

# MBM Resources Berhad

(5983 | MBM MK) Consumer Products &amp; Services | Automotive

**Maintain NEUTRAL**

## Weak Start

**Unchanged Target Price: RM2.80**

### KEY INVESTMENT HIGHLIGHTS

- **Weak 1Q20 earnings; missed consensus expectations**
- **Perodua, dealership and part manufacturing units impacted by the movement control order (MCO)**
- **Generous dividends (final) for FY19 but unlikely to sustain into FY20F given weak underlying earnings outlook**
- **No changes to forecasts at this juncture; our FY20F/21F are 16%/8% below consensus**
- **Maintain NEUTRAL at unchanged TP of RM2.80**

**Weak start.** MBM reported weak 1Q20 results. The group registered a net profit of just RM27m, which was broadly within our expectation but below consensus, accounting for 20% and 17% of FY20F earnings respectively. We expect earnings to weaken further in 2Q20 before gradual recovery from 3Q20 onwards. The magnitude of the recovery however, is still highly uncertain at this juncture given a deteriorating macro, employment and wage outlook, which is likely to dampen auto demand in the near-term. Our FY20F/21F are currently 16%/8% below consensus.

**Generous FY19 dividends, but unlikely to sustain into FY20F.** A final dividend of 9sen/share (for FY19) was proposed, which takes total FY19 dividends to 22sen/share (45% payout), largely within our expectations. This translates into generous yields of 7.9%, but we would bear in mind the cyclicality of MBM's earnings which is affected by the Covid19 preventive measures and its impact on the underlying macro condition. We think the generous dividends are unlikely to sustain in FY20F and forecast lower yields of 4.9%.

**Impacted by MCO.** MBM's 1Q20 group earnings fell -45%yoy and -46%qoq following implementation of the MCO from 18<sup>th</sup> March (up until 5<sup>th</sup> May when it is replaced by a conditional MCO). Perodua invoiced volumes fell -17%yoy, which drove a -34%yoy contraction in associate earnings. Meanwhile the group's Perodua dealership sales volume under DMMS fell -23%yoy, while Federal Auto saw a -31%yoy volume contraction. Overall motor trading division registered a -28%yoy fall in revenue and some -80% pretax contraction as fixed cost continues to be incurred despite absence of revenue in the final 2 weeks of 1Q20. The auto parts division was also affected by the MCO as well as pricing issues with certain carmakers; revenue fell -26%yoy while earnings contracted -59%yoy in the quarter. Management is undertaking counter-measures to tighten opex and capex while new marketing platforms are being implemented.

**Recommendation.** Maintain **NEUTRAL** at unchanged **TP of RM2.80**, pegging the group at 8x FY20F earnings. Despite the challenging outlook, balance sheet remains solid at a net cash of RM189m, while the sale of OMIA asset should further underpin the strong balance sheet position. Risk to our call is weaker than expected demand and a weak RM.



### RETURN STATISTICS

Price @ 21 <sup>st</sup> May 2020 (RM)	2.85
Expected share price return (%)	-1.8
Expected dividend yield (%)	+4.9
<b>Expected total return (%)</b>	<b>+3.2</b>

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	2.2	-2.8
3 months	2.5	-25.1
12 months	-1.7	8.5

### KEY STATISTICS

FBM KLCI	1452.11
Syariah compliant	Yes
Issue shares (m)	390.89
Estimated free float (%)	36.42
Market Capitalisation (RM'm)	1,114.03
52-wk price range (RM)	RM2.5 - RM4.47
Beta vs FBM KLCI (x)	1.08
Monthly velocity (%)	0.00
Monthly volatility (%)	22.49
3-mth average daily volume (m)	0.62
3-mth average daily value (RM'm)	1.85
Top Shareholders (%)	
Med-Bumikar Mara Sdn Bhd	49.50
Employees Provident Fund Board	9.06
AIA Bhd	4.03

**Analyst(s)**
**HAFRIZ** Hezry

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

## INVESTMENT STATISTICS

FYE Dec	FY17	FY18	FY19	FY20F	FY21F
Revenue (RM'm)	1,732.6	1,928.2	2,088.5	1,630.2	1,671.9
EBIT (RM'm)	(257.6)	12.5	61.0	3.6	30.6
Pre-tax Profit (RM'm)	(148.5)	200.7	263.2	178.9	208.1
Normalised PATAMI (RM'm)	86.1	168.3	193.3	137.2	162.9
FD EPS (sen)	22.1	43.1	49.5	35.2	41.8
EPS growth (%)	1.6	95.6	14.8	-29.0	18.8
PER (x)	12.9	6.6	5.8	8.1	6.8
Net Dividend (sen) *	3.0	12.0	22.0	14.1	16.7
Net Dividend Yield (%) *	1.1	4.2	7.9	4.9	5.9

Source: Company, MIDFR

## Exhibit 1: MBM 1QFY20 Result Summary

FYE Dec (RMm)	1Q19	4Q19	1Q20	YoY	QoQ
Revenue	519.1	496.1	374.0	-27.9%	-24.6%
<b>Operating profit</b>	<b>17.3</b>	<b>(2.8)</b>	<b>(0.6)</b>	-103.6%	-78.0%
Net finance cost	0.3	1.0	1.3	393.7%	20.3%
JCE	3.9	3.3	2.3	-41.3%	-30.1%
Associates	42.8	40.7	28.3	-33.8%	-30.3%
<b>Pretax income</b>	<b>64.3</b>	<b>42.2</b>	<b>31.3</b>	<b>-51.4%</b>	<b>-25.8%</b>
Tax	(2.8)	(0.0)	(0.8)	-71.4%	3434.8%
PAT	61.5	42.1	30.5	-50.5%	-27.7%
MI/Discontinued Ops	11.8	1.1	3.2	-72.8%	193.4%
Net profit	49.7	41.0	27.2	-45.2%	-33.6%
<b>Core net profit</b>	<b>49.7</b>	<b>50.5</b>	<b>27.2</b>	<b>-45.2%</b>	<b>-46.1%</b>
GDPS (sen)	0.00	7.00	0.00	NA	NA
Core EPS (sen)	12.73	12.95	6.98	-45.2%	-46.1%
Operating margin	3.3%	-0.6%	-0.2%		
Pretax margin	12.4%	8.5%	8.4%		
Tax rate	-4.4%	-0.1%	-2.6%		
Core net profit margin	9.6%	10.2%	7.3%		
<b>Revenue by division</b>	<b>1Q19</b>	<b>4Q19</b>	<b>1Q20</b>	<b>YoY</b>	<b>QoQ</b>
Motor trading	467.9	435.0	335.9	-28.2%	-22.8%
Parts Manufacturing	50.8	57.4	37.6	-25.8%	-34.4%
<i>Discontinued alloy wheel ops</i>	<i>13.4</i>	<i>0.0</i>	<i>0.0</i>	<i>-100.0%</i>	<i>NA</i>
<b>Pretax by division</b>					
Motor trading	5.5	(1.1)	1.1	-80.1%	196.7%
Parts Manufacturing	2.4	2.7	1.0	-59.2%	-62.7%
<i>Discontinued alloy wheel ops</i>	<i>(2.8)</i>	<i>1.5</i>	<i>(0.2)</i>	<i>93.7%</i>	<i>-112.2%</i>
<b>Pretax margin</b>					
Motor trading	1.2%	-0.3%	0.3%		
Parts Manufacturing	4.8%	4.6%	2.6%		
P2 TIV (units)- MAA	60,659	61,587	44,977	-25.9%	-27.0%
JPY:MYR (spot rates)	3.72	3.83	3.84	3.2%	0.2%

## Exhibit 2: Sales Performance by Operations

% Changes *	Q1'20	Q1'20	YTD Mar'20
	vs	vs	vs
	Q4'19	Q1'19	YTD Mar'19
<u>Total Industry Volume (TIV) **</u>	- 34.0	- 25.6	- 25.6
<u>Total Group's Vehicles Sales</u>	- 31.7	- 23.0	- 23.0
<u>Subsidiaries</u>			
DMSB : Daihatsu & Hino trucks	- 41.9	- 9.7	- 9.7
DMMS : Perodua vehicles	- 30.5	- 23.0	- 23.0
FAHB : Volvo & Volkswagen vehicles	- 38.8	- 30.8	- 30.8
HASB	- 38.4	- 28.4	- 28.4
OMI	- 33.7	- 25.4	- 25.4
Service throughputs	- 13.6	- 4.0	- 4.0
<u>Joint Venture</u>			
AHSB	- 23.5	- 20.9	- 20.9
<u>Associated companies</u>			
Perodua vehicles	- 19.2	- 16.9	- 16.9

### Legend

DMSB : Daihatsu (Malaysia) Sdn Bhd

DMMS : DMM Sales Sdn Bhd

FAHB : Federal Auto Holdings Berhad

HASB : Hirotako Acoustics Sdn Bhd

OMI : Oriental Metal Industries (M) Sdn Bhd

AHSB : Autoliv Hirotako Sdn Bhd

\* All changes based on vehicle unit sales, except for HASB, OMI and AHSB which are based on sales values

Source: Company, MIDFR

<b>Income Statement (RMm)</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>
<b>Revenue</b>	<b>1,732.6</b>	<b>1,928.2</b>	<b>2,088.5</b>	<b>1,630.2</b>	<b>1,671.9</b>
Operating expenses	(1,990.1)	(1,915.8)	(2,027.5)	(1,626.6)	(1,641.4)
<b>EBIT</b>	<b>(257.6)</b>	<b>12.5</b>	<b>61.0</b>	<b>3.6</b>	<b>30.6</b>
Net interest expense	(11.3)	(5.9)	2.5	7.1	10.4
Associates/JCE	120.4	194.1	199.6	168.1	167.1
<b>PBT</b>	<b>(148.5)</b>	<b>200.7</b>	<b>263.2</b>	<b>178.9</b>	<b>208.1</b>
Taxation	(7.5)	(11.7)	(8.5)	(17.9)	(20.8)
Minority Interest	(7.2)	23.5	34.1	23.8	24.3
Net profit	(148.8)	165.5	220.5	137.2	162.9
<b>Core net profit</b>	<b>86.1</b>	<b>168.3</b>	<b>193.3</b>	<b>137.2</b>	<b>162.9</b>
<i>Consensus net profit</i>	<i>79.0</i>	<i>138.4</i>	<i>202.2</i>	<i>162.9</i>	<i>177.9</i>
<i>MIDF / Consensus</i>	<i>9.0%</i>	<i>21.6%</i>	<i>-4.4%</i>	<i>-15.8%</i>	<i>-8.4%</i>
<b>Balance Sheet (RMm)</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>
<b>Non-current assets</b>	<b>1,567.9</b>	<b>1,645.0</b>	<b>1,616.0</b>	<b>1,674.7</b>	<b>1,733.1</b>
PPE	334.7	269.0	231.6	231.5	231.3
Investments in associate	1,105.0	1,207.9	1,218.7	1,267.4	1,319.5
Others	128.2	168.1	165.7	175.8	182.2
<b>Current assets</b>	<b>506.6</b>	<b>464.3</b>	<b>573.4</b>	<b>598.6</b>	<b>653.4</b>
Inventories	148.2	104.8	105.2	82.1	84.2
Receivables	150.5	138.1	142.4	111.2	114.0
Others	14.5	26.7	62.1	62.1	62.1
Cash & equivalent	193.3	194.7	263.7	343.2	393.1
<b>TOTAL ASSETS</b>	<b>2,074.5</b>	<b>2,109.3</b>	<b>2,189.4</b>	<b>2,273.3</b>	<b>2,386.5</b>
Share capital	391.7	391.7	391.7	391.7	391.7
Minority Interest	215.7	250.6	264.1	287.9	312.3
Reserves	1,047.9	1,186.4	1,352.2	1,434.5	1,532.3
<b>TOTAL EQUITY</b>	<b>1,655.3</b>	<b>1,828.6</b>	<b>2,008.0</b>	<b>2,114.1</b>	<b>2,236.2</b>
<b>Non-current liabilities</b>	<b>116.6</b>	<b>92.6</b>	<b>28.6</b>	<b>23.6</b>	<b>18.6</b>
Long-term borrowings	108.2	85.5	19.3	14.3	9.3
Deferred tax liabilities	4.4	5.4	4.9	4.9	4.9
Others	3.9	1.8	4.4	4.4	4.4
<b>Current liabilities</b>	<b>302.6</b>	<b>188.1</b>	<b>152.7</b>	<b>135.6</b>	<b>131.6</b>
Short-term borrowings	168.5	58.2	16.6	11.6	6.6
Payables	131.6	126.1	132.7	120.6	121.6
Others	2.5	3.8	3.4	3.4	3.4
<b>TOTAL LIABILITIES</b>	<b>419.2</b>	<b>280.7</b>	<b>181.4</b>	<b>159.2</b>	<b>150.3</b>

<b>Cash Flow Statement (RMm)</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>
<b>Operating activities</b>					
PBT	(145.1)	200.7	255.0	161.0	187.3
Depreciation & Amortization	18.1	18.2	19.3	20.1	20.1
Chgs in working capital	65.6	50.0	0.2	42.2	(3.9)
Others	137.2	(204.5)	(245.2)	(168.1)	(167.1)
<b>CF from Operations</b>	<b>75.8</b>	<b>64.4</b>	<b>29.2</b>	<b>55.2</b>	<b>36.3</b>
<b>Investing activities</b>					
Capex	(20.0)	(9.7)	(12.0)	(20.0)	(20.0)
Others	135.6	112.6	236.4	109.3	108.6
<b>CF from Investments</b>	<b>115.6</b>	<b>102.9</b>	<b>224.4</b>	<b>89.3</b>	<b>88.6</b>
<b>Financing activities</b>					
Dividends paid	(61.3)	(24.9)	(70.0)	(54.8)	(65.1)
Net proceeds in borrowings	(102.1)	(144.0)	(106.5)	(10.0)	(10.0)
Others	(17.4)	-	(9.3)	13.5	-
<b>CF from Financing</b>	<b>(180.7)</b>	<b>(169.0)</b>	<b>(185.8)</b>	<b>(51.4)</b>	<b>(75.1)</b>
<b>Net changes in cash</b>	<b>10.8</b>	<b>(1.7)</b>	<b>67.9</b>	<b>93.1</b>	<b>49.8</b>
Beginning cash	209.1	219.8	218.1	286.0	379.0
Overdrafts & Deposits					
<b>Ending cash</b>	<b>219.8</b>	<b>218.1</b>	<b>286.0</b>	<b>379.0</b>	<b>428.9</b>
<b>Ratios</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>
Revenue growth	3.1%	11.3%	8.3%	-21.9%	2.6%
EBIT growth	NA	-104.8%	389.3%	-94.1%	745.3%
Core net profit growth	1.6%	95.6%	14.8%	-29.0%	18.8%
PBT margin	-8.6%	10.4%	12.6%	11.0%	12.4%
Core net profit margin	5.0%	8.7%	9.3%	8.4%	9.7%
ROE	6.0%	10.7%	11.1%	7.5%	8.5%
ROA	4.1%	8.0%	8.8%	6.0%	6.8%
Net gearing (%)	5.8%	-3.2%	-13.1%	-17.4%	-19.6%
Book value/share (RM)	3.69	4.04	4.47	4.68	4.93
PBV (x)	0.77	0.70	0.64	0.61	0.58
FCF/share (RM)	0.49	0.43	0.65	0.37	0.32
FCF yield	17.2%	15.0%	22.8%	13.0%	11.2%

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

<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.