

MBM Resources Berhad

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

Maintain BUY

Backed by a Solid Balance Sheet

KEY INVESTMENT HIGHLIGHTS

- **FY19 earnings within expectations**
- **4Q19 core earnings eased against an exceptionally high base in 4Q18**
- **Interim dividends more than doubled, final dividends could be in the offing on the back of solid 16% FCF yield**
- **Debt levels pared down further to just RM36m, net cash now accounts for some 15% of market cap**
- **Reaffirm BUY on MBM at unchanged TP of RM4.55, solid 6% yields on the back of just 7x FY20F PER**

FY19 earnings met expectations...after several upgrades. MBM reported core net profit of RM51m for its 4Q19, bringing FY19 core earnings to RM193m, after normalizing for: (1) RM25m gain on disposal of a 22% stake in Hino (2) RM11.9m gain on disposal of properties (3) RM9.5m write-off of one off cost related to the motor division. The core FY19 earnings were in-line, accounting for 102% of both our and consensus estimates, though this should be taken in context with the numerous consensus upgrades throughout FY19.

Dividends. An interim dividend of 7sen/share was declared bringing FY19 interim dividends to 13sen/share, some 117% higher compared to FY18 interim dividends. In FY18, MBM also proposed a final dividend of 6sen/share (in Apr19), which brought FY18 total dividends to 12sen/share. A final dividend for FY19 has yet to be announced but we believe is very likely. MBM's FY19 entailed an FCF yield of 16% while the interim dividends so far represent only a 3.3% yield and just a 23% payout relative to reported EPS. As such, we stick to our forecast of FY19 total dividends of 23sen/share (45% payout) which translates to a generous yield of 6%. Earlier in FY19, MBM adopted a new dividend policy of a minimum 60% payout at the holding company level (estimated 40%-45% payout at group level).

Exceptionally high base in 4Q18. Group core net profit declined 23%yoy to RM51m in 4Q19. This was mainly due to an exceptionally strong base in 4Q18 which was driven by fulfilment of back orders after the production disruption for the MyVi production line was resolved in 3Q18. For the auto parts unit (under JCE), the strong 4Q18 base was also driven by fulfilment of backorders during the GST-free period.

Solid balance sheet. Gross debt levels reduced further to RM36m in 4Q19 (from RM148m in 1Q19) as the group pared down debt related to OMIA utilizing partly, it's RM74m proceeds from sale of a 22% stake in Hino in 2Q19. MBM's net cash position is underpinned. Group net cash of RM228m as of end-4Q19 accounts for some 15% of MBM's market cap.

Unchanged Target Price: RM4.55

RETURN STATISTICS

Price @ 26 th Feb 2020 (RM)	3.96
Expected share price return (%)	+14.8
Expected dividend yield (%)	+6.3
Expected total return (%)	+21.1

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-9.3	-10.3
3 months	-6.3	-7.6
12 months	97.9	110.7

KEY STATISTICS

FBM KLCI	1495.19
Syariah compliant	Yes
Issue shares (m)	390.89
Estimated free float (%)	36.6
Market Capitalisation (RM'm)	1575.29
52-wk price range (RM)	1.86 – 4.47
Beta vs FBM KLCI (x)	0.64
Monthly velocity (%)	0.01
Monthly volatility (%)	22.49
3-mth average daily volume (m)	1.15
3-mth average daily value (RM'm)	4.7
Top Shareholders (%)	
Med-Bumikar Mara Sdn Bhd	49.50
Employees Provident Fund Board	8.86
AIA Bhd	4.03

Analyst(s)

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INVESTMENT STATISTICS

FYE Dec	FY17	FY18	FY19	FY20F	FY21F
Revenue (RM'm)	1,732.6	1,928.2	2,088.5	1,854.3	1,877.6
EBIT (RM'm)	(257.6)	12.5	61.0	40.1	41.3
Pre-tax Profit (RM'm)	(148.5)	200.7	263.2	272.7	282.0
Normalised PATAMI (RM'm)	86.1	168.3	205.2	216.4	223.7
FD EPS (sen)	22.1	43.1	52.6	55.5	57.3
EPS growth (%)	1.6	95.6	21.9	5.4	3.4
PER (x)	18.0	9.2	7.5	7.1	6.9
Net Dividend (sen) *	3.0	12.0	23.2	25.0	25.8
Net Dividend Yield (%) *	0.8	3.0	5.9	6.3	6.5

Source: Company, MIDFR * (1) FY18 dividends includes a 6sen/share final dividend announced in Apr19. (2) Our FY19F dividends include an assumption of a final dividend.

MBM remains our top sector pick. Re-affirm BUY on MBM at unchanged TP of RM4.55. At just 7x FY20F earnings coupled with an attractive 6% yield, MBM remains a cheap proxy to Perodua's volume expansion and the spillover on its parts manufacturing and Perodua dealership units. Key catalysts: (1) Launch of Perodua's new B-segment SUV in FY20F (2) Recovery in industry production driven by new national car launches (3) Sale of OMIA assets (4) Higher dividends on the back of an underleveraged balance sheet. Risk to our call is weaker than expected demand and a weak RM. 

MBM RESOURCES BERHAD: 4QFY19 RESULTS SUMMARY

FYE Dec (RMm)	4Q18	3Q19	4Q19	YoY	QoQ	FY18	FY19	YTD
Revenue	485.4	515.3	496.1	2.2%	-3.7%	1882.7	2088.5	10.9%
Operating profit	10.9	10.8	(2.8)	-125.9%	-126.2%	31.6	61.0	92.9%
Net finance cost	0.6	0.4	1.0	86.7%	145.2%	(0.4)	2.5	NA
JCE	4.6	2.3	3.3	-28.4%	43.0%	14.3	11.9	-17.1%
Associates	67.9	53.8	40.7	-40.1%	-24.5%	183.1	187.8	2.6%
Pretax income	84.0	67.4	42.2	-49.8%	-37.4%	228.6	263.2	15.1%
Tax	(8.1)	(2.4)	(0.0)	NA	NA	(15.1)	(8.5)	NA
PAT	75.9	64.9	42.1	-44.5%	-35.1%	213.5	254.6	19.2%
MI/Discontinued Ops	14.6	9.2	1.1	-92.5%	-88.0%	46.8	34.1	-27.0%
Net profit	61.3	55.8	41.0	-33.1%	-26.4%	166.8	220.5	32.2%
Core net profit	66.0	55.8	50.5	-23.4%	-9.4%	169.6	193.3	14.0%
GDPS (sen) *	3.00	0.00	7.00	133.3%	NA	6.00	13.00	116.7%
Core EPS (sen)	16.91	14.29	12.95	-23.4%	-9.4%	42.74	49.55	15.9%
Operating margin	2.3%	2.1%	-0.6%			1.7%	2.9%	
Pretax margin	17.3%	13.1%	8.5%			12.1%	12.6%	
Tax rate	-9.6%	-3.6%	-0.1%			-6.6%	-3.2%	
Core net profit margin	13.6%	10.8%	10.2%			9.0%	9.3%	
Revenue by division	4Q18	3Q19	4Q19	YoY	QoQ	FY18	FY19	YTD
Motor trading	436.7	468.5	438.2	0.4%	-6.5%	1,568.4	1,879.7	19.9%
Parts Manufacturing	46.1	46.4	57.4	24.5%	23.7%	199.7	220.5	10.4%
Discontinued alloy wheel ops	12.3	0.0	0.0	NA	NA	NA	NA	NA
Pretax by division								
Motor trading	8.2	8.8	(2.3)	NA	NA	24.2	33.4	38.1%
Parts Manufacturing	4.5	2.3	2.5	-44.4%	7.8%	(14.7)	8.3	NA
Discontinued alloy wheel ops	(7.6)	(1.8)	1.4	NA	NA	(24.6)	(8.2)	-66.9%
Pretax margin								
Motor trading	1.9%	1.9%	-0.5%			1.5%	1.8%	15.3%
Parts Manufacturing	9.7%	5.0%	4.3%			-7.4%	3.8%	-151.1%
P2 TIV (units)- MAA	59,040	56,972	61,587	4.3%	8.1%	227,243	240,341	5.8%

Source: Company, MIDFR * FY18: Reflects only interim dividends for fair comparison

Income Statement (RMm)	FY17	FY18	FY19	FY20F	FY21F
Revenue	1,732.6	1,928.2	2,088.5	1,854.3	1,877.6
Operating expenses	(1,990.1)	(1,915.8)	(2,027.5)	(1,814.2)	(1,836.4)
EBIT	(257.6)	12.5	61.0	40.1	41.3
Net interest expense	(11.3)	(5.9)	2.5	6.5	9.0
Associates/JCE	120.4	194.1	199.6	226.1	231.7
PBT	(148.5)	200.7	263.2	272.7	282.0
Taxation	(7.5)	(11.7)	(8.5)	(27.3)	(28.2)
Minority Interest	(7.2)	23.5	34.1	29.1	30.1
Net profit	(148.8)	165.5	220.5	216.4	223.7
Core net profit	86.1	168.3	193.3	216.4	223.7
Consensus net profit	79.0	138.4	202.2	212.0	218.8
MIDF / Consensus	9.0%	21.6%	-4.4%	2.1%	2.3%
Balance Sheet (RMm)	FY17	FY18	FY19	FY20F	FY21F
Non-current assets	1,567.9	1,645.0	1,616.0	1,923.5	2,003.7
PPE	334.7	243.2	231.6	241.2	240.3
Investments in associate	1,105.0	1,207.9	1,218.7	1,196.5	1,250.9
Others	128.2	193.9	165.7	485.8	512.5
Current assets	506.6	464.3	573.4	647.6	712.2
Inventories	148.2	104.8	105.2	129.8	131.4
Receivables	150.5	138.1	142.4	166.9	169.0
Others	14.5	26.7	62.1	31.1	31.1
Cash & equivalent	193.3	194.7	263.7	319.8	380.7
TOTAL ASSETS	2,074.5	2,109.3	2,189.4	2,571.1	2,716.0
Share capital	391.7	391.7	391.7	391.7	391.7
Minority Interest	215.7	250.6	264.1	360.1	390.2
Reserves	1,047.9	1,186.4	1,352.2	1,630.8	1,753.9
TOTAL EQUITY	1,655.3	1,828.6	2,008.0	2,382.6	2,535.7
Non-current liabilities	116.6	92.6	28.6	31.6	26.6
Long-term borrowings	108.2	85.5	19.3	20.0	15.0
Deferred tax liabilities	4.4	3.7	4.9	3.7	3.7
Others	3.9	3.4	4.4	7.9	7.9
Current liabilities	302.6	188.1	152.7	156.9	153.6
Short-term borrowings	168.5	58.2	16.6	16.0	11.0
Payables	131.6	126.1	132.7	138.6	140.4
Others	2.5	3.8	3.4	2.2	2.2
TOTAL LIABILITIES	419.2	280.7	181.4	188.5	180.2

Cash Flow Statement (RMm)	FY17	FY18	FY19	FY20F	FY21F
Operating activities					
PBT	83.5	200.7	255.0	245.5	253.8
Depreciation & Amortization	29.9	21.1	19.3	21.0	20.9
Chgs in working capital	(2.4)	50.6	26.8	(2.4)	(2.0)
Others	(35.2)	(208.1)	(271.8)	(226.1)	(231.7)
CF from Operations	75.8	64.4	29.2	37.8	41.0
Investing activities					
Capex	(20.0)	(9.7)	(12.0)	(20.0)	(20.0)
Others	135.6	112.6	236.4	147.0	150.6
CF from Investments	115.6	102.9	224.4	127.0	130.6
Financing activities					
Dividends paid	(11.0)	(24.9)	(70.0)	(97.3)	(100.6)
Net proceeds in borrowings	(102.1)	(144.0)	(106.5)	(10.0)	(10.0)
Others	(67.6)	-	(9.3)	-	-
CF from Financing	(180.7)	(169.0)	(185.8)	(107.3)	(110.6)
Net changes in cash	10.8	(1.7)	67.9	57.5	60.9
Beginning cash	209.1	219.8	218.1	286.0	343.5
Overdrafts & Deposits					
Ending cash	219.8	218.1	286.0	343.5	404.4
Ratios	FY17	FY18	FY19	FY20F	FY21F
Revenue growth	3.1%	11.3%	8.3%	-11.2%	1.3%
EBIT growth	NA	-104.8%	389.3%	-34.3%	3.0%
Core net profit growth	1.6%	95.6%	14.8%	11.9%	3.4%
PBT margin	-8.6%	10.4%	12.6%	14.7%	15.0%
Core net profit margin	5.0%	8.7%	9.3%	11.7%	11.9%
ROE	6.0%	10.7%	11.1%	10.7%	10.4%
ROA	4.1%	8.0%	8.8%	8.4%	8.2%
Net gearing (%)	5.8%	-3.2%	-13.1%	-14.0%	-16.5%
Book value/share (RM)	3.69	4.04	4.47	5.18	5.50
PBV (x)	1.07	0.98	0.89	0.76	0.72
FCF/share (RM)	0.49	0.43	0.65	0.42	0.44
FCF yield	12.4%	10.8%	16.4%	10.7%	11.1%

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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.