Company Visit | Monday, 04 July 2022

Bermaz Auto Berhad

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

Maintain BUY

Revving Up its Engine

***Revised* Target Price: RM2.36**

(from RM2.20 previously)

KEY INVESTMENT HIGHLIGHTS

- **Strong outstanding bookings of almost 10K to sustain momentum till early-2023**
- **Third Mazda CKD model rollout in December**
- **Kickstarting Kia CKD model launch with the Carnival and Sorento in FY23**
- **Strong 33%-39% volume growth expected in FY23**
- **FY23F/24F earnings raised by 3.4%/17.0%**
- **Re-affirm BUY at a higher TP of RM2.36**

We visited BAuto recently and came out increasingly confident of its earnings recovery momentum this year as well as growth prospects of its newly acquired brands, Kia and Peugeot.

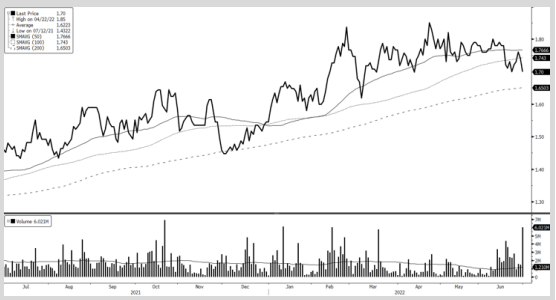
Solid outstanding bookings. Since the Ministry of Finance's announcement of the vehicle SST exemption expiry on 30th June 2022, bookings have shot through the roof. We gather that daily bookings for BAuto's Mazda franchise shot up to 150 units/day compared to the usual 30-40 units/day. Outstanding bookings for Mazda now stand at around 10K units (equivalent to an estimated 8-9 months waiting list) from 8.5K previously with a 70:30 split between CKD and CBU models. This order bank should last the group till March 2023. Meanwhile, Peugeot is sitting on outstanding bookings of >600 units (circa 4 months waiting list) while Kia has outstanding bookings of close to 700 units. The strong booking bank should provide good topline visibility for the group till early next year.

Third Mazda CKD model underway. The next kicker for BAuto will be the local assembly of the CX30 model, which is expected to commence in December. The CKD CX30 will be third Mazda CKD model after the CX5 and CX8. The CX30 is currently one of the best-selling CBU model for the group, generating volume of 666 units (6% of Mazda TIV) in FY22. Given duty savings from local assembly, we expect the CKD CX30 to be priced meaningfully lower than the CBU variants. BAuto is targeting volumes of 4K-4.5K/annum for the CKD CX30, which could expand Mazda TIV by an estimated 19% annually. Introduction of the CKD CX30 is also timely to buffer any potential demand weakness once SST-exempted bookings are exhausted by March 2023, in our opinion.

Two Kia CKD model rollout in FY23. Kia's maiden CKD model, the Carnival is expected to be rolled out within 3QCY22. The CKD variant is expected to come in 7 and 8-seater configurations. Combined with the existing CBU variant, the group is targeting monthly volumes of 180-200 units. The second CKD model is the Sorento (7-seater SUV) expected to be rolled out in 4QCY22. For the domestic market, BAuto is targeting conservative volumes of circa 150 units/month. The majority of the expected 2-3K/month local production of the Sorento will be exported to overseas markets in Thailand, Philippines and Indonesia.

RETURN STATISTICS	
Price @ 1st July 2022 (RM)	1.71
Expected share price return (%)	+37.9
Expected dividend yield (%)	+4.6
Expected total return (%)	**+42.5**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-4.5	2.7
3 months	-5.0	5.4
12 months	12.4	19.4

KEY STATISTICS	
FBM KLCI	1,449.74
Syariah compliant	Yes
F4BGM Index	Yes
ESG Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	1162.19
Estimated free float (%)	51.40
Market Capitalisation (RM'm)	1,987.34
52-wk price range	RM1.46 - RM1.88
Beta vs FBM KLCI (x)	0.67
Monthly velocity (%)	0.00
Monthly volatility (%)	19.10
3-mth average daily volume (m)	1.11
3-mth average daily value (RM'm)	1.96
Top Shareholders (%)	
Employees Provident Fund Board	18.26
Dynamic Milestone Sdn Bhd	14.46
Amanah Saham Nasional Bhd	7.89

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INVESTMENT STATISTICS

FYE Apr	FY20	FY21	FY22	FY23F	FY24F
Revenue (RM'm)	1,759.0	2,287.9	2,325.1	2,895.2	3,123.0
EBIT (RM'm)	108.1	159.6	204.5	256.1	307.7
Pre-tax Profit (RM'm)	131.8	172.7	218.6	271.2	334.1
Core net profit (RM'm)	100.5	134.8	157.0	183.1	229.4
FD EPS (sen)	8.6	11.6	13.5	15.7	19.7
EPS growth (%)	(62.1)	34.2	16.4	16.6	25.3
PER (x)	19.8	14.8	12.7	10.9	8.7
Net Dividend (sen)	7.5	6.5	8.8	7.9	9.8
Dividend Yield (%)	4.4	3.8	5.1	4.6	5.8

Source: Company, MIDFR

Lean and mean. As it is, the 11-seater CBU Carnival, which is currently Dinamikjaya Sdn Bhd's (DJMSB) sole model in the market generated volumes of an average 68 units/month, while outstanding bookings stand at around 700 units. With at least 1K units of the CBU Carnival expected to arrive by year-end, BAuto expects to be able to meet the stretched order backlog before the March 2023 deadline. The CBU Carnival is priced competitively at RM196,341 (inclusive of 50% SST exemption) as it is considered a transporter (or a minibus) which falls under the commercial vehicle category and therefore is charged no excise duties. Lean cost management combined with cost-sharing with the larger group at BAuto allows for a very low break-even volume of just 100 units at DJMSB – this enabled DJMSB to register profits within its first year of operations with just the CBU Carnival model, notwithstanding a RM6.2m provision that it took in FY22.

For the Peugeot brand, the new Landtrek pick-up truck is slated for introduction soon. The model is expected to be a CBU imported from China with a potential price tag of RM125k. Volumes are expected to range between 150-200 units/annum. Inclusive of full year contribution from the new Peugeot 2008 (small SUV) which was launched in January 2022, BAuto is targeting the Peugeot brand to generate sales volume of 2.2K-2.5K in FY23F, representing a 128%-159% growth against FY22 sales of 964 units. Like DJMSB, 55%-owned Bermaz Auto Alliance Sdn Bhd (BAASB) (housing Peugeot distribution operations) entails cost sharing with the BAuto group which enables very low break-even volume of <80-90 units/month.

Table 1: Snapshot of FY21/22 operating profit breakdown by brands

Operating Profit (RMm)	4Q21	3Q22	4Q22	QoQ	YoY	FY21	FY22	YTD
Subsidiaries:								
Mazda (Malaysian operations)	72.3	41.6	99.6	139.6%	37.7%	158.2	189.6	19.8%
Peugeot (Malaysian operations) (BAASB)	0.0	0.9	6.6	653.8%	NA	0.0	4.0	NA
Kia (Malaysian operations) (DJMSB)	-0.0	4.5	-3.0	-166.2%	-8647.1%	-0.0	0.4	1217.6%
Bermaz Auto Parts	0.0	0.9	0.8	-5.3%	NA	0.0	2.3	NA
Mazda (Philippines)	-3.2	0.7	1.1	55.8%	135.8%	-10.4	3.3	131.6%
Investment holding	1.0	0.0	0.8	2814.8%	-20.3%	0.7	1.0	51.5%
Total operating profit	**70.1**	**48.6**	**105.9**	**118.2%**	**51.1%**	**148.4**	**200.5**	**35.1%**

Sales volume (units) (subsidiaries)	4Q21	3Q22	4Q22	QoQ	YoY	FY21	FY22	YTD
Mazda (Malaysian operations)	3,660	3,169	4,551	43.6%	24.3%	13,439	12,038	-10.4%
Peugeot (Malaysian operations)	0	283	548	93.6%	NA	0	964	NA
Kia (Malaysian operations)	0	157	203	29.3%	NA	0	360	NA
Mazda (Philippines)	434	336	438	30.4%	0.9%	1,245	1,304	4.7%
Total Group	**4,094**	**3,945**	**5,740**	**45.5%**	**40.2%**	**14,684**	**14,666**	**-0.1%**

Source: Company, MIDFR

Legacy issues resolved. Legacy issues relating to past free service and maintenance deals have been sorted out with both of the group's new principals, Kia and Stellantis (Peugeot). For the Peugeot brand, BAuto has managed to fully obtain the funds to continue honoring past free service and maintenance offers issued by the previous distributor. For the Kia brand however, BAuto's Kia operations has had to take a partial hit with a RM6.2m provision last quarter (4QFY22) to honor this obligation. Nonetheless, with the issues finally resolved, BAuto is now able to move forward firmly with the 2 new brands. The group is also now standardizing its 5+5 year free service and maintenance packages across all the 3 brands in its stable.

Kickstarts EV model rollout. BAuto has also kickstarted the rollout of its EV models in the past week. The Kia EV6 was launched 2 weeks ago at a price tag of RM300K with the range topping GT variant (506km range, 7-year battery warranty) being the sole model offered. We gather that out of a total 300 units that has been committed for the Malaysian market in CY22, the first 5 units will be arriving on 1st July and have been fully booked, while another 2 batches of 50 units each will be arriving later in July and in August respectively. The remaining 195 units is expected by year-end. Meanwhile, the Mazda MX30 was launched just last week and priced at RM199K for the 'High' variant. Given smaller capacity with just 199km range, the model is mainly targeted for intra city use.

Expecting firm recovery in FY23F. BAuto saw slight volume contraction of -0.6%yoy in FY22 given impact of the lockdowns in 1Q-2QFY22. Mazda TIV fell -10%yoy during the year but this was partly compensated by fresh contribution from Peugeot and Kia. Nonetheless, the group expects a strong recovery in FY23; combined sales volume for the Malaysian operations is estimated to expand by 33%-39%yoy driven by an estimated 8%-12% expansion in Mazda volume to 13K-13.5K, a 128%-159% growth in Peugeot volumes to 2.2K-2.5K and maiden full year contribution from Kia, which is targeting 2.2K-2.5K unit sales in FY23F (FY22: 360 units).

Table 2: Low-range volume estimates

Sales volume (units) (Malaysia)	FY21	FY22	FY23F
Mazda	13,439	12,038	13,000
Kia	0	360	2,500
Peugeot	242	964	2,200
Total	**13,681**	**13,362**	**17,700**
Growth	*44.3%*	*-2.3%*	*32.5%*

Source: Company, MIDFR

Table 3: High-range volume estimates

Sales volume (units) (Malaysia)	FY21	FY22	FY23F
Mazda	13,439	12,038	13,500
Kia	0	360	2,500
Peugeot	242	964	2,500
Total	**13,681**	**13,362**	**18,500**
Growth	*44.3%*	*-2.3%*	*38.5%*

Source: Company, MIDFR

Beneficiary of the weaker JPY. BAuto is mainly exposed to the JPY via its CBU purchases from Mazda which typically accounts for around 30% of its Mazda sales mix. The weaker JPY against RM therefore is beneficial to BAuto as it reduces the group's CBU import cost. Every 1% change in the JPY is estimated to impact the group's FY23F bottomline by 1.1%. Meanwhile, Mazda CKDs are purchased in RM from 30%-owned associate, Mazda Malaysia Sdn Bhd (MMSB), keeping CKD costs largely stable for the group.

Chart 1: JPY:RM trend – the JPY has significantly weakened against the RM



Source: Bloomberg, MIDFR

Minimal impact from stronger USD and cost fluctuation. BAuto is exposed to the USD via Kia CBU purchases. However, this is currently limited to just one model i.e. the CBU Carnival. The group's USD exposure should be diluted once Kia's CKD programs kick in from the 3QCY22 onwards. CKDs from Peugeot and Kia (once rolled out) are purchased in RM, similar to the arrangement BAuto has with MMSB for Mazda CKD model purchases. This should mitigate the risk of a stronger USD to the group going forward.

Minimal cost pressure so far. We gather that so far there has been no change in prices of CKD kits supplied to MMSB by the principal but in any case, MMSB is well buffered by the favorable exchange rate against the JPY currently. Furthermore, CKDs are managed as a project and pricing is not arbitrarily changed throughout the lifecycle of a particular model, especially if the group believes that short-term spikes in cost can be recouped during the life of the model. In any case, BAuto's model mix had always been positioned at the higher price segments targeting financially stronger customers which would be less elastic to price changes, if any.

Capacity expansion at Inokom. Inokom will be spending around RM212m (which will be self-financed) to build a new paintshop at its plant. The new paintshop should improve the current bottleneck at the plant and will effectively expand Inokom's capacity from 30K units/annum to around 40K-50K/annum (on single-shift). This should accommodate the expansion in Mazda CKDs with the upcoming CKD CX30 in December as well as the slew of Kia CKD models for the domestic and export market over the next 2 years.

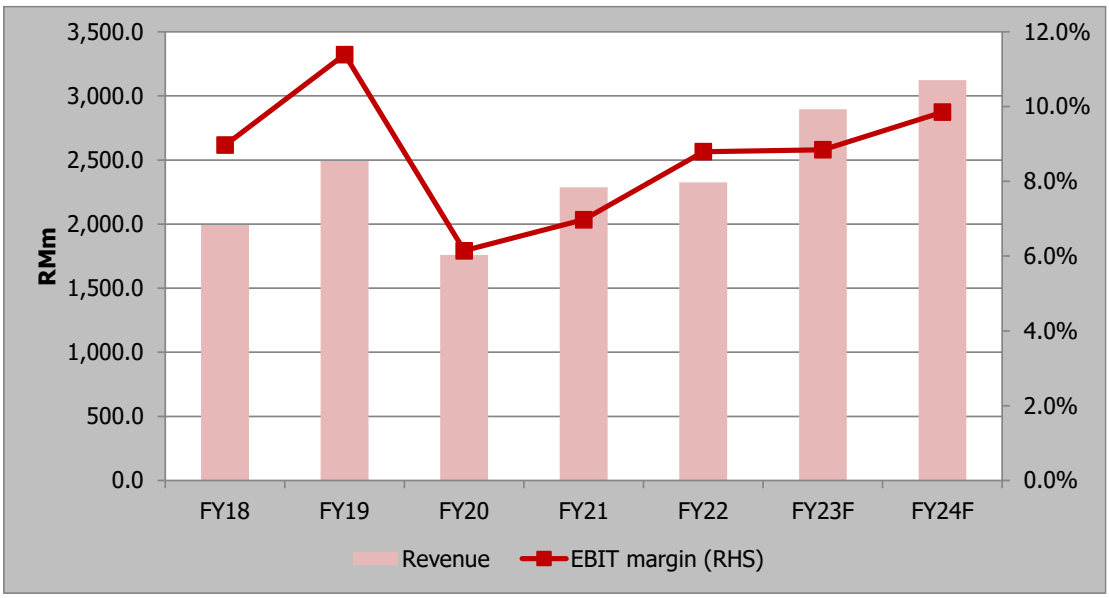
Earnings revision. We raise our FY23F/24F net profit by 3.4%/17.0% to factor in the CKD CX30 variant. Our FY23F/24F Mazda TIV is raised to 13.4K/14.3K (from 13K/13.3K previously), implying a +12%yoy Mazda sales volume growth in FY23F and another +7%yoy growth in FY24F. On groupwide basis, we project volumes for BAuto's Malaysian operations to grow by +37%yoy in FY23F and +9%yoy in FY24F from expansion of Mazda TIV and growth at Kia and Peugeot driven by new model rollouts. Margins are expected to improve in FY24F on higher CKD mix driven by the CKD CX30's full year contribution. For Kia specifically, FY24F volumes are expected to be driven by another 2 new models (Sportage/Carens), of which one of these models could be slated for local assembly. Our FY23F/24F net profit is now 3.8%/12.7% above consensus.

Table 4: Key volume assumptions

Volume assumptions (units) (Malaysia)	FY20	FY21	FY22	FY23F	FY24F
Mazda	9,484	13,439	12,038	13,460	14,344
Kia	-	-	360	2,500	3,070
Peugeot	-	242	964	2,400	2,520
Total	**9,484**	**13,681**	**13,362**	**18,360**	**19,934**
Growth		*44.3%*	*-2.3%*	*37.4%*	*8.6%*

Source: Company, MIDFR

Chart 2: Historical and projected revenue & margin trend



Source: Company, MIDFR

Recommendation. We re-affirm our **BUY** call on BAuto at a higher **TP** of **RM2.36** (from RM2.20 previously) following the earnings upgrade in this report and as we rollover our valuation base to FY23F (from CY22F previously). Our valuation pegs BAuto at 15x FY23F earnings, at par to its 5-year historical mean. BAuto is morphing into a multi-brand auto conglomerate following its recent brand acquisitions, which is expected to drive above-industry volume growth throughout our forecast horizon. Coupled with: (1) Undemanding valuation of 11x/9x FY23F/24F PER which is at 25%-40% discount to historical mean, (2) An expected earnings CAGR of +21% over our forecast horizon, (3) Attractive dividend yield (4.6%-5.8%), (4) Strong ROE of 21%-23%, we continue to advocate BAuto as our top sector pick. Key catalysts: (1) Sustained earnings improvement for underlying Mazda operations on normalizing margins and demand recovery, (2) A weaker JPY, (3) Rollout of new Kia models - CKDs from 3QCY22F onwards, (4) Rollout of the CKD CX30, (5) Budget 2022's EV duty exemptions which may incentivize consumer take-up of EV models – BAuto is well positioned to capitalize on this with ready EV models from Kia (EV6), Peugeot (2008 EV) and Mazda (MX30 EV).

Exhibit 1: Bermaz Auto product rollout



Source: Company, MIDFR

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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 *rise* 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 *fall* 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology