

Bermaz Auto Berhad

(5248 | BAUTO MK) Automotive & Parts | Personal Goods

Maintain BUY

Macro Headwinds May Dent Anticipated Recovery

Revised Target Price: RM2.10

KEY INVESTMENT HIGHLIGHTS

- **3QFY20 results missed expectations, 1.45sen/share interim dividends declared (86%ytd payout)**
- **Earnings contracted year-on-year against high base last year and year-end sales campaigns by competitors**
- **An anticipated 4QFY20 earnings recovery may not materialize given developing macro headwinds; FY20F-22F earnings revised down**
- **TP trimmed to RM2.10 (from RM2.70) but BUY maintained as share price has retraced some 30% in the past 3 months**

(from RM2.70)

Missed expectations. BAuto reported net profit of RM27m for its 3QFY20, which brought 9MFY20 core earnings to RM100m. This is weaker than expected, accounting for 56% of both our and consensus full year estimates respectively. A 1.45sen/share interim dividend was declared, bringing YTD interim dividends to 7.45/share (86% payout).

Earnings trend. 3QFY20 earnings were down 67%yoy: (1) Against a high base last year which was inflated by spillover deliveries of "tax-holiday" sales units (2) Compounded by typically weak sales in 3Q of BAuto's financial year as it does not participate in the industry's year-end sales campaigns. Sequentially however, earnings recovered 26%qoq from a weak base in 2QFY20 which was impacted by price approval delays for the new CX8 and facelift CX5.

Recovery may not come as expected. Though we acknowledge that the drag to BAuto's earnings YTD had been largely driven by the delay in price approval for the CX8 and facelift CX5 (which had since end-CY19 been resolved), the recovery that we had anticipated in the upcoming 4QFY20 may not materialize given the macro implications of the Covid-19 outbreak and most recently, the drastic Government measures for a lockdown for around half a month in March 2020.

Earnings revision. Given the weaker than expected results and more importantly, the anticipation of demand weakness arising from slowing economic growth (from knock-on impact of the Covid-19 outbreak coupled with a collapse in global crude oil price), we slash our FY20F/21F/22F by 26%/24%/25%. Our projections also factor in a weaker JPY:MYR assumption of RM4.0 (from RM3.9 previously). We are now 27%/16%/20% below consensus over the forecast period.

Recommendation. Following the earnings revisions, our SOP-derived **TP** is trimmed to **RM2.10** from RM2.70 previously. Despite this, we maintain our **BUY** call on BAuto as share price has retraced significantly by 30% in the past 3-months. Key catalysts: (1) Launch of the CX8, facelift CX5 and CX30 in 2QFY20-3QFY20 (2) Dividend outperformance (3) Over 50% increase in FY20F export volumes driven by the CX8 (4) Potential NAP incentives to drive CBU exports (5) Potential introduction of a 3rd CKD model (6) Potential brand expansion riding on Inokom's enlarged capacity and BAuto's solid balance sheet.

RETURN STATISTICS

Price @ 16 th March 2020 (RM)	1.48
Expected share price return (%)	+41.9
Expected dividend yield (%)	+8.5
Expected total return (%)	+50.4

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-22.9	-12.2
3 months	-29.5	-16.5
12 months	-32.1	-15.7

KEY STATISTICS

FBM KLCI	1280.63
Syariah compliant	Yes
Issue shares (m)	1159.74
Estimated free float (%)	53.38
Market Capitalisation (RM'm)	1,720.03
52-wk price range	RM1.48 - RM2.78
Beta vs FBM KLCI (x)	0.64
Monthly velocity (%)	0.01
Monthly volatility (%)	19.10
3-mth average daily volume (m)	2.96
3-mth average daily value (RM'm)	5.71
Top Shareholders (%)	
DYNAMIC MILESTONE SDN BHD	13.49
Employees Provident Fund Board	12.41
Kumpulan Wang Persaraan	6.38

Analyst

HAFRIZ Hezry

hafriz.hezry@midf.com.my
03-2173 8392



INVESTMENT STATISTICS

FYE Apr	FY18	FY19	FY20F	FY21F	FY22F
Revenue (RM'm)	1,992.9	2,492.1	1,986.8	2,262.9	2,327.7
EBIT (RM'm)	178.8	284.0	139.9	204.0	205.9
Pre-tax Profit (RM'm)	197.2	342.3	167.6	237.0	238.9
Core net profit (RM'm)	140.1	265.3	130.7	183.9	185.3
FD EPS (sen)	12.1	22.8	11.2	15.8	15.9
EPS growth (%)	17.6	89.4	(50.7)	40.8	0.7
PER (x)	12.2	6.5	13.2	9.4	9.3
Net Dividend (sen)	10.4	21.3	9.0	12.6	12.7
Dividend Yield (%)	7.0	14.4	6.1	8.5	8.6

Source: Company, MIDFR

BERMAZ AUTO: SUM-OF-PARTS VALUATION

	FY21F net profit (RMm)	PE (x)	Value (RMm)
Malaysia	180.7	13	2,350
Philippines	3.1	18	57
Total value			2,406
Shares out (m) - fully diluted			1,165
Value/share (RM)			2.10

Source: Company, MIDFR

EXHIBIT 1: MAZDA DOMESTIC UNIT SALES BREAKDOWN

Sales volume (units) - Malaysia	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20
CBU						
Mazda 2	333	415	533	247	276	48
Mazda 3		-		143	207	165
Mazda 5		1	2		1	2
Mazda 6	38	79	64	36	38	21
Biante	1					
CX3	715	912	119	232	175	135
CX30						102
CX9	41	48	52	24	38	51
MX5	5	1	8	2	7	2
BT50	17	11	46	26	7	5
Total CBU	1,150	1,467	824	710	749	531
CKD						
Mazda 3	189	276	163	101	33	7
CX5	3,196	3,300	2,296	2,449	1,612	1,133
CX8						571
Total CKD	3,385	3,576	2,459	2,550	1,645	1,711
Grand Total	4,535	5,043	3,283	3,260	2,394	2,242

Source: Company, MIDFR

BERMAZ AUTO: 3QFY20 RESULTS SUMMARY

FYE Apr (RMm)	3Q19	2Q20	3Q20	QoQ	YoY	9M19	9M20	YTD
Revenue	778.1	457.2	467.5	2.3%	-39.9%	1,953.8	1,459.7	-25.3%
Operating profit	81.5	22.8	27.0	18.1%	-66.9%	216.8	105.9	-51.2%
Investment income	3.0	0.9	0.7	-26.0%	-77.7%	6.6	3.0	-55.1%
Finance cost	(0.4)	(1.1)	(1.8)	63.0%	382.4%	-0.6	(4.0)	528.5%
Associates	18.7	6.5	8.5	29.9%	-54.5%	41.8	23.7	-43.3%
Pretax profit	102.8	29.2	34.3	17.7%	-66.6%	264.6	128.6	-51.4%
Tax	(21.2)	(7.6)	(6.0)	-21.3%	-71.9%	-56.8	(27.1)	-52.3%
PAT	81.6	21.6	28.4	31.3%	-65.2%	207.8	101.5	-51.2%
MI	0.6	1.2	1.2	1.0%	102.3%	2.6	3.4	29.9%
Net profit	81.0	20.4	27.2	33.2%	-66.5%	205.2	98.1	-52.2%
Core net profit	81.0	21.5	27.2	26.3%	-66.5%	205.2	100.4	-51.1%
Core EPS (sen)	6.95	1.75	2.33	33.2%	-66.5%	17.62	8.68	-51%
GDPS (sen)	4.50	2.75	1.45	-47.3%	-67.8%	10.75	7.45	-31%
EBIT margin	10.5%	5.0%	5.8%			11.1%	7.3%	
Pretax margin	13.2%	6.4%	7.3%			13.5%	8.8%	
Core net profit margin	10.4%	4.7%	5.8%			10.5%	6.9%	
Tax rate	20.6%	26.0%	17.4%			21.5%	21.1%	
Mazda TIV (Malaysia, units)	5,043	2,394	2,242	-6.3%	-55.5%	12,561	7,896	-37%
Avg revenue per car (RM)	135,511	155,754	172,362	10.7%	27.2%	135,511	155,358	15%
Malaysia revenue (RMm)	683.4	372.9	386.4	3.6%	-43.5%	1,702.2	1,226.7	-28%
Philippines revenue (RMm)	94.7	84.3	81.0	-3.9%	-14.5%	251.7	233.0	-7%
Malaysia EBIT (RMm)	78.1	18.1	22.8	26.2%	-70.8%	208.0	93.4	-55%
Philippines EBIT (RMm)	2.1	5.3	4.4	-16.2%	105.8%	9.7	13.5	39%
Malaysia EBIT margin	11.4%	4.8%	5.9%			12.2%	7.6%	
Philippines EBIT margin	2.3%	6.2%	5.4%			3.9%	5.8%	
BAP (P'pines) volume (units)	1,018	704	681	-3.3%	-33.1%	2,517	1,912	-24%
MMSB volumes (units)	6,056	3,759	4,120	9.6%	-32.0%	16,399	11,738	-28%
Dividend Payout ratio	65%	157%	62%			61%	86%	
Inokom volumes (units)	11,108	6,537	9,836	50.5%	-11.5%	29,602	21,757	-27%

Source: Company, MIDFR

Income Statement	FY18	FY19	FY20F	FY21F	FY22F
Revenue	1,993	2,492	1,987	2,263	2,328
Operating expenses	(1,814)	(2,208)	(1,847)	(2,059)	(2,122)
EBIT	179	284	140	204	206
Net interest expense	(3)	8	0	0	0
Associates	21	50	28	33	33
PBT	197	342	168	237	239
Taxation	(46)	(74)	(35)	(51)	(51)
Minority Interest	11	(3)	(2)	(2)	(2)
Net profit	140	265	131	184	185
Core net profit	140	265	131	184	185
<i>Consensus net profit</i>	<i>131</i>	<i>254</i>	<i>178</i>	<i>219</i>	<i>231</i>
<i>MIDF / Consensus</i>			<i>-27%</i>	<i>-16%</i>	<i>-20%</i>
Balance Sheet	FY18	FY19	FY20F	FY21F	FY22F
Non-current assets	196.8	269.5	290.9	319.1	348.6
PPE	19.8	31.2	24.9	20.1	16.5
Investments in associate	133.6	183.8	211.6	244.6	277.6
Others	43.4	54.5	54.5	54.5	54.5
Current assets	654.9	690.9	665.0	693.5	707.5
Inventories	247.4	277.9	221.6	252.4	259.6
Receivables	100.4	92.6	73.9	84.1	86.5
Others	0.3	0.1	0.1	0.1	0.1
Cash & equivalent	306.8	320.2	369.4	356.9	361.2
TOTAL ASSETS	851.7	960.4	955.9	1,012.6	1,056.0
Share capital	603.0	607.9	607.9	607.9	607.9
Minority Interest	47.7	45.2	47.2	49.3	51.5
Others	(126.2)	(41.8)	(15.6)	21.1	58.2
TOTAL EQUITY	524.5	611.3	639.5	678.3	717.6
Non-current liabilities	65.1	101.7	101.7	101.7	101.7
Long-term borrowings	0.0	0.0	0.0	0.0	0.0
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0
Others	65.1	101.7	101.7	101.7	101.7
Current liabilities	262.1	247.4	214.8	232.6	236.8
Short-term borrowings	46.1	0.0	0.0	0.0	0.0
Payables	140.2	161.0	128.3	146.2	150.3
Others	75.8	86.4	86.4	86.4	86.4
TOTAL LIABILITIES	327.2	349.1	316.4	334.3	338.4

Cash Flow Statement	FY18	FY19	FY20F	FY21F	FY22F
Operating activities					
PBT	185.7	342.3	167.6	237.0	238.9
Depreciation & Amortization	(0.5)	4.0	0.6	3.2	4.1
Chgs in working capital	36.0	(2.0)	42.5	(23.2)	(5.5)
Interest expense	1.1	0.7	0.0	0.0	0.0
Tax paid	0.0	0.0	0.0	0.0	0.0
Others	(22.0)	(95.4)	(54.9)	(80.4)	(83.0)
CF from Operations	200.2	249.5	155.8	136.6	154.6
Investing activities					
Capex	(2.0)	(18.1)	(2.0)	(2.0)	(2.0)
Others	4.2	11.2	0.0	0.0	0.0
CF from Investments	2.2	(6.9)	(2.0)	(2.0)	(2.0)
Financing activities					
Dividends paid	(104.2)	(190.3)	(104.5)	(147.1)	(148.2)
Net proceeds in borrowings	(12.8)	(46.1)	0.0	0.0	0.0
Others	(2.2)	(0.6)	0.0	0.0	0.0
CF from Financing	(119.2)	(236.9)	(104.5)	(147.1)	(148.2)
Net changes in cash	83.3	5.6	49.3	(12.6)	4.4
Beginning cash	251.3	306.8	320.2	369.4	356.9
Overdrafts & Deposits	(21.3)	7.8	0.0	0.0	0.0
Ending cash	306.8	320.2	369.4	356.9	361.2
Ratios	FY18	FY19	FY20F	FY21F	FY22F
Revenue growth	4.1%	19.8%	-20.3%	13.9%	2.9%
EBITDA growth	5.8%	70.4%	-51.2%	47.6%	1.3%
Net profit growth	6.1%	108.7%	-50.7%	40.8%	0.7%
EBITDA margin	8.1%	11.6%	7.0%	8.9%	8.7%
PATAMI margin	6.1%	10.6%	6.6%	8.1%	8.0%
ROE	27.6%	43.4%	20.4%	27.1%	25.8%
ROA	18.7%	27.6%	13.7%	18.2%	17.5%
Net gearing (%)	-49.7%	-52.4%	-57.8%	-52.6%	-50.3%
Book value/share (RM)	0.41	0.49	0.51	0.54	0.57
PBV (x)	3.6	3.0	2.9	2.7	2.6
EV/EBITDA (x)	5.7	3.1	6.2	4.3	4.3
FCF yield (%)	11.8	14.1	8.9	7.8	8.8

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878-X)).
 (Bank Pelaburan)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878-X)). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% 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.