

07 September 2016 | Corporate Update

Berjaya Auto

The Yen is not a friend

Maintain BUY

Unchanged Target Price (TP):RM2.50

INVESTMENT THESIS

- We trim our FY17F/18F EPS given the JPY strength
- BAUTO is fully exposed to spot JPY since end-April 16'
- Nonetheless, BAUTO is making a push to expand CKD and export sales
- Maintain BUY at unchanged TP of RM2.50 as we rollover our valuation base to CY17F. FY17F/18F dividend yield is attractive at 7%.

Forecasts trimmed. Following sustained strength of the JPY since end FY16 (FYE Apr), we conservatively trim our FY17F/18F earnings by 13%/4%. Our FY17F/18F earnings are now 9%/5% below consensus. Other than higher JPY assumption of 3.70 (from 3.45 previously), we also factor in earnings uplift from export market expansion from 3QFY17 onwards in this report, which partly offsets the impact from the stronger JPY. Notwithstanding the earnings downgrade, we remain positive on BAUTO given: (i) solid dividend yields, (ii) potential value unlocking for BAUTO Philippines, and (iii) export market expansion.

Exposed to spot. Since end-April 2016, BAUTO has run down its hedges and is fully exposed to the spot market for its JPY exposure. While BAUTO is only directly exposed to the JPY via CBU purchases (which accounts for an estimated 45% of FY16 volume) the magnitude of the JPY appreciation so far might impact BAUTO's near-term earnings negatively.

Yen has appreciated meaningfully. As a recap, the JPY has appreciated from JPY3.64x100:RM1 in 1QCY16 (quarterly average rates) to JPY3.92x100:RM1, which is the average to-date rate since July 2016 – reflecting some 7.7% appreciation. Every 1% change in the JPY impacts our FY17F earnings by 2.4% (on annualised basis).

Making a push for CKD sales? Management is taking proactive efforts to minimise BAUTO's direct JPY exposure by focusing more on CKD model sales (and reducing CBU exposure, in particular, the lower margin Mazda 2 model). This is because CKD models are purchased by BAUTO at a fixed Ringgit denominated price from 30% owned unit, Mazda Malaysia Sdn Bhd (MMSB), which absorbs forex volatility for CKD kit imports. Currently only the CX5 and Mazda 3 are locally assembled – these models account for 55% of Mazda TIV.

RETURN STATS	
Price (6 Sep 2016)	RM2.25
Target Price	RM2.50
Expected Share Price Return	+11.1%
Expected Dividend Yield	+6.5%
Expected Total Return	+17.6%

STOCK INFO	
KLCI	1689.92
Bursa / Bloomberg	5248 / BAUTO MK
Board / Sector	Main/Automotive
Syariah Compliant	Yes
Issued shares (mil)	1,145.43
Par Value (RM)	1.00
Market cap. (RM'm)	2,577.21
Price over NA	4.84
52-wk price Range	RM1.73 - RM2.44
Beta (against KLCI)	1.05
3-mth Avg Daily Vol	2.45m
3-mth Avg Daily Value	RM5.63m
Major Shareholders (%)	
BERJAYA CORP	17.55%
DYNAMIC MILESTONE	17.11%
EPF	10.76%

INVESTMENT STATISTICS

FYE Apr	FY14	FY15	FY16	FY17F	FY18F
Revenue (RM'm)	1,450.8	1,829.9	2,112.2	2,421.6	2,474.7
EBIT (RM'm)	166.6	285.6	262.1	241.0	254.8
Pre-tax Profit (RM'm)	179.8	300.9	278.7	263.6	299.1
Core net profit (RM'm)	130.6	215.4	202.1	199.3	231.1
FD EPS (sen)	11.3	18.6	17.5	17.2	20.0
EPS growth (%)	84.2	64.9	(10.9)	(1.4)	16.0
PER (x)	19.9	12.1	12.9	13.1	11.3
Net Dividend (sen)	2.8	14.6	16.9	14.6	17.0
Net Dividend Yield (%)	1.2	6.5	7.5	6.5	7.5

Source: Company, MIDFR

Can BAUTO pull this through? To be fair, there is high likelihood that CKD sales volume as a proportion of total sales can increase, especially after the launch of the facelift CX5 in March. Prior to this, CKDs accounted for 48% (3QFY16) and 42% (4QFY15) of sales volume versus the 55% achieved in 4QFY16 (which factors in only ~1.5 months of the facelift CX5 contribution during the quarter). We have modelled in CKD contribution to rise to ~65% of sales volume in FY17F from 52% in FY15.


Export market expansion. Despite the scrapping of plans to locally assemble the CX3, earnings should still see an uplift from a big expansion in export market via 30% owned MMSB (assembly and export unit) and 29% owned Inokom (certain assembly processes are outsourced by MMSB to Inokom). Currently, BAUTO is only exporting to Thailand, but from 3QFY17, will expand its export market to include Indonesia, Middle East and potentially Philippines. Indonesia's TIV is ~30% larger than Thailand's 800k units/annum, which means that the potential export market for BAUTO can easily double with just the inclusion of Indonesia. The Philippines market meanwhile, which although is slightly less than half of the Malaysian auto market size, is growing at 20%-30% per annum.

Recovery off a weak base. Other than market expansion, FY17F export earnings should show a recovery off a weak base in FY16 given hardly any exports of the CX5 to Thailand ahead of the launch of the facelift model towards end 4QFY16 (i.e. around March 2016). We expect associate earnings contribution to rise from 6% of earnings in FY16 to 19% of earnings by FY18F (but this is also partly due to conservative sales growth expectations for the domestic market). We forecast MMSB assembly volume to increase from 9,519 units in FY16 to 27,000 in FY18F, inclusive of exports.

EXHIBIT 1: JPY-MYR TRENDS



Source: Bloomberg, MIDFR

We maintain our BUY call on BAuto at unchanged TP of RM2.50/share (despite the earnings cuts) as we rollover our valuation base to CY17F. Key share price catalysts over the next 12 months: (1) Attractive dividend yield of 7% underpinned by solid net cash which accounts for 14% of market cap and strong FCFE yield of 10% (FY17F), (2) Further market share wins driven by new launches, i.e. the CKD Mazda 6 and diesel variants of the CX5, Mazda 2 and Mazda 6, (3) Recovery in manufacturing earnings (via 30%-owned Mazda Malaysia SB and 29%-owned Inokom) after the launch of the facelift CX5, and (4) Potential value unlocking from the listing of BAuto Philippines. Ex-cash, BAuto trades at just 10x CY17F earnings. 

Income Statement	FY14	FY15	FY16	FY17F	FY18F
Revenue	1,450.8	1,829.9	2,112.2	2,421.6	2,474.7
Operating expenses	(1,284.2)	(1,544.3)	(1,850.2)	(2,180.6)	(2,219.9)
EBIT	166.6	285.6	262.1	241.0	254.8
Net interest expense	2.3	6.2	5.2	(0.2)	(0.2)
Associates	10.9	9.1	11.4	22.8	44.5
PBT	179.8	300.9	278.7	263.6	299.1
Taxation	(45.9)	(78.4)	(68.0)	(60.2)	(63.6)
Minority Interest	(3.2)	(7.1)	12.7	(4.1)	(4.3)
Net profit	130.6	215.4	198.0	199.3	231.1
Core net profit	130.6	215.4	202.1	199.3	231.1
Consensus net profit	130.6	215.4	198.1	219.0	242.0
Balance Sheet	FY14	FY15	FY16	FY17F	FY18F
Non-current assets	86.1	130.8	163.5	163.5	211.1
PPE	19.8	37.5	43.0	47.1	50.2
Investments in associate	39.8	61.4	74.5	97.3	141.8
Others	26.5	31.9	46.0	19.1	19.1
Current assets	528.1	601.2	788.6	761.5	757.0
Inventories	263.8	215.6	310.2	363.2	321.7
Receivables	42.8	59.3	64.6	71.5	73.0
Others	36.8	45.4	42.2	15.6	15.6
Cash & equivalent	184.7	280.8	371.6	311.1	346.6
TOTAL ASSETS	614.2	732.0	952.1	925.0	968.1
Share capital	403.6	406.8	403.6	403.6	403.6
Minority Interest	10.5	18.9	32.3	36.3	40.6
Reserves	(59.7)	69.9	127.5	175.5	210.2
TOTAL EQUITY	354.4	495.6	563.4	615.4	654.3
Non-current liabilities	64.9	60.5	82.5	34.7	34.7
Long-term borrowings	2.4	2.4	-	2.4	2.4
Deferred tax liabilities	-	-	-	-	-
Others	62.4	58.1	82.5	32.2	32.2
Current liabilities	194.9	175.9	306.3	274.9	279.1
Short-term borrowings	46.6	6.6	-	6.6	6.6
Payables	113.2	157.0	241.0	189.2	193.3
Others	35.2	12.3	65.3	79.2	79.2
TOTAL LIABILITIES	259.8	236.4	388.8	309.6	313.7

Cash Flow Statement	FY14	FY15	FY16	FY17F	FY18F
Operating activities					
PBT	179.8	300.9	267.5	263.6	299.1
Depreciation & Amortization	(5.5)	(6.4)	(10.7)	(10.7)	(10.7)
Chgs in working capital	(51.3)	(74.8)	(24.2)	46.8	44.1
Interest expense	(2.3)	(6.2)	0.2	0.2	0.2
Tax paid	-	-	-	-	-
Others	(35.6)	8.6	11.5	(56.6)	(80.7)
CF from Operations	85.0	222.1	244.4	243.3	252.0
Investing activities					
Capex	(5.5)	(44.7)	(13.9)	(20.0)	(20.0)
Others	11.3	6.5	5.3	-	-
CF from Investments	5.7	(38.3)	(8.5)	(20.0)	(20.0)
Financing activities					
Dividends paid	(32.1)	(98.1)	(147.2)	(169.4)	(196.5)
Net proceeds in borrowings	(80.0)	-	-	-	-
Others	25.6	4.5	2.2	-	-
CF from Financing	(86.5)	(93.6)	(145.1)	(169.4)	(196.5)
Net changes in cash	4.2	90.3	90.7	53.8	35.5
Beginning cash	182.0	186.2	280.8	371.6	425.4
Overdrafts & Deposits	(0.1)	4.4	-	-	-
Ending cash	186.2	280.8	371.6	425.4	460.9
Ratios	FY14	FY15	FY16F	FY17F	FY18F
Revenue growth	36.3%	26.1%	19.7%	10.5%	2.2%
EBITDA growth	110.6%	69.7%	-9.2%	-5.1%	5.5%
Net profit growth	156.4%	64.9%	-10.9%	3.9%	16.0%
EBITDA margin	11.9%	16.0%	12.1%	10.4%	10.7%
PATAMI margin	9.0%	11.8%	8.8%	8.2%	9.3%
ROE	46.9%	52.5%	37.4%	35.3%	38.8%
Operating ROA	28.8%	42.4%	31.7%	26.8%	26.9%
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Book value/share (RM)	0.30	0.41	0.47	0.50	0.53
PBV (x)	7.6	5.5	4.7	4.5	4.2
EV/EBITDA (x)	10.1	5.5	6.1	6.2	5.8
FCF yield (%)	3.5	7.1	9.1	8.6	8.9

DAILY PRICE CHART



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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.