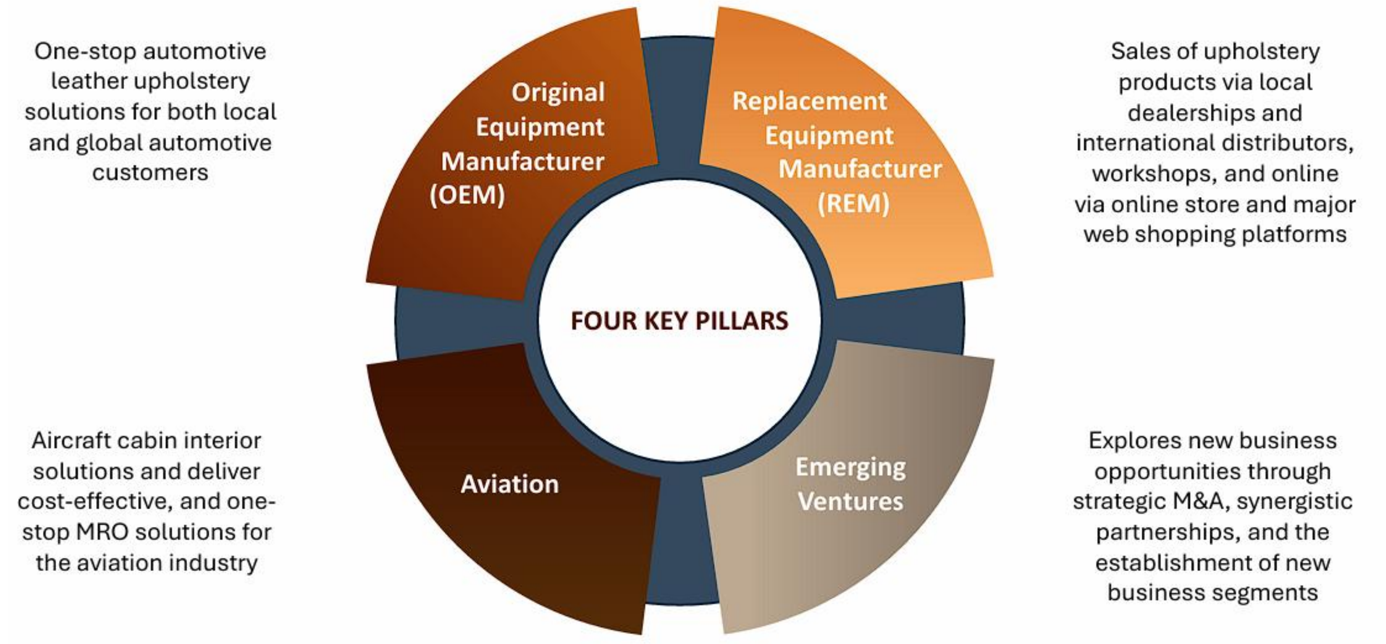
Source: Company

Figure 29: Corporate Structure



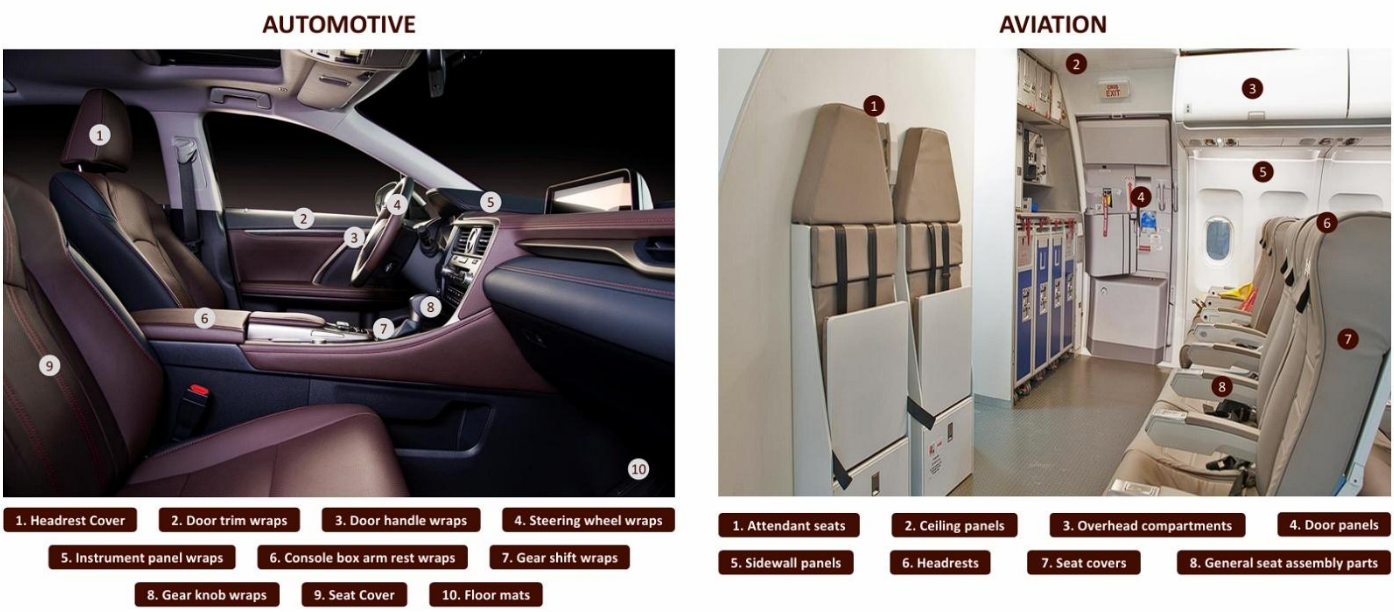
Source: Company

Figure 30: Key Business Pillars



Source: Company

Figure 31: Key Products & Services



Source: Company

Figure 32: Geographical Footprint

Source: Company

SWOT Analysis

S STRENGTHS	W WEAKNESS
Market Dominance in Malaysia: Pecca is the largest automotive leather upholstery supplier in Malaysia, giving it significant brand equity, economies of scale, and established relationships with major domestic OEMs (e.g., Perodua, Toyota). **Diversification into High-Margin MRO:** The successful foray into Aviation MRO (Maintenance, Repair, and Overhaul), backed by EASA certification, provides a new, high-barrier-to-entry, and high-margin revenue stream, insulating the company from sole reliance on the domestic automotive cycle. **Integrated Value Chain:** Controls the entire process from design and manufacturing to installation, ensuring high-quality control and premium product positioning.	**High Reliance on Domestic TIV:** Despite diversification, the Automotive segment remains the core engine (over 90% of revenue), making the Group vulnerable to fluctuations in the Malaysian Total Industry Volume (TIV) and consumer spending. **Raw Material Price Sensitivity:** Being a leather product manufacturer, profitability is highly sensitive to the global price volatility of raw materials (hides, chemicals) and foreign exchange rates (Ringgit vs. USD for imported inputs). **Capacity Constraints:** The Group's current manufacturing footprint places limits on production throughput, requiring timely capacity ramp-up to avoid operational bottlenecks during periods of higher demand.
T THREATS	**O OPPORTUNITIES**
Global Economic Slowdown: A significant slowdown in global and domestic economic growth could suppress domestic TIV and reduce demand for premium car leather interiors. **Increased Competition in REM:** The Replacement Equipment Market (REM) faces intense competition from non-listed and regional suppliers offering lower-cost alternatives. **Regulatory Changes in Automotive:** Changes in government policies concerning new vehicle duties, excise exemptions, or TIV incentives could abruptly impact domestic sales volumes.	**Aviation MRO Contract Growth:** Securing more large-scale aircraft cabin refurbishment contracts (seats, panels, etc.) in Southeast Asia and globally, leveraging the EASA certification and new global aviation partnerships. **Electric Vehicle (EV) Interiors:** Moving up the value chain to supply premium, high-value interiors (e.g., instrument panel leather wraps, smart cockpit components) for next-generation EV models, targeting Tier-1 component status. **Regional OEM/REM Expansion to Indonesia:** Leveraging the acquisition of PT Pecca Gemilang Indonesia (PT PGI) to secure new OEM contracts in Indonesia, a much larger automotive market than Malaysia.

Figure 33: Key Management Team

Name and Designation	Age	Profile
Dato' Mohamed Suffian Bin Awang Independent Non-Executive Chairman	54	Appointed to the Board on 3 December 2014, designated as an Independent Non-Executive Director on 26 December 2014, and subsequently appointed as Chairman on 4 February 2015. He possesses over 20 years of combined experience in legal practice and public service, holding a Diploma in Public Administration and a Bachelor of Law from UiTM. Within the Group, he serves as the Chairman of the Nomination Committee and is a member of the Audit & Risk Management Committee and Remuneration Committee. Outside of Pecca, he serves as Chairman of the Maritime Institute of Malaysia and is a Director of Sersol Berhad.
Datuk Teoh Hwa Cheng Group Managing Director	57	Appointed to the Board on 27 July 2010, Datuk Teoh Hwa Cheng oversees the overall strategic direction, major corporate initiatives, and business development of the Group. He brings more than 30 years of experience in leather goods and automotive upholstery manufacturing to his role. He is a key member of the founding family, identified as the spouse of Executive Director Datin Sam Yin Thing and the father of Executive Directors Teoh Zi Yi and Teoh Zi Yuen.
Datin Sam Yin Thing Executive Director	54	Appointed to the Board on 31 October 2011 and oversees procurement, supply chain operations, and vendor development for key materials, including leather, microfibre, and PVC. She brings approximately 30 years of experience in the leather industry with strong expertise in sourcing and material management. She is identified as the spouse of Group Managing Director Datuk Teoh Hwa Cheng and the mother of Executive Directors Teoh Zi Yi and Teoh Zi Yuen.
Teoh Zi Yi Executive Director	32	Appointed to the Board on 16 October 2020, Teoh Zi Yi oversees Group operations, financial management, risk, compliance, and the critical aviation business segment. He contributed to key transformation initiatives, including the Group's achievement of RM1 billion market capitalisation, and holds a Bachelor's Degree in Business Management from the University of East Anglia. He is identified as the son of Group Managing Director Datuk Teoh Hwa Cheng and Executive Director Datin Sam Yin Thing, and the sibling of Executive Director Teoh Zi Yuen.
Teoh Zi Yuen Executive Director	30	Appointed to the Board on 16 October 2020 and oversees B2C marketing, corporate strategy, branding, investor relations, and ESG initiatives. She brings experience in digital marketing, strategic planning, and corporate development, holding a Bachelor's Degree in Economics and Marketing from Pepperdine University and a Master's Degree in Public Policy from Tsinghua University. She is identified as the daughter of Group Managing Director Datuk Teoh Hwa Cheng and Executive Director Datin Sam Yin Thing, and the sibling of Executive Director Teoh Zi Yi.
Datuk Leong Kam Weng Independent Non-Executive Director	61	Appointed to the Board on 11 September 2014 and redesignated as an Independent Non-Executive Director on 26 December 2014, Datuk Leong Kam Weng serves as Chairman of the Audit & Risk Management Committee and Remuneration Committee and as a member of the Nomination Committee. He brings more than 30 years of experience in legal practice, corporate leadership, insurance, and financial governance, and holds Bachelor's Degrees in Economics and Law from Monash University. He holds professional memberships with CPA Australia, the Malaysian Institute of Accountants, and the Malaysian Mediation Centre.
Dato' Dr. Norhizan Bin Ismail Independent Non-Executive Director	64	Appointed to the Board on 17 September 2021 and serves as a member of the Audit & Risk Management Committee, Nomination Committee, and Remuneration Committee. He brings approximately 35 years of public healthcare experience, including roles as State Health Director in Pahang and Kedah and Deputy Director-General (Medical) at the Ministry of Health. He holds a Medical Doctor degree from Universiti Sains Malaysia and a Master of Public Health from the University Malaya, and is a Fellow of Public Health Medicine Malaysia.
Dato' Seri Dr. Chen Chaw Min Independent Non-Executive Director	64	Appointed to the Board on 8 April 2025 and serves as a member of the Audit & Risk Management Committee. He brings over 30 years of civil service experience, including serving as Secretary-General of the Ministry of Health. He has completed executive programmes at Harvard Business School and Oxford Saïd Business School and has previously served on boards including IJN Holdings and ProtectHealth Malaysia.
Tan Han Leong Chief Financial Officer	49	Appointed as Chief Financial Officer on 19 June 2025. He is responsible for overseeing Group finance, statutory reporting, treasury, regulatory compliance, and strategic financial planning. He brings more than 27 years of experience in audit, taxation, corporate finance, treasury, and financial management across multinational and listed entities, holding a degree in Accounting and professional memberships with CPA Australia, ICAEW, and the Malaysian Institute of Accountants.
K. Karunakaran A/L Karuppannan Chief Operating Officer	58	Appointed Chief Operating Officer on 1 October 2019 after joining the Group in 2003, he now oversees plant operations, supply chain management, SOP implementation, and the Group's ISO certification framework. He brings over 30 years of manufacturing experience across the latex, electrical, and medical product sectors, and notably played a key role in securing EASA certification for the Group and establishing the medical face mask production capability.
Sam Chee Keng Technical Director	46	Appointed Technical Director on 1 December 2012, having been with the Group since 2000. He oversees R&D and technical development for automotive seat upholstery and leads technical operations for the Indonesian market, serving as President Director of PT PGI in Indonesia. He brings over 20 years of experience in automotive seat upholstery design, development, and engineering, and is identified as the sibling of Executive Director Datin Sam Yin Thing and brother-in-law of Datuk Teoh Hwa Cheng.
Goh Soon Huang General Manager, Operations	39	Appointed General Manager, Operations on 1 January 2024 after joining the Group in 2007, Goh Soon Huang oversees production planning, quality assurance, costing, engineering, technical development, logistics, and MOM system optimisation. He brings over 17 years of experience in automotive manufacturing, engineering, operational planning, VAVE, and logistics management, and currently leads the Group's Industry 4.0 transformation efforts, including automation and MOM system implementation.
Neo Hwee Leong Operation Director (PT PGI – Indonesia)	39	Redesignated as Operation Director of PT PGI (Indonesia) on 15 November 2022 after joining the Indonesian subsidiary in 2017. He oversees Indonesian operations covering manufacturing, ERP, sales, procurement, finance, HR, and regulatory compliance. He brings extensive experience in production planning, ERP system implementation, and distributor development in the Indonesian automotive market.

Major Customers

Pecca's customer base spans both local and international markets, with key customers including Malaysia's national carmakers Perodua and Proton, as well as Japanese automotive brands such as Toyota, Nissan and Mitsubishi. Revenue remains predominantly concentrated within Malaysia's domestic automotive industry, which accounted for 92.6% of total group revenue in FY2025, reflecting the Group's focus on supplying seat covers and interior components to national OEM customers. In FY2025, **Customer A** remained the Group's largest customer, contributing 57.2% of total revenue, while Customer B represented another major OEM customer, accounting for 23.8% of group revenue.

The Group's relationships with its key OEM customers are underpinned by a long operating history, stringent qualification standards and strong localisation capabilities, supporting recurring orders across multiple model life cycles. Pecca typically supplies several models per OEM, providing a degree of volume stability despite exposure to broader industry demand trends. Orders are largely production-driven rather than project-based, contributing to relatively predictable order flows.

Beyond its core automotive customers, Pecca has begun supplying interior components to non-automotive segments, including aviation and rail interiors, although contributions from these segments remain relatively small at this stage. These adjacent markets are viewed as longer-term diversification avenues rather than near-term revenue drivers.

While customer concentration is inherent to the OEM supply model, Pecca's entrenched supplier position, multi-model exposure and expanding product applications partially mitigate the risk of abrupt demand shifts from any single customer.

Key Risks

High Local Client Concentration. Pecca derives a substantial portion of its revenue from a small number of national OEM customers, making earnings closely linked to their production volumes, model cycles and sourcing decisions. Any reduction in production, model rationalisation or changes in supplier allocation by these customers could negatively impact order volumes and capacity utilisation, although this risk is partially mitigated by Pecca's entrenched supplier relationships and participation across multiple high-volume models.

Exposure to Domestic Automotive Demand (TIV) Normalisation. Pecca's core automotive business remains exposed to trends in Malaysia's Total Industry Volume (TIV), particularly following the post-pandemic recovery period. A normalisation in domestic vehicle demand could moderate OEM production plans and limit operating leverage, potentially constraining margin expansion, although demand is partly supported by the mass-market focus of national OEMs and government initiatives aimed at sustaining vehicle affordability.

Pricing Pressure from Low-Cost Asean Suppliers. The automotive interior components market remains competitive, with regional ASEAN suppliers offering lower-cost alternatives that may intensify pricing pressure. While Pecca benefits from scale, localisation and quality standards, continued OEM cost-down initiatives could limit its ability to fully pass through input cost increases, making margin sustainability dependent on ongoing cost discipline and operational efficiency.

Raw Material Cost and FX Volatility. Pecca's profitability is exposed to fluctuations in raw material prices, particularly leather and chemical inputs, as well as foreign exchange movements due to imported materials denominated in USD. Sharp increases in input costs or adverse currency movements may pressure margins if cost pass-through to OEM customers is delayed or limited, despite ongoing cost management efforts.

Model Cycle and Product Mix Risk. Pecca's earnings are influenced by OEM model cycles and product mix changes across key platforms. Delays in model refreshes, slower-than-expected adoption of higher trim variants, or shifts toward lower-content models could moderate content-per-vehicle and affect revenue growth.

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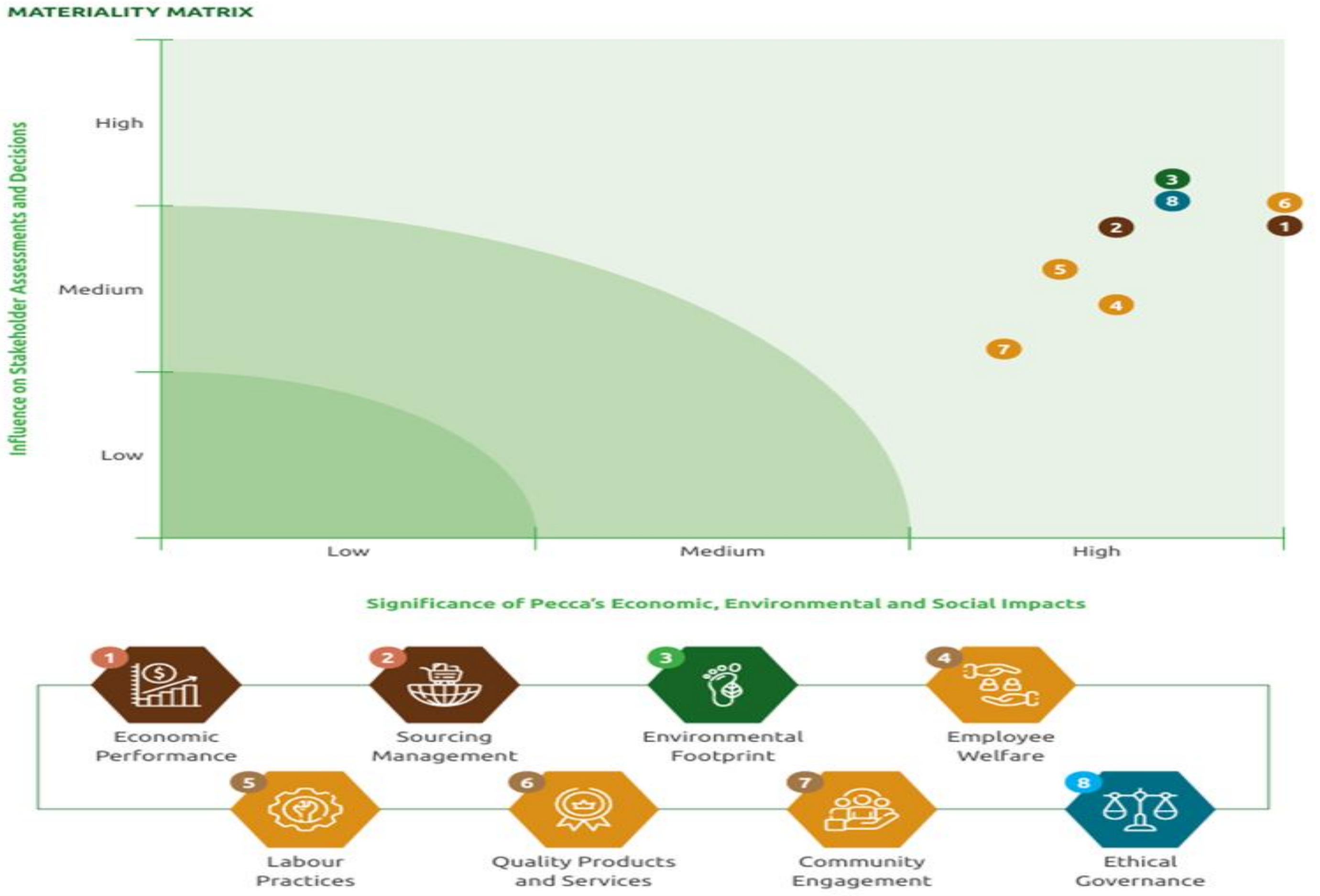
Sustainability Review

Figure 34: Materiality Matrix



Source: Company

Pecca's materiality assessment conducted in FY24 concluded in a revised list of eight material topics addressing Environmental, Economic, Social and Governance ("EESG") themes, aligning with the key UN Sustainable Development Goals (SDGs). Out of the eight topics, three material topics were highly emphasized by their stakeholders, namely Environmental Footprint, Quality Products & Services and Ethical Governance.

Firstly, Environmental Footprint emerged as the most influential material matter affecting its stakeholder assessments and decisions, through responsible resource and waste management. This directly supports SDG 3 (Good Health and Well-being), SDG 6 (Clean Water & Sanitation), SDG 7 (Affordable & Clean Energy) and SDG 13 (Climate Action). Next, Quality Products and Services have additional significance towards their economic, environmental and social impacts, adhering to their Sales Processing & Planning Framework. This ensures a systematic and efficient approach in delivering high quality products and services, contributing to SDG 8 (Decent Work & Economic Growth). Third, Ethical Governance also rose as one of the top materiality matters. Pecca aims to ensure full compliance with relevant laws and regulations as well as upholding ethical business conduct, supporting SDG 8 (Decent Work & Economic Growth), SDG 12 (Responsible Consumption & Production) and SDG 16 (Peace, Justice & Strong Institutions).

The Group continues to strengthen its sustainability journey, focusing on reducing its carbon footprint and enhancing operational efficiency through structured environmental, social and governance (ESG) initiative:

Environmental (E)

1. Energy and Emissions

- Total energy consumption: 14,941.5 GJ in FY25, up 6.0% YoY (FY24: 14,100.6 GJ).
- Renewable energy (solar): 953.6 GJ in FY25 (FY24: 951.8 GJ); exported 69.8 GJ to TNB.
- Energy intensity: 66.7 GJ/RM mil revenue in FY25 (FY24: 58.1 GJ/RM mil).
- Scope 1 emissions: 362.5 $mtCO_2e$ in FY2025 (FY24: 317.8 $mtCO_2e$), Scope 2 emissions: 1,775.3 $mtCO_2e$ in FY2025 (FY24: 1,656.3 $mtCO_2e$) and Scope 3 emissions: 376.0 $mtCO_2e$ in FY2025 (first-time disclosure).
- Avoided emissions via solar: 283.4 $mtCO_2e$ in FY2025 (FY2024: 183.6 $mtCO_2e$).
- Moving forward, the Group will progressively increase its renewable energy mix and implement operational efficiency measures to

mitigate the growth of Scope 1 and Scope 2 emissions.

2. Waste Management

- Total waste generated: 1,004.2 MT, down 20.3% YoY (FY24: 1,260.2 MT).
- Waste diverted from disposal: 225.4 MT (22.4%; FY24: 332.2 MT; 26.4%).
- Waste disposed: 778.8 MT (FY24: 928.0 MT)
- Moving forward, the Group will enhance recycling and recovery initiatives to increase diversion rates and reduce reliance on landfills.

3. Water Management

- Total water consumption: 57.8 ML in FY25, up 28.7% YoY (FY24: 44.9 ML).
- Water intensity: 0.3 ML/RM mil revenue (FY24: 0.2 ML/RM mil).
- Moving forward, the Group will focus on leak prevention, improve metering accuracy, and optimise water usage across its facilities.

Social (S)

1. Occupational Safety & Health (OSH)

- LTIR: 0.0 (FY24: 1.8).
- Work-related fatalities: 0 in both FY25 and FY24.
- Employees trained in safety: 322 (FY24: 470).
- The Group has also remained consistent in achieving zero number of complaints received concerning human rights violations, discrimination incidents, child labour incidents and forced or compulsory labour incidents.
- Moving forward, the Group will maintain a zero LTIR and expand preventive-safety programmes across all operations.

2. Community Engagement

- In FY2025, Pecca invested RM409,728.00 in community initiatives (FY24: RM230,737.20), including several sponsorships amounting over RM270,000.00 to schools, universities and community events as well as donations over RM134,700.00 to local cultural and religious associations.
- In total, community programmes reached 2,545 beneficiaries (FY24: 2,268 beneficiaries).
- Moving forward, the Group will focus on targeted, high-impact community programmes that maximise social benefits while aligning with its ESG priorities.

3. Quality Products & Services

- In FY25, Pecca achieved a Customer Satisfaction Score (CSS) of 91.0% (FY24: 90.0%) as product and service quality metrics continue to meet internal standards and regulatory requirements.
- Along with its Sales Processing and Planning Framework, Pecca's production management system also adheres to global standards such as IATF 16949:2016 (Automotive Quality Management Systems), ISO 9001:2015 (Quality Management System), ISO 13485:2016 (Quality Management System for Medical Devices), ISO 14001:2015 (Environmental Management System), and ISO 45001:2018 (Occupational Health & Safety Management System).
- Moving forward, the Group is committed to maintain high product quality and service standards and enhance customer experience through continuous improvement initiatives and feedback mechanisms.

4. Talent Management

- Total training hours: 7,282 hours, up 18.2% YoY (FY24: 6,162 hours).
- Average training hours per employee of 8.5 hours (FY24: 6.6 hours) covering branding & marketing strategy, risk management, OHS standards & requirements and finance & costing.
- Employee turnover: 208 (FY24: 95), declining 23.2% YoY.
- Moving forward, the Group will aim to increase training hours per employee while maintaining the improvements achieved in employee retention

Governance (G)

In line with its commitment to strong governance standards, the Board remains focused on achieving high levels of transparency, accountability, and ethical conduct across the organisation. To support these objectives, the Group aligns its governance framework with the principles and recommended practices of the Malaysian Code on Corporate Governance (MCCG) 2021, as required under the Main Market Listing Requirements of Bursa Malaysia Securities Berhad. This proactive approach reflects the Board's ambition to uphold best-in-class governance practices, strengthen organisational integrity, and reinforce stakeholder confidence in the Group's long-term stewardship.

1. **Ethical Conduct & Regulatory Compliance**

- In FY25, Pecca recorded zero incidents of corruption, privacy breaches, or whistleblowing cases (FY24: zero).
- 100% of suppliers were assessed for environmental and social compliance (FY24: similarly high coverage).
- Moving forward, the Group will deepen ESG audits across the supply chain and enhance compliance systems to maintain high standards of ethical conduct.

2. **Governance Oversight**

- Pecca remained included in the FTSE4Good Bursa Malaysia (F4GBM) and F4GBM Shariah indices in FY25.
- Internal audit expenditure increased to RM66,000 (FY24: RM60,000), supporting oversight activities.
- Moving forward, the Group will strengthen climate-related disclosures in line with TCFD recommendations and consider external ESG assurance for enhanced transparency.

Pecca demonstrates its commitment to sound corporate governance through adherence to the Malaysian Code on Corporate Governance (MCCG) and ongoing stakeholder engagement under its sustainability framework. The Group regularly assesses material ESG matters with a top-down approach as the Board provides strategic oversight on key ESG matters. Meanwhile, Senior Management is responsible for developing, implementing and monitoring sustainability initiative across the Group to ensure alignment with the Group's vision and stakeholder expectations.

As at the latest practicable date (LPD), the Group has adopted key MCCG recommendations, with strong board independence and gender diversity:

Key MCCG Governance Indicators	
MCCG Governance Application	Practices Partially Adopted
Independent Directors	4 out of 8 (50% of the Board)
Women Directors	2 out of 8 (25% of the Board)
Compliance with 30% women target	Partially Achieved

Source: Company, Mercury Securities

The composition of the Board reflects the Group's emphasis on diversity and independence in decision-making. The Group continues to enhance its governance practices through structured stakeholder engagement, ESG integration and alignment with MCCG principles.

Overall ESG Performance. Pecca's ESG performance showed progress in emissions transparency, occupational safety, and governance, alongside opportunities for further improvement in resource efficiency and social impact. Total energy and water consumption increased moderately, while Scope 3 emissions were disclosed for the first time. Renewable energy generation and avoided emissions continued to rise. Waste generation declined, though diversion rates fell slightly, and material consumption increased across core inputs. Safety metrics improved, with LTIR at zero and no fatalities, and employee turnover decreased, although training hours were lower. Community investment and beneficiaries declined, while customer satisfaction remained stable. Governance remained robust, with zero ethical or compliance incidents, full supplier ESG assessments, and continued inclusion in key sustainability indices. Overall, FY2025 reflects steady ESG progress with targeted areas for further enhancement.

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Income Statement

FY Dec (RM m)	2024A	2025A	2026E	2027E	2028E
Revenue	242.5	224.5	238.4	269.2	271.4
EBITDA	75.0	76.1	80.8	91.2	92.0
Depreciation & Amortz	(5.5)	(5.8)	(5.9)	(6.0)	(6.0)
Operating Profit	68.3	71.8	74.8	85.2	85.9
Interest Inc/(Exp)	3.8	3.8	3.4	4.3	5.5
Assoc Earnings	0.0	0.0	0.0	0.0	0.0
Profit Before Tax	**72.2**	**75.6**	**78.2**	**89.5**	**91.4**
Taxation	(17.1)	(18.5)	(18.8)	(21.5)	(21.9)
Net Profit	55.0	57.1	59.4	68.0	69.5
Core PATAMI	**55.0**	**57.1**	**59.4**	**68.0**	**69.5**

Balance Sheet

	2024A	2025A	2026E	2027E	2028E
Fixed Assets	65.8	66.6	67.3	68.0	68.6
Intangible Assets	0.1	0.1	0.1	0.1	0.1
ROU Assets	23.6	23.5	23.8	24.2	24.5
Other Fixed Assets	0.4	0.4	0.4	0.4	0.4
Inventories	24.2	23.8	28.0	29.9	31.2
Receivables	42.5	45.2	49.7	56.1	56.5
Other Current Assets	156.1	109.5	141.8	173.1	215.0
Cash	153.7	104.9	127.7	160.9	204.7
Total Assets	**288.6**	**245.2**	**286.8**	**327.1**	**371.3**
Payables	22.3	20.1	26.1	25.6	28.1
ST Borrowings	2.2	1.3	1.3	1.3	1.3
Other ST Liability	19.2	3.4	3.4	3.4	3.4
LT Borrowings	4.6	4.1	4.1	4.1	4.1
Other LT Liability	5.8	7.3	7.3	7.3	7.3
Net Assets	**234.5**	**209.0**	**244.7**	**285.5**	**327.2**
Shareholders' Equity	233.8	208.5	244.1	284.9	326.6
Minority Interests	0.7	0.6	0.6	0.6	0.6
Total Equity	**234.5**	**209.0**	**244.7**	**285.5**	**327.2**

Cashflow Statement

FY Mar (RM m)	2024A	2025A	2026E	2027E	2028E
Operating CF	76.0	47.6	59.9	61.4	71.3
Investing CF	(0.2)	(0.7)	(1.9)	(1.0)	0.2
Financing CF	(33.2)	(95.3)	(35.2)	(27.2)	(27.8)
Change In Cash	42.6	(48.4)	22.8	33.2	43.8
Free CF	71.2	42.7	54.3	55.9	65.8

Financial Data & Ratios

FY Dec	2024A	2025A	2026E	2027E	2028E
Growth					
Turnover	9.6%	(7.4)%	6.2%	12.9%	0.8%
EBITDA	44.6%	1.5%	6.2%	12.9%	0.8%
Operating Profit	52.2%	5.1%	4.2%	13.9%	0.8%
PBT	53.7%	4.8%	3.5%	14.4%	2.2%
Core Net Profit	55.3%	3.9%	4.1%	14.4%	2.2%
Profitability					
Gross Profit Margin	39.6%	43.0%	43.0%	43.0%	43.0%
EBITDA Margin	30.9%	33.9%	33.9%	33.9%	33.9%
Operating Margin	28.2%	32.0%	31.4%	31.6%	31.6%
PBT Margin	29.7%	33.7%	32.8%	33.2%	33.7%
Core Net Margin	22.7%	25.4%	24.9%	25.3%	25.6%
Effective Tax Rate	23.7%	24.5%	24.0%	24.0%	24.0%
ROA	23.5%	27.4%	24.3%	23.9%	21.3%
ROE	19.1%	23.3%	20.7%	20.8%	18.7%
Leverage					
Debt/Asset (x)	0.0	0.0	0.0	0.0	0.0
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
Net (Cash)/Debt	(146.8)	(99.5)	(121.6)	(157.0)	(199.8)
Net Debt/Equity (x)	(0.6)	(0.5)	(0.5)	(0.5)	(0.6)
Valuations					
Core EPS (sen)	4.7	7.3	7.6	7.9	9.0
NDPS (sen)	2.8	4.5	6.8	3.2	3.6
BV/sh (RM)	0.3	0.3	0.3	0.3	0.4
PER (x)	35.3	22.7	21.9	21.0	18.4
Div. Yield (%)	1.7	2.7	4.1	1.9	2.2
PBV (x)	5.9	5.3	6.0	5.1	4.4

Source: Mercury Securities

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