

# MBM Resources Berhad

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

**Maintain BUY**

## Comfortable Gap Maintained

### KEY INVESTMENT HIGHLIGHTS


- **Proton X70 pricing only marginally dropped; reduces risk of market share loss for the Aruz**
- **Proton's upcoming X50 may see pricing closer to Aruz, but offers distinctly different functionality**
- **Perodua's upcoming D55L to plug the gap in its B-segment SUV offering, possibly in 2H20**
- **Maintain MBM as our top sector pick at unchanged TP of RM4.55/share, solid 6% FY20F yields on the back of just 7x FY20F PER**

**Slight change to X70 pricing.** Proton released the pricing for its CKD X70 last week. The CKD X70 is available in four variants, priced at RM94,800-RM122,800. Though the exterior is pretty much similar to the CBU variant, the CKD X70 entails a new Volvo-Geely developed 7-speed dual clutch transmission which raises torque to 300Nm from 285Nm previously.

**Addresses concerns of potential market share loss.** The CKD X70 is priced only between RM1,000 – RM5,000 cheaper compared to the CBU variants, which is essentially just a 1% - 5% drop (See Exhibit 1). The marginal drop in price for the CKD X70 reduces the risk of market share loss for Perodua in our opinion, which positions its Aruz model (also a C-segment SUV) at the sub-RM80k price points, maintaining a comfortable gap between the two national cars C-segment SUVs.

**X50 kicking in next...** While Proton's upcoming B-segment SUV, the X50, may be priced closer to the Aruz, both models offer distinctly different functionalities as the Aruz is a C-segment, 7-seater, value people carrier, while the X50 is likely to be a 5-seater SUV, much smaller in size and is likely to receive a premium touch to it. We think the X50 is more likely to take share off the B-segment non-nationals rather than Perodua.

**...but so is the D55L.** Perodua too, is expected to launch its own B-segment SUV, possibly in 2H20. The D55L is reported to come off the Daihatsu Rocky/Toyota Raizer platform and is likely to be positioned just below the Aruz, which is priced at between RM70,000 – RM80,000. At this juncture, our forecast is for a 1.6%yoy growth (to 245K units) in Perodua's FY20F TIV.

**Recommendation.** We re-affirm our 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) A recovery in industry production driven by the 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 Ringgit. 

**Unchanged Target Price: RM4.55**

### RETURN STATISTICS

Price @ 14 Feb 2020 (RM)	4.03
Expected share price return (%)	+12.9
Expected dividend yield (%)	+6.2
<b>Expected total return (%)</b>	<b>+19.1</b>

### 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	1544.46
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)**  
**HAFRIZ** Hezry  
 hafriz.hezry@midf.com.my  
 03-2173 8392

### INVESTMENT STATISTICS

FYE Dec	FY16	FY17	FY18	FY19F	FY20F
Revenue (RM'm)	1,680.7	1,732.6	1,928.2	1,827.7	1,854.3
EBIT (RM'm)	(48.5)	(257.6)	12.5	37.0	40.1
Pre-tax Profit (RM'm)	79.4	(148.5)	200.7	255.1	272.8
Normalised PATAMI (RM'm)	84.8	86.1	168.3	201.5	216.4
FD EPS (sen)	21.7	22.1	43.1	51.7	55.5
EPS growth (%)	5.4	1.6	95.6	19.7	7.4
PER (x)	18.6	18.3	9.3	7.8	7.3
Net Dividend (sen)	6.0	3.0	12.0	23.2	25.0
Net Dividend Yield (%)	1.5	0.7	3.0	5.8	6.2

Source: Company, MIDFR

### DAIHATSU ROCKY – REPORTED TO BE THE BASE MODEL FOR PERODUA D55L



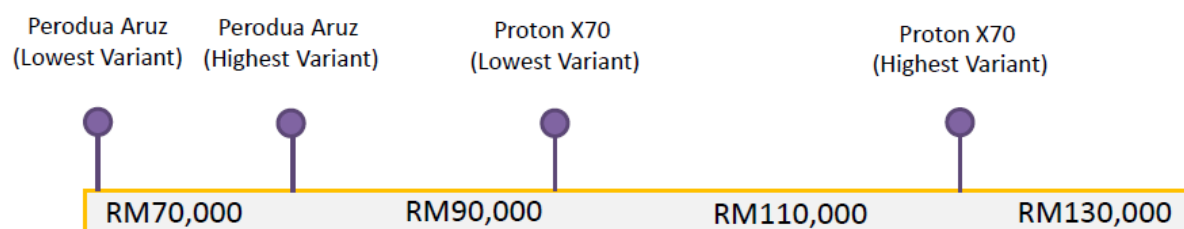
Source: Carlist, PaulTan, MIDFR

### Exhibit 1: X70 CKD Pricing vs CBU Pricing

Variants	X70 CBU	X70 CKD	Price Difference	
			RM	%
Standard	99,800	94,800	-5,000	-5.0%
Executive 2WD	109,800	106,800	-3,000	-2.7%
Premium 2WD	123,800	119,800	-4,000	-3.2%
Executive AWD	115,800	NA	NA	NA
Premium X (CKD) / Premium 2WD (CBU)	123,800	122,800	-1,000	-0.8%

Source: Carlist, PaulTan, MIDFR

### Exhibit 2: National Car SUV Price Points



Source: Companies, MIDFR

<b>Income Statement (RMm)</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19F</b>	<b>FY20F</b>
<b>Revenue</b>	<b>1,680.7</b>	<b>1,732.6</b>	<b>1,928.2</b>	<b>1,827.7</b>	<b>1,854.3</b>
Operating expenses	(1,729.3)	(1,990.1)	(1,915.8)	(1,790.7)	(1,814.2)
<b>EBIT</b>	<b>(48.5)</b>	<b>(257.6)</b>	<b>12.5</b>	<b>37.0</b>	<b>40.1</b>
Net interest expense	(12.2)	(11.3)	(5.9)	5.0	5.9
Associates/JCE	140.2	120.4	194.1	213.1	226.8
<b>PBT</b>	<b>79.4</b>	<b>(148.5)</b>	<b>200.7</b>	<b>255.1</b>	<b>272.8</b>
Taxation	(7.7)	(7.5)	(11.7)	(25.5)	(27.3)
Minority Interest	9.7	(7.2)	23.5	28.1	29.1
Net profit	62.0	(148.8)	165.5	201.5	216.4
<b>Core net profit</b>	<b>84.8</b>	<b>86.1</b>	<b>168.3</b>	<b>201.5</b>	<b>216.4</b>
<i>Consensus net profit</i>		<i>79.0</i>	<i>138.4</i>	<i>187.1</i>	<i>195.4</i>
<i>MIDF / Consensus</i>				<i>7.7%</i>	<i>10.7%</i>
<b>Balance Sheet (RMm)</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19F</b>	<b>FY20F</b>
<b>Non-current assets</b>	<b>1,824.7</b>	<b>1,567.9</b>	<b>1,645.0</b>	<b>1,862.4</b>	<b>1,958.9</b>
PPE	354.3	334.7	243.2	242.2	241.2
Investments in associate	1,057.2	1,105.0	1,168.0	1,164.3	1,232.0
Others	413.2	128.2	233.8	456.0	485.8
<b>Current assets</b>	<b>538.3</b>	<b>506.6</b>	<b>464.3</b>	<b>568.7</b>	<b>612.2</b>
Inventories	191.9	148.2	116.2	127.9	129.8
Receivables	148.3	150.5	146.5	164.5	166.9
Others	31.1	14.5	(34.1)	31.1	31.1
Cash & equivalent	167.0	193.3	235.7	245.2	284.4
<b>TOTAL ASSETS</b>	<b>2,362.9</b>	<b>2,074.5</b>	<b>2,109.3</b>	<b>2,431.1</b>	<b>2,571.1</b>
Share capital	390.7	390.7	390.7	390.7	390.7
Minority Interest	266.9	215.7	303.0	331.0	360.2
Reserves	1,210.6	1,048.9	1,134.9	1,512.7	1,631.7
<b>TOTAL EQUITY</b>	<b>1,868.2</b>	<b>1,655.3</b>	<b>1,828.6</b>	<b>2,234.4</b>	<b>2,382.6</b>
<b>Non-current liabilities</b>	<b>212.9</b>	<b>116.6</b>	<b>92.6</b>	<b>36.6</b>	<b>31.6</b>
Long-term borrowings	201.3	108.2	85.5	25.0	20.0
Deferred tax liabilities	3.7	4.4	3.7	3.7	3.7
Others	7.9	3.9	3.4	7.9	7.9
<b>Current liabilities</b>	<b>281.8</b>	<b>302.6</b>	<b>188.1</b>	<b>160.1</b>	<b>156.9</b>
Short-term borrowings	170.0	168.5	58.2	21.0	16.0
Payables	109.6	131.6	126.1	136.8	138.6
Others	2.2	2.5	3.8	2.2	2.2
<b>TOTAL LIABILITIES</b>	<b>494.7</b>	<b>419.2</b>	<b>280.7</b>	<b>196.7</b>	<b>188.5</b>

<b>Cash Flow Statement (RMm)</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19F</b>	<b>FY20F</b>
<b>Operating activities</b>					
PBT	82.8	83.5	200.7	229.6	245.5
Depreciation & Amortization	25.7	29.9	21.1	21.1	21.0
Chgs in working capital	(16.2)	(2.4)	50.6	26.8	(2.4)
Others	(138.1)	(35.2)	(208.1)	(213.1)	(226.8)
<b>CF from Operations</b>	<b>(45.9)</b>	<b>75.8</b>	<b>64.4</b>	<b>64.3</b>	<b>37.3</b>
<b>Investing activities</b>					
Capex	(25.5)	(20.0)	(9.7)	(20.0)	(20.0)
Others	71.3	135.6	112.6	195.9	129.3
<b>CF from Investments</b>	<b>45.8</b>	<b>115.6</b>	<b>102.9</b>	<b>175.9</b>	<b>109.3</b>
<b>Financing activities</b>					
Dividends paid	(32.2)	(11.0)	(24.9)	(90.6)	(97.3)
Net proceeds in borrowings	(40.7)	(102.1)	(144.0)	(140.0)	(10.0)
Others	26.7	(67.6)	-	-	-
<b>CF from Financing</b>	<b>(46.2)</b>	<b>(180.7)</b>	<b>(169.0)</b>	<b>(230.6)</b>	<b>(107.3)</b>
<b>Net changes in cash</b>	<b>(46.3)</b>	<b>10.8</b>	<b>(1.7)</b>	<b>9.5</b>	<b>39.2</b>
Beginning cash	224.2	209.1	219.8	218.1	227.6
Overdrafts & Deposits	31.2				
<b>Ending cash</b>	<b>209.1</b>	<b>219.8</b>	<b>218.1</b>	<b>227.6</b>	<b>266.9</b>
<b>Ratios</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19F</b>	<b>FY20F</b>
Revenue growth	-7.5%	3.1%	11.3%	-5.2%	1.5%
EBIT growth	NA	NA	-104.8%	196.5%	8.5%
Core net profit growth	5.4%	1.6%	95.6%	19.7%	7.4%
PBT margin	4.7%	-8.6%	10.4%	14.0%	14.7%
Core net profit margin	5.0%	5.0%	8.7%	11.0%	11.7%
ROE	5.3%	6.0%	11.0%	10.6%	10.7%
ROA	3.6%	4.1%	8.0%	8.3%	8.4%
Net gearing (%)	12.8%	5.8%	-6.0%	-10.5%	-12.3%
Book value/share (RM)	4.10	3.69	3.91	4.88	5.18
PBV (x)	0.90	1.00	0.95	0.76	0.71
FCF/share (RM)	-0.00	0.49	0.43	0.62	0.38

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.