

# Bermaz Auto Berhad

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

**Maintain BUY**

## Rolling out the CX30

**Unchanged Target Price: RM2.70**

### KEY INVESTMENT HIGHLIGHTS

- **All new CBU CX30 launched, slotted in between the CX3 and CX5**
- **Exploring a third CKD model, one option could be a hybrid**
- **Balance sheet is underutilized; coupled with Inokom capacity expansion, group is well positioned to explore mass market brands**
- **Maintain BUY at unchanged TP of RM2.70, 8% dividend yield is attractive**

**Launch of the CX30.** Bermaz launched its all new SUV, the CX30 yesterday. Three variants are offered comprising 2 petrol (2.0G and 2.0G High) and one turbodiesel (1.8D High) variants, priced at RM143,059, RM164,059 and RM172,943. Mazda's i-Activesense suite of safety and driver assistance systems are available with the 2.0G High and 1.8D High variants.

**Positioning.** The CX30 is built on the Mazda 3 platform. Size wise, the CX30, which comes only in CBU form at the moment, slots in between the current CX3 (priced at RM121K, generating 58 unit sales monthly) and the CX5 (RM137K-RM178K, generating 600-800 unit sales monthly). Based on our recent meeting with management, an initial batch of 169 units has been imported with half of this coming with ready bookings from customers.

**To localize or not?** It is still uncertain if the CX30 will be locally assembled for the Malaysian market, but we note that Thailand has already received the principal's approval to produce the CX30 at the AAT (Auto Alliance Thailand) plant. At this juncture, we understand that Bermaz is negotiating to potentially localize the CX30, but there is no decision on this yet.

**Eyeing a 3<sup>rd</sup> CKD.** That said, we understand Bermaz is exploring localizing another SUV model. From a strategic standpoint, BAUTO is looking to fill up the gap in its model mix for price points between RM120K-RM140K. The gradual increase in CX5 pricing over the years has left somewhat a vacuum within these price points. The MX30, which was launched at the Tokyo Motor Show and comes in hybrid variants (about the same size as the CX30) is a potential model under consideration, other than the CX30. We think the decision would also hinge on potential incentives for hybrids/EVs under NAP2020.

**Capacity expansion.** BAUTO is looking to invest in incremental capacity at 30%-owned Inokom, which will see Inokom's total capacity double to 80K/annum by Apr21 from 40Kunits/annum currently. Total capex is expected at RM200m but the bulk is expected to be funded by Inokom's internal funds and borrowings. BAUTO will occupy 50% of the enlarged Inokom capacity i.e. around 40K/annum, vs. 28K-30K/annum currently. The incremental capacity is expected to be filled up, partly, by BAUTO's 3rd CKD model.

### RETURN STATISTICS

Price @ 15 <sup>th</sup> Jan 2020 (RM)	2.01
Expected share price return (%)	+34.3
Expected dividend yield (%)	+8.1
<b>Expected total return (%)</b>	<b>+42.4</b>

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-1.8	1.1
3 months	-5.3	-3.7
12 months	4.7	11.4

### KEY STATISTICS

FBM KLCI	1585.14
Syariah compliant	Yes
Issue shares (m)	1159.74
Estimated free float (%)	60.64
Market Capitalisation (RM'm)	2,331.08
52-wk price range	RM2.02 - RM2.78
Beta vs FBM KLCI (x)	0.63
Monthly velocity (%)	0.01
Monthly volatility (%)	19.10
3-mth average daily volume (m)	2.79
3-mth average daily value (RM'm)	6.25
Top Shareholders (%)	
DYNAMIC MILESTONE SDN BHD	13.15
Employees Provident Fund Board	10.51
PERMODALAN NASIONAL BHD	3.91


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**INVESTMENT STATISTICS**

FYE Apr	FY18	FY19	FY20F	FY21F	FY22F
Revenue (RM'm)	1,992.9	2,492.1	2,169.7	2,579.2	2,669.8
EBIT (RM'm)	178.8	284.0	201.4	279.2	285.4
Pre-tax Profit (RM'm)	197.2	342.3	229.6	312.8	319.1
Core net profit (RM'm)	140.1	265.3	178.8	242.6	247.3
FD EPS (sen)	12.1	22.8	15.4	20.8	21.2
EPS growth (%)	17.6	89.4	(32.6)	35.7	1.9
PER (x)	16.6	8.8	13.1	9.7	9.5
Net Dividend (sen)	10.4	21.3	16.3	16.7	17.0
Dividend Yield (%)	5.2	10.6	8.1	8.3	8.4

Source: Company, MIDFR

**Shouldn't a strong balance sheet be put to work?** Despite attractive dividend payouts, BAUTO's balance sheet remains underutilized. Although we forecast a dividend payout of >100% for FY20F, balance sheet remains in a solid net cash position. The capacity expansion at Inokom, coupled with BAUTO's huge war chest positions it well to undertake brand expansion, particularly to fill up the gap in BAUTO's model mix for the lower priced mass market segment, in our opinion. The cheapest Mazda model, the Mazda 2 for example, is priced at ~RM90K and is imported as CBU, which does not really position BAUTO to compete effectively in the mass market segment. Furthermore, Mazda models in general, are positioned as premium Japanese models.

**Recommendation.** We maintain our **BUY** call at unchanged **TP of RM2.70/share**. From a valuation standpoint, BAUTO is cheap at just 10x FY21F earnings while dividend yield of 8% is attractive. Net cash accounts for 12% of market cap (FY21F). 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. 

**BERMAZ AUTO: SUM-OF-PARTS VALUATION**

	FY21F net profit (RMm)	PE (x)	Value (RMm)
Malaysia	242.0	13	3,146
Philippines	0.6	18	11
<b>Total value</b>			<b>3,157</b>
Shares out (m) - fully diluted			1,165
<b>Value/share (RM)</b>			<b>2.70</b>

Source: Company, MIDFR

**EXHIBIT 1: ALL NEW MAZDA CX30**



Source: PaulTan, MIDFR

**EXHIBIT 2: CX30 DIMENSION COMPARISON**



	Mazda CX-30	Mazda CX-3	Mazda CX-3	Mazda CX-30	Mazda CX-5
Overall Length	173.0 in	168.3 in	4,275	4,395	4,545
Overall Width	70.7 in	69.6 in	1,768	1,795	1,840
Overall Height	60.6 in	60.7 in	1,542	1,539	1,670
Wheelbase	104.5 in	101.2 in	2,570	2,655	2,700

Source: Company, MIDFR

**EXHIBIT 2: MAZDA DOMESTIC UNIT SALES BREAKDOWN**

Sales volume (units) - Malaysia	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20
<b>CBU</b>						
Mazda 2	255	333	415	533	247	276
Mazda 3			-		143	207
Mazda 5	2		1	2		1
Mazda 6	22	38	79	64	36	38
Biante	30	1				
CX3	107	715	912	119	232	175
CX5						
CX9	51	41	48	52	24	38
MX5	9	5	1	8	2	7
BT50	55	17	11	46	26	7
<b>Total CBU</b>	<b>532</b>	<b>1,150</b>	<b>1,467</b>	<b>824</b>	<b>710</b>	<b>749</b>
<b>CKD</b>						
Mazda 3	414	189	276	163	101	33
CX5	2,037	3,196	3,300	2,296	2,449	1,612
<b>Total CKD</b>	<b>2,451</b>	<b>3,385</b>	<b>3,576</b>	<b>2,459</b>	<b>2,550</b>	<b>1,645</b>
<b>Grand Total</b>	<b>2,983</b>	<b>4,535</b>	<b>5,043</b>	<b>3,283</b>	<b>3,260</b>	<b>2,394</b>

Source: Company, MIDFR

<b>Income Statement</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>	<b>FY22F</b>
<b>Revenue</b>	<b>1,993</b>	<b>2,492</b>	<b>2,170</b>	<b>2,579</b>	<b>2,670</b>
Operating expenses	-1,814	-2,208	-1,968	-2,300	-2,384
<b>EBIT</b>	<b>179</b>	<b>284</b>	<b>201</b>	<b>279</b>	<b>285</b>
Net interest expense	-3	8	0	0	0
Associates	21	50	28	34	34
<b>PBT</b>	<b>197</b>	<b>342</b>	<b>230</b>	<b>313</b>	<b>319</b>
Taxation	-46	-74	-50	-70	-71
Minority Interest	11	-3	-0	-0	-0
<b>Net profit</b>	<b>140</b>	<b>265</b>	<b>179</b>	<b>243</b>	<b>247</b>
<b>Core net profit</b>	<b>140</b>	<b>265</b>	<b>179</b>	<b>243</b>	<b>247</b>
<i>Consensus net profit</i>	<i>131</i>	<i>254</i>	<i>249</i>	<i>250</i>	<i>251</i>
<i>MIDF / Consensus</i>			<i>-28%</i>	<i>-3%</i>	<i>-2%</i>
<b>Balance Sheet</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>	<b>FY22F</b>
<b>Non-current assets</b>	<b>196.8</b>	<b>269.5</b>	<b>291.3</b>	<b>320.1</b>	<b>350.1</b>
PPE	19.8	31.2	24.9	20.1	16.5
Investments in associate	133.6	183.8	212.0	245.5	279.1
Others	43.4	54.5	54.5	54.5	54.5
<b>Current assets</b>	<b>654.9</b>	<b>690.9</b>	<b>637.2</b>	<b>683.8</b>	<b>709.5</b>
Inventories	247.4	277.9	242.0	287.6	297.7
Receivables	100.4	92.6	80.7	95.9	99.3
Others	0.3	0.1	0.1	0.1	0.1
Cash & equivalent	306.8	320.2	314.5	300.2	312.4
<b>TOTAL ASSETS</b>	<b>851.7</b>	<b>960.4</b>	<b>928.5</b>	<b>1,003.9</b>	<b>1,059.6</b>
Share capital	603.0	607.9	607.9	607.9	607.9
Minority Interest	47.7	45.2	45.6	46.0	46.4
Others	(126.2)	(41.8)	(53.2)	(4.7)	44.8
<b>TOTAL EQUITY</b>	<b>524.5</b>	<b>611.3</b>	<b>600.3</b>	<b>649.2</b>	<b>699.1</b>
<b>Non-current liabilities</b>	<b>65.1</b>	<b>101.7</b>	<b>101.7</b>	<b>101.7</b>	<b>101.7</b>
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
<b>Current liabilities</b>	<b>262.1</b>	<b>247.4</b>	<b>226.6</b>	<b>253.0</b>	<b>258.9</b>
Short-term borrowings	46.1	0.0	0.0	0.0	0.0
Payables	140.2	161.0	140.1	166.6	172.4
Others	75.8	86.4	86.4	86.4	86.4
<b>TOTAL LIABILITIES</b>	<b>327.2</b>	<b>349.1</b>	<b>328.2</b>	<b>354.7</b>	<b>360.5</b>

Cash Flow Statement	FY18	FY19	FY20F	FY21F	FY22F
<b>Operating activities</b>					
PBT	185.7	342.3	229.6	312.8	319.1
Depreciation & Amortization	(0.5)	4.0	0.6	1.7	2.5
Chgs in working capital	36.0	(2.0)	27.1	(34.4)	(7.6)
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)	(70.7)	(98.3)	(101.9)
<b>CF from Operations</b>	<b>200.2</b>	<b>249.5</b>	<b>186.6</b>	<b>181.8</b>	<b>212.0</b>
<b>Investing activities</b>					
Capex	(2.0)	(18.1)	(2.0)	(2.0)	(2.0)
Others	4.2	11.2	0.0	0.0	0.0
<b>CF from Investments</b>	<b>2.2</b>	<b>(6.9)</b>	<b>(2.0)</b>	<b>(2.0)</b>	<b>(2.0)</b>
<b>Financing activities</b>					
Dividends paid	(104.2)	(190.3)	(190.3)	(194.1)	(197.8)
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
<b>CF from Financing</b>	<b>(119.2)</b>	<b>(236.9)</b>	<b>(190.3)</b>	<b>(194.1)</b>	<b>(197.8)</b>
Net changes in cash	83.3	5.6	(5.7)	(14.3)	12.2
<b>Beginning cash</b>	<b>251.3</b>	<b>306.8</b>	<b>320.2</b>	<b>314.5</b>	<b>300.2</b>
Overdrafts & Deposits	(21.3)	7.8	0.0	0.0	0.0
<b>Ending cash</b>	<b>306.8</b>	<b>320.2</b>	<b>314.5</b>	<b>300.2</b>	<b>312.4</b>
Ratios	FY18	FY19	FY20F	FY21F	FY22F
Revenue growth	4.1%	19.8%	-12.9%	18.9%	3.5%
EBITDA growth	5.8%	70.4%	-29.8%	39.1%	2.5%
Net profit growth	6.1%	108.7%	-32.6%	35.7%	1.9%
EBITDA margin	8.1%	11.6%	9.3%	10.8%	10.6%
PATAMI margin	6.1%	10.6%	8.2%	9.4%	9.3%
ROE	27.6%	43.4%	29.8%	37.4%	35.4%
ROA	18.7%	27.6%	19.3%	24.2%	23.3%
Net gearing (%)	-49.7%	-52.4%	-52.4%	-46.2%	-44.7%
Book value/share (RM)	0.41	0.49	0.48	0.52	0.56
PBV (x)	5.0	4.2	4.3	4.0	3.7
EV/EBITDA (x)	8.6	4.8	7.0	5.1	4.9
FCF yield (%)	8.5	10.1	7.7	7.5	8.8

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#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	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

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