

11 December 2015 | 2QFY16 Results Review

## Berjaya Auto Berhad

*Look to new launches beyond this weak quarter*

- Berjaya Auto's 1HFY16 core earnings of RM108m came in slightly short of our expectation, but within consensus.
- Earnings fell 9%yoy mainly due to the stronger JPY, but volume growth intact, growing by 26%yoy (+20%YTD). New launches are expected to drive between 4%-17% volume growth over the next 2 years.
- We trimmed our FY16F/17F by 10%/9% to conservatively factor in higher JPY assumptions.
- Re-affirm our BUY call on BAUTO but reduce our TP to RM2.60/share. An underleveraged balance sheet (FY16F net cash of RM250m) and strong 7%-8% FCF yields suggests dividend upside and potential acquisitive growth.

**1HFY16 earnings fell slightly short of our expectation.** Berjaya Auto reported core net profit of RM55m for its 2QFY16, which brought 1HFY16 core earnings to RM108m. This is slightly short of our estimate accounting for 42% of our FY16F but within consensus at 49% of estimate.

**Key takeaways from the 2QFY16 results:** (1) Earnings fell 9%yoy in 2QFY16 due mainly to a stronger JPY. We estimate the average JPY booked in last year was around RM3.02/100JPY vs. this year's RM3.15/100JPY. (2) Model mix was less favourable given a higher mix of lower margin Mazda 2 which accounted for 24% of 2QFY16 TIV vs. just 0.2% last year. This is despite higher total volumes (+26%yoy) (3) Positively, on a sequential basis, earnings grew 5%. This was driven by 60%-owned Berjaya Auto Philippines (BAP) which saw revenue and volumes grow 33% and 28% respectively. Sequential earnings growth would have been better if not for spare parts purchases during the quarter which were exposed to spot rates (and where the JPY strengthened the most during this quarter). (4) Associate contribution (mainly made up of 30% owned Mazda Malaysia Sdn Bhd which houses BAUTO's manufacturing units) shrunk 33%yoy given minimal CX5 production ahead of the launch of a facelift model soon.

**Maintain BUY**

**Reduced Target Price (TP): RM2.60**  
(from RM3.30)

### RETURN STATS

Price (10 Dec 2015)	RM2.12
Target Price	RM2.60
Expected Share Price Return	+22.6%
Expected Dividend Yield	+4.2%
<b>Expected Total Return</b>	<b>+26.8%</b>

### STOCK INFO

KLCI	1648.65
Bursa / Bloomberg	5248 / BAUTO MK
Board / Sector	Main/Automotive
Syariah Compliant	Yes
Issued shares (mil)	1140.749
Par Value (RM)	1
Market cap. (RM'm)	2418.388
Price over NA	5.098188
52-wk price Range	RM1.79 - RM2.96
Beta (against KLCI)	1.032943
3-mth Avg Daily Vol	3.29m
3-mth Avg Daily Value	RM6.83m
Major Shareholders (%)	
BERJAYA GROUP BERHAD	34.1%
EMPLOYEES PROVIDENT	6.7%
PODIUM SUCCESS SDN B	6.4%


## INVESTMENT STATISTICS

FYE Apr	FY14	FY15	FY16F	FY17F
Revenue (RM'm)	1,450.8	1,829.9	2,240.5	2,360.2
EBIT (RM'm)	166.6	285.6	278.2	279.1
Pre-tax Profit (RM'm)	179.8	300.9	308.7	311.2
Core net profit (RM'm)	130.6	215.4	227.6	228.9
FD EPS (sen)	11.3	18.6	19.7	19.8
EPS growth (%)	84.2	64.9	5.7	0.5
PER (x)	18.8	11.4	10.8	10.7
Net Dividend (sen)	2.8	8.5	8.9	8.9
Net Dividend Yield (%)	1.3	4.0	4.2	4.2

Source: Company, MIDFR

**We trim our FY15F/16F earnings** by 10%/9% after: (1) Revising up our JPY assumptions to RM3.28/100JPY and RM3.38/100JPY for FY16F and FY17F respectively (from RM3.15/100JPY and RM3.25/100JPY previously). Every 1% change in our JPY assumption impacts FY17F earnings by 6%. BAuto has hedged its JPY exposure at RM3.15/100JPY up till Dec 2015, but this will rise to ~RM3.45/100JPY in Jan 2016. The negative from forex is partly offset by an increase in FY16F/17F Mazda TIV to 14,576/ units to factor in the new CBU CX3 (B-segment SUV priced at ~RM130K) launched earlier this week. We forecast volume growth of 17% for FY16F followed by a 4% growth in FY17F.

The CX3 will initially be brought in as a CBU from Japan. BAuto has already secured bookings of up to 800 units, and is looking to bring in around 2000 units by Apr-May 2016. The model is currently sold in only one, high spec variant priced at RM135K OTR (RM130K before insurance). We expect the CBU CX3 to account for ~11% of Mazda TIV next year.

**Recommendation.** We maintain our BUY call on BAuto but trim our TP to RM2.60/share (from RM3.30/share) following earnings revisions in this report. We value BAuto at 13x CY16F earnings, at a slight premium to historical sector average of 12x. We like BAuto for its: (1) Underleveraged balance sheet (net cash of RM250m accounting for 10% of market cap), (2) Resilient earnings relative to the sector, which is expected to see between 5%-12% earnings contraction and (3) Strong FCF yields of 7%-8% given a normalising capex cycle, which gives rise to a dividend surprise and potential acquisitive growth, especially in a depressed market. Current valuation is undemanding at an ex-cash CY16F PE of 9.7x. While we expect knee-jerk reaction from the market given the weak results, we think this would be a good opportunity to accumulate ahead of maiden contribution of the CX3 next quarter. 

## 2QFY16 RESULT SUMMARY

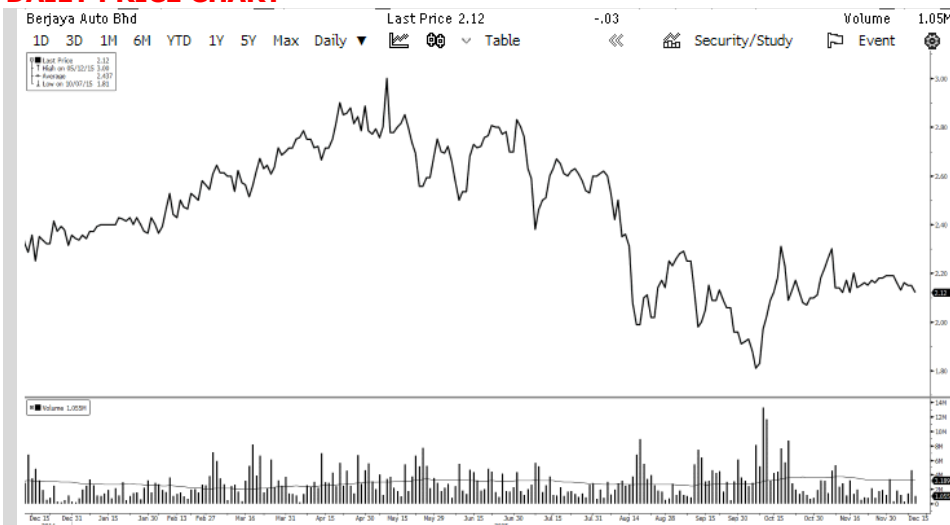
<b>FYE Apr (RMm)</b>	<b>2Q15</b>	<b>1Q16</b>	<b>2Q16</b>	<b>QoQ</b>	<b>YoY</b>	<b>1H15</b>	<b>1H16</b>	<b>YTD</b>
Revenue	508.8	512.5	542.4	6%	7%	1,016.8	1,055.0	4%
<b>Operating profit</b>	<b>77.0</b>	<b>68.0</b>	<b>71.0</b>	<b>4%</b>	<b>-8%</b>	<b>148.5</b>	<b>139.0</b>	<b>-6%</b>
Interest income	1.6	1.4	1.2	-14%	-29%	2.9	2.5	-12%
Finance cost	(0.0)	(0.0)	(0.0)	-40%	9%	(0.0)	(0.1)	43%
Associates	2.4	4.2	1.6	-62%	-33%	6.2	5.8	NA
Pretax profit	81.0	73.5	73.7	0%	-9%	157.5	147.2	-7%
Tax	(21.4)	(18.5)	(17.8)	-4%	-17%	(40.5)	(36.3)	-10%
PAT	59.6	55.0	55.86	2%	-6%	117.0	110.9	-5%
MI	2.1	2.8	2.8	-1%	33%	3.4	5.6	65%
Net profit	57.5	52.2	53.1	2%	-8%	113.6	105.3	-7%
<b>Core net profit</b>	<b>60.0</b>	<b>52.2</b>	<b>54.6</b>	<b>5%</b>	<b>-9%</b>	<b>123.2</b>	<b>108.4</b>	<b>-12%</b>
EPS (sen)	5.2	4.5	4.7	5%	-9%	10.7	9.4	-12%
GDPS (sen)	3.25	2.25	2.50	11%	-23%	5.25	4.75	-10%
EBIT margin	15.1%	13.3%	13.1%			14.6%	13.2%	
Pretax margin	15.9%	14.3%	13.6%			15.5%	14.0%	
Core net profit margin	11.8%	10.2%	10.1%			12.1%	10.3%	
Tax rate	26.4%	25.2%	24.2%			25.7%	24.7%	
Mazda TIV (Malaysia, units)	2,975	3,838	3,744	-2%	26%	6,307	7,582	20%
Avg revenue per car	146,646	110,601	113,696	3%	-22%	140,127	112,129	-20%
Malaysia revenue (RMmil)	436.3	424.5	425.7	0%	-2%	883.8	850.2	-4%
Philippines revenue (RMmil)	72.6	88.1	116.7	33%	61%	133.0	204.8	54%
Malaysia EBIT	70.1	58.6	61.4	5%	-12%	137.301	120.012	
Philippines EBIT	7.4	9.8	9.9	1%	33%	12.08	19.737	
Malaysia EBIT margin	16.1%	13.8%	14.4%			15.5%	14.1%	
Philippines EBIT margin	10.2%	11.2%	8.5%			9.1%	9.6%	
BAP (P'pines) volume	1005	1010	1291	28%	28%	1857	2301	24%

Source: Company, MIDFR

<b>Income Statement</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16F</b>	<b>FY17F</b>
<b>Revenue</b>	<b>1,450.8</b>	<b>1,829.9</b>	<b>2,240.5</b>	<b>2,360.2</b>
Operating expenses	(1,284.2)	(1,544.3)	(1,962.3)	(2,081.2)
<b>EBIT</b>	<b>166.6</b>	<b>285.6</b>	<b>278.2</b>	<b>279.1</b>
Net interest expense	2.3	6.2	(0.2)	(0.2)
Associates	10.9	9.1	30.7	32.3
<b>PBT</b>	<b>179.8</b>	<b>300.9</b>	<b>308.7</b>	<b>311.2</b>
Taxation	(45.9)	(78.4)	(69.5)	(69.7)
Minority Interest	(3.2)	(7.1)	(11.6)	(12.6)
<b>Net profit</b>	<b>130.6</b>	<b>215.4</b>	<b>227.6</b>	<b>228.9</b>
<b>Core net profit</b>	<b>130.6</b>	<b>215.4</b>	<b>227.6</b>	<b>228.9</b>
Consensus net profit	130.6	215.4	223.0	258.8
<b>Balance Sheet</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16F</b>	<b>FY17F</b>
<b>Non-current assets</b>	<b>86.1</b>	<b>130.8</b>	<b>154.2</b>	<b>190.6</b>
PPE	19.8	37.5	43.0	47.1
Investments in associate	39.8	61.4	92.1	124.4
Others	26.5	31.9	19.1	19.1
<b>Current assets</b>	<b>528.1</b>	<b>601.2</b>	<b>751.5</b>	<b>862.9</b>
Inventories	263.8	365.8	407.9	429.7
Receivables	42.8	59.3	66.1	69.6
Others	36.8	(16.0)	15.6	15.6
Cash & equivalent	184.7	192.1	261.8	347.9
<b>TOTAL ASSETS</b>	<b>614.2</b>	<b>732.0</b>	<b>905.7</b>	<b>1,053.5</b>
Share capital	403.6	406.8	403.6	403.6
Minority Interest	10.5	18.9	31.8	44.4
Reserves	(59.7)	69.9	174.9	300.7
<b>TOTAL EQUITY</b>	<b>354.4</b>	<b>495.6</b>	<b>610.2</b>	<b>748.7</b>
<b>Non-current liabilities</b>	<b>64.9</b>	<b>60.5</b>	<b>34.7</b>	<b>34.7</b>
Long-term borrowings	2.4	2.4	2.4	2.4
Deferred tax liabilities	-	-	-	-
Others	62.4	58.1	32.2	32.2
<b>Current liabilities</b>	<b>194.9</b>	<b>175.9</b>	<b>260.8</b>	<b>270.1</b>
Short-term borrowings	46.6	6.6	6.6	6.6
Payables	113.2	157.0	175.0	184.4
Others	35.2	12.3	79.2	79.2
<b>TOTAL LIABILITIES</b>	<b>259.8</b>	<b>236.4</b>	<b>295.4</b>	<b>304.8</b>

<b>Cash Flow Statement</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16F</b>	<b>FY17F</b>
<b>Operating activities</b>				
PBT	179.8	300.9	308.7	311.2
Depreciation & Amortization	(5.5)	(6.4)	(10.7)	(10.7)
Chgs in working capital	(51.3)	(74.8)	(30.8)	(16.0)
Interest expense	(2.3)	(6.2)	0.2	0.2
Tax paid	-	-	-	-
Others	(35.6)	8.6	(75.2)	(75.7)
<b>CF from Operations</b>	<b>85.0</b>	<b>222.1</b>	<b>192.2</b>	<b>209.1</b>
<b>Investing activities</b>				
Capex	(5.5)	(44.7)	(20.0)	(20.0)
Others	11.3	6.5	-	-
<b>CF from Investments</b>	<b>5.7</b>	<b>(38.3)</b>	<b>(20.0)</b>	<b>(20.0)</b>
<b>Financing activities</b>				
Dividends paid	(32.1)	(98.1)	(102.4)	(103.0)
Net proceeds in borrowings	(80.0)	-	-	-
Others	25.6	4.5	-	-
<b>CF from Financing</b>	<b>(86.5)</b>	<b>(93.6)</b>	<b>(102.4)</b>	<b>(103.0)</b>
Net changes in cash	4.2	90.3	69.7	86.1
<b>Beginning cash</b>	<b>182.0</b>	<b>186.2</b>	<b>280.8</b>	<b>350.6</b>
Overdrafts & Deposits	(0.1)	4.4	-	-
<b>Ending cash</b>	<b>186.2</b>	<b>280.8</b>	<b>350.6</b>	<b>436.7</b>
<b>Ratios</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16F</b>	<b>FY17F</b>
Revenue growth	36.3%	26.1%	22.4%	5.3%
EBITDA growth	110.6%	69.7%	-1.1%	0.3%
Net profit growth	156.4%	64.9%	5.7%	0.5%
EBITDA margin	11.9%	16.0%	12.9%	12.3%
PATAMI margin	9.0%	11.8%	10.2%	9.7%
ROE	46.9%	52.5%	43.1%	35.7%
Operating ROA	28.8%	42.4%	34.0%	28.5%
Net gearing (%)	Net cash	Net cash	Net cash	Net cash
Book value/share (RM)	0.30	0.41	0.50	0.61
PBV (x)	7.1	5.1	4.2	3.5
EV/EBITDA (x)	9.4	5.4	5.2	4.9
FCF yield (%)	3.7	7.5	7.0	7.7

## DAILY PRICE CHART



Source: Bloomberg, MIDFR

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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.