

Bermaz Auto Berhad

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

Maintain BUY

4QFY20 Should Mark a Trough

Unchanged Target Price: RM1.95

KEY INVESTMENT HIGHLIGHTS

- **BAuto managed to squeeze out a small profit in 4QFY20 vs. our net loss expectation**
- **FY20 results ahead of ours but below consensus**
- **Weak 4QFY20 not unexpected; should mark a trough in earnings before recovering from 1QFY21 onwards**
- **Strong signs of sales improvement post-tax-holiday announcement**
- **A solid balance sheet positions group well for expansion**
- **Maintain BUY at unchanged TP of RM1.95**

Squeezed out a small profit in a very tough quarter. BAuto's results were ahead of our estimate as the group managed to breakeven in 4QFY20 vs. our net loss expectation. Its 4QFY20 net profit registered at RM3m, bringing FY20 earnings to RM101m, accounting for 123% of our estimate. However, the results were below consensus at 87% of street's FY20F.

Weak quarter now behind. The weak 4QFY20 is not surprising as almost half of the quarter was impacted by the MCO which ran from 18th March till 12th May. 4QFY20 Mazda (Malaysia) TIV fell 52%yoy while BAP volume fell 51%yoy. For the full year, Mazda TIV only registered at 9,484 units (-40%yoy).

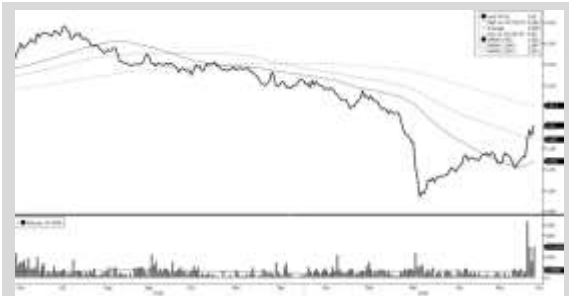
Shifting into a recovery year. FY20 (-62%yoy) was a washout year impacted by issues related to price approval delays for the facelift CX5 & the new CX8 in 3QFY20 followed by the MCO throughout half of 4QFY20. However, we expect FY21F earnings to recover +85%yoy off this weak base, assuming no further lockdowns, absence of the price approval issues experienced in 3QFY20 and gradually improving sales boosted by the Jun'20-Dec'20 automotive tax-holiday. Our FY21F earnings (at 12.7k unit sales) and forex assumption of JPY(x100):RM4.00 are left unchanged at this juncture.

Inventory rundown in progress, improvement in sales. BAuto's 29%-owned Inokom plant has yet to resume operations as the group is looking to pare down its existing 2-3 months' worth of inventory – 4QFY20 cash was impacted by higher working capital. This should be temporary; the inventory run-down should be accelerated by the potential demand boost from the tax-holiday. Post-tax-holiday announcement last week, daily bookings have risen significantly to around 60/day vs. 20-25/day post-MCO. It is too early to determine if this is sustainable, but definitely a good early indication.

RETURN STATISTICS

| | |
|---|--------------|
| Price @ 11 th June 2020 (RM) | 1.62 |
| Expected share price return (%) | +20.2 |
| Expected dividend yield (%) | +7.9 |
| Expected total return (%) | +28.1 |

SHARE PRICE CHART



| Share price performance (%) | Absolute | Relative |
|-----------------------------|----------|----------|
| 1 month | 19.1 | 5.7 |
| 3 months | 43.4 | -1.8 |
| 12 months | -30.7 | -26.5 |

KEY STATISTICS

| | |
|----------------------------------|-----------------|
| FBM KLCI | 1557.25 |
| Syariah compliant | Yes |
| Issue shares (m) | 1159.74 |
| Estimated free float (%) | 49.11 |
| Market Capitalisation (RM'm) | 1,882.73 |
| 52-wk price range | RM0.93 - RM2.78 |
| Beta vs FBM KLCI (x) | 1.30 |
| Monthly velocity (%) | 0.00 |
| Monthly volatility (%) | 19.10 |
| 3-mth average daily volume (m) | 3.58 |
| 3-mth average daily value (RM'm) | 4.75 |
| Top Shareholders (%) | |
| Employees Provident Fund Board | 16.63 |
| DYNAMIC MILESTONE SDN BHD | 13.56 |
| Kumpulan Wang Persaraan | 6.47 |

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INVESTMENT STATISTICS

| FYE Apr | FY18 | FY19 | FY20 | FY21F | FY22F |
|------------------------|---------|---------|---------|---------|---------|
| Revenue (RM'm) | 1,992.9 | 2,492.1 | 1,759.0 | 2,204.4 | 2,219.5 |
| EBIT (RM'm) | 178.8 | 284.0 | 108.1 | 207.0 | 247.4 |
| Pre-tax Profit (RM'm) | 197.2 | 342.3 | 131.8 | 239.9 | 280.3 |
| Core net profit (RM'm) | 140.1 | 265.3 | 100.5 | 186.1 | 216.3 |
| FD EPS (sen) | 12.1 | 22.8 | 7.0 | 16.0 | 18.6 |
| EPS growth (%) | 17.6 | 89.4 | (62.1) | 85.2 | 16.2 |
| PER (x) | 13.4 | 7.1 | 23.1 | 10.1 | 8.7 |
| Net Dividend (sen) | 10.4 | 21.3 | 7.5 | 12.8 | 14.9 |
| Dividend Yield (%) | 6.4 | 13.1 | 4.6 | 7.9 | 9.2 |

Source: Company, MIDFR


Recommendation. Maintain **BUY** at unchanged **TP of RM1.95** based on 11x CY21F earnings. Key catalysts: (1) Earnings recovery from 1QFY21 onwards; (2) Potential introduction of a 3rd CKD model; (3) Potential brand expansion riding on BAUTO's solid balance sheet and Inokom's capacity expansion; (4) Potential NAP incentives to drive CBU exports. Risk to our call is a second wave of the pandemic and weaker than expected demand recovery. 

Exhibit 1: BAUTO 4QFY20 Result Summary (Associates)

| FYE Apr (RMm) | 4Q19 | 3Q20 | 4Q20 | QoQ | YoY | FY19 | FY20 | QoQ |
|---------------------------|-------|-------|-------|--------|--------|---------|---------|--------|
| Inokom (29%-owned) | | | | | | | | |
| Revenue | 62.4 | 59.1 | 33.1 | -43.9% | -46.9% | 261.4 | 166.9 | -36.2% |
| Pretax profit | 5.0 | 7.6 | 4.7 | -37.5% | -5.4% | 24.0 | 20.4 | -15.0% |
| PAT | 3.2 | 7.7 | 5.6 | -27.5% | 74.9% | 19.8 | 15.1 | -23.6% |
| PAT margin | 5.1% | 13.0% | 16.8% | | | 7.6% | 9.1% | |
| MMSB (30%-owned) | | | | | | | | |
| Revenue | 523.8 | 479.2 | 583.0 | 21.7% | 11.3% | 2,019.6 | 1,827.5 | -9.5% |
| Pretax profit | 32.6 | 30.6 | 15.2 | -50.4% | -53.5% | 183.0 | 96.9 | -47.0% |
| PAT | 29.7 | 24.9 | 9.3 | -62.5% | -68.6% | 151.0 | 78.1 | -48.3% |
| PAT margin | 5.7% | 5.2% | 1.6% | | | 7.5% | 4.3% | |

Exhibit 2: BAuto 4QFY20 Result Summary

| FYE Apr (RMm) | 4Q19 | 3Q20 | 4Q20 | QoQ | YoY | FY19 | FY20 | YTD |
|------------------------------|-------------|-------------|------------|---------------|---------------|--------------|--------------|---------------|
| Revenue | 538.3 | 467.5 | 299.4 | -36.0% | -44.4% | 2,492.1 | 1,759.0 | -29.4% |
| Operating profit | 67.1 | 27.0 | 2.2 | -91.8% | -96.7% | 284.0 | 108.1 | -61.9% |
| Investment income | 2.2 | 0.7 | 0.8 | 22.5% | -62.5% | 8.8 | 3.8 | -56.9% |
| Finance cost | (0.1) | (1.8) | (2.7) | 50.1% | 4087.5% | (0.7) | (6.7) | 854.9% |
| Associates | 8.4 | 8.5 | 2.8 | -66.5% | -66.0% | 50.2 | 26.5 | -47.1% |
| Pretax profit | 77.6 | 34.3 | 3.2 | -90.7% | -95.9% | 342.3 | 131.8 | -61.5% |
| Tax | (17.4) | (6.0) | (1.1) | -80.8% | -93.4% | (74.2) | (28.3) | -61.9% |
| PAT | 60.2 | 28.4 | 2.1 | -92.8% | -96.6% | 268.0 | 103.5 | -61.4% |
| MI | 0.1 | 1.2 | (0.4) | -132.7% | -407.6% | 2.8 | 3.0 | 9.1% |
| Net profit | 60.1 | 27.2 | 2.5 | -90.9% | -95.9% | 265.3 | 100.5 | -62.1% |
| Core net profit | 60.1 | 27.2 | 2.5 | -90.9% | -95.9% | 265.3 | 100.5 | -62.1% |
| Core EPS (sen) | 5.16 | 2.33 | 0.21 | -90.9% | -95.9% | 22.77 | 8.69 | -62% |
| GDPS (sen) | 10.50 | 1.45 | - | NA | NA | 21.25 | 7.45 | -65% |
| EBIT margin | 12.5% | 5.8% | 0.7% | | | 11.4% | 6.1% | |
| Pretax margin | 14.4% | 7.3% | 1.1% | | | 13.7% | 7.5% | |
| Core net profit margin | 11.2% | 5.8% | 0.8% | | | 10.6% | 5.7% | |
| Tax rate | 22.4% | 17.4% | 35.7% | | | 21.7% | 21.4% | |
| Mazda TIV (Malaysia, units) | 3,283 | 2,242 | 1,588 | -29.2% | -51.6% | 15,844 | 9,484 | -40% |
| Avg revenue per car (RM) | 141,579 | 172,362 | 162,616 | -5.7% | 14.9% | 136,769 | 156,573 | 14% |
| Malaysia revenue (RMm) | 464.8 | 386.4 | 258.2 | -33.2% | -44.4% | 2,167.0 | 1,484.9 | -31% |
| Philippines revenue (RMm) | 73.5 | 81.0 | 41.1 | -49.2% | -44.0% | 325.2 | 274.1 | -16% |
| Malaysia EBIT (RMm) | 66.9 | 22.8 | 3.2 | -86.0% | -95.2% | 274.9 | 96.6 | -65% |
| Philippines EBIT (RMm) | 0.7 | 4.4 | (0.4) | -108.2% | -151.4% | 10.4 | 13.1 | 26% |
| Malaysia EBIT margin | 14.4% | 5.9% | 1.2% | | | 12.7% | 6.5% | |
| Philippines EBIT margin | 1.0% | 5.4% | -0.9% | | | 3.2% | 4.8% | |
| BAP (P'pines) volume (units) | 643 | 681 | 315 | -53.7% | -51.0% | 3,160 | 2,227 | -30% |
| MMSB volume (units) | 5,488 | 4,120 | 5,266 | 27.8% | -4.0% | 21,887 | 17,004 | -22% |
| Dividend Payout ratio | 204% | 62% | 0% | | | 93% | 86% | |
| P'pines EBIT contribution | 1% | 16% | -16% | | | 4% | 12% | |
| Inokom volume (units) | 7,969 | 9,836 | 3,787 | -61.5% | -52.5% | 37,571 | 25,544 | -32% |

Source: Company, MIDFR

| Income Statement | FY18 | FY19 | FY20 | FY21F | FY22F |
|--------------------------------|--------------|--------------|----------------|----------------|----------------|
| Revenue | 1,993 | 2,492 | 1,759 | 2,204 | 2,219 |
| Operating expenses | -1,814 | -2,208 | -1,719 | -1,997 | -1,972 |
| EBIT | 179 | 284 | 108 | 207 | 247 |
| Net interest expense | -3 | 8 | -3 | 0 | 0 |
| Associates | 21 | 50 | 27 | 33 | 33 |
| PBT | 197 | 342 | 132 | 240 | 280 |
| Taxation | -46 | -74 | -28 | -52 | -62 |
| Minority Interest | 11 | -3 | 3 | -2 | -2 |
| Net profit | 140 | 265 | 101 | 186 | 216 |
| Core net profit | 140 | 265 | 101 | 186 | 216 |
| <i>Consensus net profit</i> | <i>131</i> | <i>254</i> | <i>115</i> | <i>159</i> | <i>180</i> |
| <i>MIDF / Consensus</i> | | | <i>-13%</i> | <i>17%</i> | <i>20%</i> |
| Balance Sheet | FY18 | FY19 | FY20 | FY21F | FY22F |
| Non-current assets | 196.8 | 269.5 | 385.0 | 410.7 | 438.3 |
| PPE | 19.8 | 31.2 | 38.4 | 27.4 | 22.0 |
| Investments in associates | 133.6 | 183.8 | 210.4 | 244.1 | 277.1 |
| Others | 43.4 | 54.5 | 136.2 | 139.3 | 139.3 |
| Current assets | 654.9 | 690.9 | 880.6 | 707.5 | 725.7 |
| Inventories | 247.4 | 277.9 | 679.2 | 245.8 | 247.5 |
| Receivables | 100.4 | 92.6 | 100.9 | 82.0 | 82.5 |
| Others | 0.3 | 0.1 | 9.5 | 18.4 | 18.4 |
| Cash & equivalent | 306.8 | 320.2 | 91.1 | 361.4 | 377.3 |
| TOTAL ASSETS | 851.7 | 960.4 | 1,265.6 | 1,118.3 | 1,164.0 |
| Share capital | 603.0 | 607.9 | 608.8 | 608.8 | 608.8 |
| Minority Interest | 47.7 | 45.2 | 50.9 | 53.0 | 55.2 |
| Others | (126.2) | (41.8) | (138.2) | (103.0) | (60.5) |
| TOTAL EQUITY | 524.5 | 611.3 | 520.6 | 557.9 | 602.6 |
| Non-current liabilities | 65.1 | 101.7 | 184.3 | 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 | 184.3 | 101.7 | 101.7 |
| Current liabilities | 262.1 | 247.4 | 560.8 | 376.2 | 377.1 |
| Short-term borrowings | 46.1 | 0.0 | 137.8 | 137.8 | 137.8 |
| Payables | 140.2 | 161.0 | 327.0 | 142.4 | 143.4 |
| Others | 75.8 | 86.4 | 95.9 | 95.9 | 95.9 |
| TOTAL LIABILITIES | 327.2 | 349.1 | 745.0 | 477.8 | 478.8 |

| Cash Flow Statement | FY18 | FY19 | FY20 | FY21F | FY22F |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|
| Operating activities | | | | | |
| PBT | 185.7 | 342.3 | 131.8 | 226.4 | 275.6 |
| Depreciation & Amortization | 1.2 | 15.8 | 4.2 | (7.0) | 2.3 |
| Chgs in working capital | 36.0 | (2.0) | (243.5) | 267.6 | (1.3) |
| Others | (23.7) | (107.2) | (56.2) | (68.2) | (91.7) |
| CF from Operations | 200.2 | 249.5 | (160.5) | 421.9 | 188.1 |
| Investing activities | | | | | |
| Capex | (2.0) | (18.1) | (15.0) | (2.0) | (2.0) |
| Others | 4.2 | 11.2 | 2.3 | 0.0 | 0.0 |
| CF from Investments | 2.2 | (6.9) | (12.7) | (2.0) | (2.0) |
| Financing activities | | | | | |
| Dividends paid | (104.2) | (190.3) | (191.7) | (140.7) | (170.2) |
| Net proceeds in borrowings | (12.8) | (46.1) | 137.8 | 0.0 | 0.0 |
| Others | (2.2) | (0.6) | (10.9) | 0.0 | 0.0 |
| CF from Financing | (119.2) | (236.9) | (64.8) | (140.7) | (170.2) |
| Net changes in cash | 83.3 | 5.6 | (238.0) | 279.2 | 15.9 |
| Beginning cash | 251.3 | 306.8 | 320.2 | 91.1 | 370.3 |
| Forex | (21.3) | 7.8 | 8.9 | 0.0 | 0.0 |
| Ending cash | 306.8 | 320.2 | 91.1 | 370.3 | 386.2 |
| | | | | | |
| | | | | | |
| Ratios | FY18 | FY19 | FY20 | FY21F | FY22F |
| Revenue growth | 4.1% | 19.8% | -29.4% | 25.3% | 0.7% |
| EBIT growth | 10.5% | 58.8% | -61.9% | 81.9% | 25.0% |
| Net profit growth | 6.1% | 108.7% | -62.1% | 75.0% | 20.9% |
| EBIT margin | 9.0% | 11.4% | 6.1% | 8.9% | 11.1% |
| PATAMI margin | 6.1% | 10.6% | 4.3% | 8.0% | 9.6% |
| ROE | 27.6% | 43.4% | 19.3% | 31.5% | 35.3% |
| ROA | 18.7% | 27.6% | 7.9% | 15.7% | 18.3% |
| Net gearing (%) | -49.7% | -52.4% | 9.0% | -40.1% | -39.7% |
| Book value/share (RM) | 0.45 | 0.52 | 0.45 | 0.48 | 0.52 |
| PBV (x) | 3.6 | 3.1 | 3.6 | 3.4 | 3.1 |
| EV/EBITDA (x) | 6.4 | 3.6 | 18.7 | 5.5 | 4.5 |
| FCF yield (%) | 10.8 | 12.9 | -9.2 | 22.3 | 9.9 |

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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. |