Pecca Group Berhad

Shielded at Home, Expanding Abroad

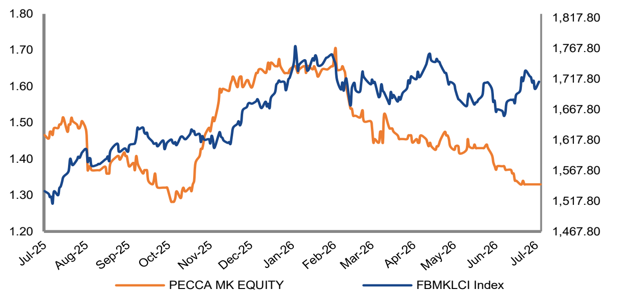
Company Update
HOLD (⇔)
Research Team Coverage / research@mersec.com.my
Friday, July 31, 2026
Price: RM 1.330
Target Price: RM 1.430 (⇔)

Pecca continues to broaden its diversification into aviation MRO, locomotive, and regional markets, with management confident in defending gross profit margins within the 40% range on the back of its one-stop interior solutions strategy. Malaysia's TIV resilience, aided by localisation policies favouring national OEMs, continues to shield Pecca from the steeper regional auto slowdown. We maintain our FY26E/FY27E earnings, with TP unchanged at RM1.430, based on an unchanged 16x PER applied to FY27E EPS of 8.9 sen. Reiterate our HOLD recommendation.

We recently held a Webinar with Pecca Group Berhad's management. Key-takeaways from the webinar were as follows:

1. **Operational Update on Subang and Serendah Plants.** Management shared that Pecca's existing plant (Plant A – Kepong) has a capacity of approximately 300k sets. The new Serendah plant is underway, still in its architectural drawing stage, with the project timeline under review and targeted full completion by end-Q4 CY27. This new plant is designed for a full build-up capacity of approximately 300k sets, effectively doubling the Group's total capacity to around 600k sets, with the first phase adding around 150k (targeted completion by end-Dec 2026). Management guided for a progressive ramp-up upon completion, targeting approximately 70% utilisation in the new plant's first year of operation (currently, the utilisation at the existing Kepong plant is at ~80% across two shifts, nearing 100% full capacity).
2. **Margin Defence Underpinned by One-Stop Solution Strategy.** Management remains cost-cautious and cautiously optimistic in defending GP margin within the 40% range (Our FY26E assumption: 34.1%), underpinned by its strategy to position Pecca as a one-stop interior solutions provider rather than a single-product supplier, which management views as supportive of pricing power and margin resilience.
3. **Broadening Aviation MRO Pipeline.** Pecca's main MRO client remains AirAsia, on a run-rate of approximately one aircraft per month. Management also noted inbound inquiries from Malaysia Airlines, whose current practice is to outsource MRO operations to overseas providers such as Safran, requiring damaged parts to be shipped out for refurbishment before returning to Malaysia, a process Pecca's domestic presence could displace, giving it a logistics-cost advantage. Beyond Malaysia Airlines, management also cited inbound interest from private jets, military aircraft and helicopters, and overseas carriers including Lion Group, Myanmar Airways, and Maldivian. To date, Pecca's confirmed aviation contracts remain limited to seat cover MRO; seat structures are still in the design stage with both overseas and local groups and have not yet been confirmed as secured business.
4. **Expansion into Locomotive Segment and Indonesia.** Management confirmed Pecca is expanding into the locomotive segment, replicating its aviation MRO and seat cover model for rail clients such as KTMB. Management also noted growing momentum in Indonesia, where the group is in discussions with the Indonesian government as well as local locomotive and aviation players, with management indicating that Indonesia will not be limited to seat covers alone, similar to its broader diversification strategy in Malaysia. Separately, management confirmed continued inbound inquiries from Thailand for similar offerings.

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)			1,713.09
YTD KLCI chg.			2.0%
YTD Stock Price chg.			-20.8%
Price Performance	**1M**	**3M**	**12M**
Absolute (%)	-3.6%	-3.8%	-4.5%
Relative to KLCI (%)	-6.4%	-0.9%	9.8%

Stock Information	
Market Cap (RM m)	963.5
Issued Shares (m)	724.5
52-week High (RM)	1.79
52-week Low (RM)	1.26
Est. Free Float (%)	31%
Beta vs FBM KLCI	0.6
3-month Avg Vol. (m)	1,806,100
Shariah Compliant	Yes
Bloomberg Ticker	PECCA MK EQUITY

Top 3 Shareholders	%
Mrz Leather Holdings	51.5%
Sam Yin Thing	7.6%
Teoh Hwa Cheng	3.4%

FY Dec (RM m)	FY25A	FY26E	FY27E
Revenue	224.5	261.8	270.7
EBITDA	76.1	89.4	92.4
EBIT	71.8	83.3	86.3
PBT	75.6	87.6	91.8
Core Net Profit	**57.1**	**66.6**	**69.8**
Consensus Net Profit	-	*56.7*	*66.9*
Earnings Revision (%)	-	-	-
Core EPS (sen)	**7.60**	8.85	9.28
Core EPS Growth (%)	3.9%	18.8%	4.8%
Net Div. Yield (%)	4.03	2.41	2.52
BVPS (sen)	27.72	37.51	43.07
PER (x)	22.2	16.6	15.8
PBV (x)	6.1	3.9	3.4
Net Gearing (x)	*N.Cash*	*N.Cash*	*N.Cash*

5. **Malaysia's TIV Resilience and Localisation Policies Shielding Pecca from Regional Auto Slowdown.** Management noted that while Malaysia's TIV has moderated, the decline is estimated at only 2%-3%, markedly better than the 30%-40% declines seen in Thailand and Indonesia over the same period, attributed to Malaysia's national car brand protection policies (Perodua and Proton) and government incentives promoting OEM localisation. Given Pecca's revenue concentration towards Perodua, this relative resilience directly benefits the group. Management also sees continued opportunities for local suppliers such as Pecca to participate in new vehicle programmes, alongside a surge in demand for leather upgrade programmes under aftersales initiatives (e.g., Merdeka Edition variants), which OEMs use to entice customers with leather trim options. Separately, Perodua has guided CY26 sales of 363k units (above FY25's 359.9k), with 5MFY26 actual sales of 130.8k units tracking at approximately 36% of the full-year forecast.
6. **Positive Outlook on Aviation Segment.** Management highlighted encouraging momentum in the aviation segment, supported by alignment with government policy to position Malaysia as a regional aviation hub, backed by both monetary and non-monetary support under the Malaysia Aerospace Industry Blueprint 2030 (MAIB 2030). Management also noted that despite the ongoing Middle East conflict, this has created a spillover opportunity for Asia-Pacific, with several foreign companies selecting Malaysia as a Southeast Asian hub, Turkish Airlines being one such example currently looking to expand its operations in Malaysia.

Outlook, we expect FY26E-FY27E earnings to remain resilient, supported by (i) expansion of the Aviation segment, underpinned the pending MAG Total Care Programme award, (ii) growing contribution from Indonesia segment and (iii) the expected increase in contribution from Perodua and other marquee brands. Pecca's ongoing progress into full seat assembly and integrated interior solutions, alongside expansion into higher-margin segments such as REM exports and aviation MRO, supporting long term growth. With ongoing capacity expansion at both the Subang and Serendah facilities, the Group remains well positioned for sustainable growth.

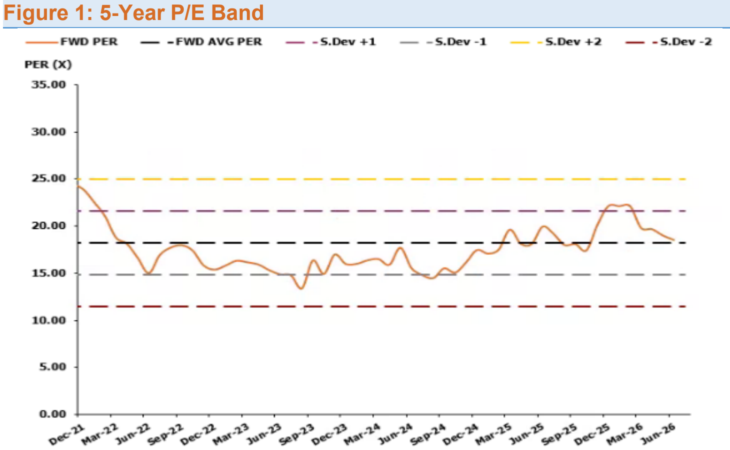
No changes to our forecast. We maintain FY26/FY27 earnings estimates.

Valuation. We maintained our target price of RM1.430, based on an unchanged target P/E multiple of 16x applied to FY27E EPS of 8.9 sen. The target multiple is benchmarked against the industry's 2-year historical average. Reiterate our **HOLD** recommendation.

Investment Merits. we are cautiously optimistic on Pecca's resilience supported by (i) a strong model pipeline, (ii) expansion of the Aviation segment, and (iii) growing contribution from Indonesia. Pecca's move into full seat assembly and integrated interior solutions, alongside expansion into higher-margin segments such as REM exports and aviation MRO, should help offset softer Malaysia TIV. With ongoing capacity expansion and disciplined cost management, we believe the Group is well positioned to sustain growth given its (i) Strong National OEM Partnerships, (ii) Pecca's strategy on Riding on rising demand on the national automotive, (iii) Capacity Expansion and Incremental Diversification, and (iv) its Industry Leading Margin Structure. Notwithstanding near-term headwinds, we believe Pecca's structural growth pillars position it well for a sustained recovery.

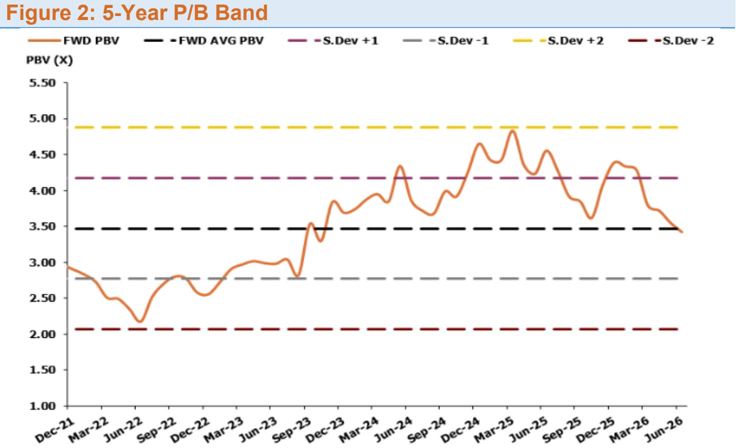
Key risks include: i) High Local Client Concentration, ii) Exposure to Domestic TIV Cycles, and iii) Competition Risk from Low-Cost Asian Peers.

Figure 1: 5-Year P/E Band



Source: Bloomberg, Mercury Research

Figure 2: 5-Year P/B Band



Source: Bloomberg, Mercury Research

Key Financial Data

Income Statement

FY Dec (RM m)	2024A	2025A	2026E	2027E	2028E
Revenue	**242.5**	**224.5**	**225.4**	**261.8**	**270.7**
EBITDA	75.0	76.1	77.0	89.4	92.4
Depreciation & Amortization	(5.5)	(5.8)	(5.9)	(6.0)	(6.0)
Operating Profit	68.3	71.8	71.0	83.3	86.3
Interest Inc/(Exp)	3.8	3.8	3.4	4.3	5.5
Profit Before Tax	0.0	0.0	0.0	0.0	0.0
Taxation	72.2	75.6	74.3	87.6	91.8
Net Profit	(17.1)	(18.5)	(18.3)	(21.0)	(22.0)
PATAMI	**55.0**	**57.1**	**56.1**	**66.6**	**69.8**

Balance Sheet

	2024A	2025A	2026E	2027E	2028E
Fixed Assets	65.8	66.6	67.3	68.0	68.6
ROU Assets	0.1	0.1	0.1	0.1	0.1
Intangible Assets	23.6	23.5	23.8	24.2	24.5
Other Fixed Assets	0.4	0.4	0.4	0.4	0.4
Receivables	24.2	23.8	26.5	29.1	31.1
Other Current Assets	42.5	45.2	47.0	54.5	56.4
Cash	156.1	109.5	143.0	172.3	212.9
Total Assets	**153.7**	**104.9**	**128.9**	**160.1**	**202.6**
Payables	22.3	20.1	25.1	25.3	28.5
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**	**242.7**	**282.6**	**324.5**
Shareholders' Equity	233.8	208.5	242.1	282.0	323.9
Minority Interests	0.7	0.6	0.6	0.6	0.6
Total Equity	**234.5**	**209.0**	**242.7**	**282.6**	**324.5**

Cashflow Statement

FY Dec (RM m)	2024A	2025A	2026E	2027E	2028E
Operating CF	76.0	47.6	59.7	58.8	70.2
Investing CF	-0.2	-0.7	-1.9	-1.0	0.2
Financing CF	-33.2	-95.3	-33.8	-26.6	-27.9
Change In Cash	42.6	-48.4	24.0	31.2	42.5
Free CF	**71.2**	**42.7**	**54.2**	**53.3**	**64.7**

Financial Data & Ratios

FY Dec	2024A	2025A	2026E	2027E	2028E
Growth					
Turnover	9.6%	-7.4%	0.4%	16.1%	3.4%
EBITDA	44.6%	1.5%	1.1%	16.1%	3.4%
Operating Profit	52.2%	5.1%	-1.2%	17.4%	3.6%
PBT	53.7%	4.8%	-1.7%	17.8%	4.8%
Core Net Profit	55.3%	3.9%	-1.9%	18.8%	4.8%
Profitability	39.6%	43.0%	42.0%	42.0%	42.0%
Gross Profit Margin	30.9%	33.9%	34.1%	34.1%	34.1%
EBITDA Margin	28.2%	32.0%	31.5%	31.8%	31.9%
Operating Margin	29.7%	33.7%	33.0%	33.5%	33.9%
PBT Margin	22.7%	25.4%	24.9%	25.4%	25.8%
Core Net Margin	23.7%	24.5%	24.6%	24.0%	24.0%
Effective Tax Rate	39.6%	43.0%	42.0%	42.0%	42.0%
ROA	19.1%	23.3%	19.8%	20.6%	18.9%
ROE	23.5%	27.4%	23.2%	23.6%	21.5%
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)	(0.6)	(0.6)
Valuations					
Core EPS (sen)	7.3	7.6	7.5	8.9	9.3
NDPS (sen)	4.5	6.8	3.0	3.5	3.7
BV/sh (RM)	0.3	0.3	0.3	0.4	0.4
PER (x)	20.1	19.4	19.7	16.6	15.8
Div. Yield (%)	3.1	4.6	2.0	2.4	2.5
PBV (x)	4.7	5.3	4.6	3.9	3.4

Source: Mercury Securities, Company

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