

02 December 2015 | Corporate Update

MBM Resources Berhad

Under Review


Under Review
Consensus TP: RM2.90

- We put our previous BUY call and forecasts for MBM under review pending a wholesale revision to our numbers.
- The strong JPY/MYR is a key swing factor to earnings dynamics from 3Q15, while volume outlook is increasingly muted given prolonged weakness in underlying demand.
- MBM is hit on all fronts currently, i.e. by the weaker Ringgit and weak volumes given its multi-brand dealerships, volume-reliant auto parts unit and forex-sensitive auto manufacturing units.
- MBM's weak 3Q15 underpins our review which will likely see downside to current projections and target price (TP).

What's new? We are putting our previous BUY call and forecasts for MBM under review pending a wholesale revision to our numbers and recommendation. MBM's recent 9M15 results missed estimates by a mile following a massive 67%yoy drop in 3Q15 earnings. A key factor driving this was a 54%yoy drop in associate contribution (which accounted for ~90% of bottomline in FY12-14 and comprise of its 22% stake in Perodua and 42% stake in Hino). On top of this, earnings from the Autoliv-Hirota JV (airbag manufacturing which accounted for 19% of bottomline in FY14) more than halved both on year-on-year and sequential basis given a sharp drop in supply to a major client.

What has changed? Although the 3Q15 results could have been dragged in part by initial start-up costs for Perodua's new engine plant, a key swing factor was the stronger JPY/MYR which appreciated sharply from June 2015 (back then the exchange rate was RM3.02/JPY100) to current levels of RM3.46/JPY100.

Secondly, the soft underlying demand environment has prolonged. While Perodua is still on track to hit our volume forecast of 199,987 units (+2%yoy) for FY15, visibility is increasingly muted given a possibly shortening backlog (from up to 6 months waiting list earlier in the year) and the negative impact on MBM's auto parts division from a general slowdown in TIV (which is down 1.2% YTD vs. our previous forecast of +1.5% for FY15).

Under review. Premised on the deteriorating industry dynamics, our prior forecasts, target price and BUY call are now placed Under Review which will likely see downward revisions. 

RETURN STATS	
Price (1 December 2015)	RM2.68
Target Price (Consensus)	RM2.90
Expected Share Price Return	+8.2%
Expected Dividend Yield	+3.5%
Expected Total Return	+11.7%

STOCK INFO	
KLCI	1,685.62
Bursa / Bloomberg	5983 / MBM MK
Board / Sector	Main/Automotive
Syariah Compliant	Yes
Issued shares (mil)	390.2
Par Value (RM)	1.00
Market cap. (RM'm)	1045.7
Price over NA	1.14
52-wk price Range	RM3.50-2.57
Beta (against KLCI)	0.5x
3-mth Avg Daily Vol	6.31m
3-mth Avg Daily Value	RM20.3m
Major Shareholders (%)	
Med-Bumikar	49.9
EPF	14.9
AIA	4.0

INVESTMENT STATISTICS

FYE Dec	FY13	FY14	FY15F	FY16F	FY17F
Revenue (RM'm)	2,266.9	1,780.3	1,745.0	1,815.0	1,910.0
EBIT (RM'm)	70.2	-1.3	11.4	16.6	24.2
Pre-tax Profit (RM'm)	195.7	132.2	128.8	143.0	155.0
Normalised PATAMI (RM'm)	138.6	114.2	94.3	118.1	128.8
FD EPS (sen)	35.5	29.3	24.2	30.3	33.0
EPS growth (%)	2.6	-17.6	-17.4	25.3	9.0
PER (x)	7.5	9.2	11.1	8.9	8.1
Net Dividend (sen)	10.7	6.8	8.1	9.5	10.3
Net Dividend Yield (%)	4.0	2.5	3.0	3.5	3.8

Source: MIDFR, Bloomberg Consensus

DAILY PRICE CHART



Source: Bloomberg, MIDFR

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Exhibit 1: JPY/MYR has strengthened significantly over the past 6 months



Source: Bloomberg, MIDFR

Exhibit 2: Average quarterly forex trends

	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15
USD : RM	3.30	3.24	3.19	3.37	3.62	3.66	4.05
JPY : RM	3.21	3.17	3.07	2.94	3.04	3.02	3.32

Source: Bloomberg, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.