MBM Resources Berhad

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

Maintain BUY

Dividend Surprise on the Back of Strong Earnings

***Unchanged* Target Price: RM4.28**

KEY INVESTMENT HIGHLIGHTS

- **2Q22 result came in ahead of expectations**
- **Group core earnings up >+100%yoy/+46%qoq driven by better performance at the auto dealership division and higher associate earnings, mainly**
- **A second interim and special dividend of a total 16sen/share was declared on the back of strong earnings**
- **Maintain BUY at unchanged TP of RM4.28, dividend yields attractive at 6.5%**

1HFY22 beats expectations. MBM registered yet another strong quarter, registering net profit of RM74m for its 2QFY22 (+343%yoy). This brought 1HFY22 core earnings to RM129m (+102%yoy), well ahead of both our and consensus expectations at 62% and 63% of full year estimates respectively.

Dividend surprise. On the back of strong earnings, a first interim dividend of 6sen/share and a special dividend of 10sen/share was declared, effectively more than triple the 5sen/share announced in 2QY21 and represents a generous 48% payout. This is ahead of our conservative 40% payout. The 16sen/share dividends in 2QFY22 alone already represents an attractive 4.9% yield. MBM typically announces a second interim and a final dividend in the 4Q.

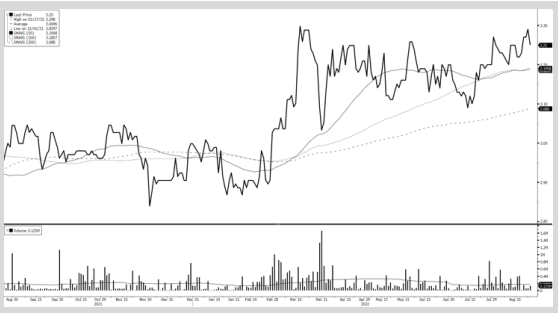
Solid performance. Group 2QFY22 pretax profit was up +246%yoy to RM79m. This was driven mainly by strong growth in associate earnings (mainly equity accounted earnings from 22.6%-owned Perodua) which was up +330%yoy, partly due to a low base last year given the MCO commencement from June 2021. Similar strength was seen across MBM's operating divisions – motor trading saw PBT rise by +88%yoy while parts manufacturing PBT was more than 8x higher. This was driven by a mix of improved revenues and margins.

On sequential basis, group core PBT rose +16%qoq. Associate earnings were up +7%qoq driven by stronger Perodua volumes on easing supply chain constraint. Motor trading saw significant improvement (+62%qoq) on improved supplies from Perodua coupled with stronger margins from better cost control and improved after sales contribution.

Potentially stronger 2H22. Taking cue from Perodua's target to increase production in 2HFY22, MBM is guiding for a potentially stronger 2HFY22 performance. To recap, Perodua is attempting to increase production to around 26K/month in 2H33 (vs. an average 21.7K/month in 1H22) to shorten its >12 months waiting list. Should this materialize, we see possibilities of Perodua outperforming even its own target of 247.8K (+30%yoy). As it stands, our FY22 Perodua TIV is 243.5K (+28%yoy) slightly more conservative than management's target – Perodua's Jan-Jul22 cumulative sales of 146K accounts for 60% of our projection. We keep our numbers pending MBM's analyst briefing this morning.

RETURN STATISTICS	
Price @ 25th August 2022 (RM)	3.29
Expected share price return (%)	+30.0
Expected dividend yield (%)	+6.5
Expected total return (%)	**+36.5**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	2.2	0.5
3 months	2.2	5.4
12 months	4.4	9.7

KEY STATISTICS	
FBM KLCI	1495.49
Syariah compliant	Yes
F4BGM Index	No
ESG Grading Band (Star rating)	☆☆
Issue shares (m)	390.89
Estimated free float (%)	30.58
Market Capitalisation (RM'm)	1,278.20
52-wk price range (RM)	RM2.91 - RM3.39
Beta vs FBM KLCI (x)	0.84
Monthly velocity (%)	0.00
Monthly volatility (%)	22.49
3-mth average daily volume (m)	0.17
3-mth average daily value (RM'm)	0.54
Top Shareholders (%)	
Med-Bumikar Mara Sdn Bhd	49.50
Employees Provident Fund Board	9.90
Lembaga Tabung Haji	4.98

Analyst:
Hafriz Hezry
hafriz.hezry@midf.com.my
03-2173 8392

INVESTMENT STATISTICS

FYE Dec	FY19	FY20	FY21	FY22F	FY23F
Revenue (RM'm)	2,088.5	1,793.5	1,531.9	1,934.7	1,958.3
EBIT (RM'm)	61.0	44.0	42.9	57.3	56.5
Pre-tax Profit (RM'm)	263.2	206.5	207.5	261.1	273.1
Normalised PATAMI (RM'm)	193.3	166.8	145.6	208.6	218.2
FD EPS (sen)	49.5	42.8	37.3	53.5	55.9
EPS growth (%)	14.8	-13.7	-12.7	43.3	4.6
PER (x)	6.6	7.7	8.8	6.2	5.9
Net Dividend (sen)	22.0	20.0	26.0	21.4	22.4
Net Dividend Yield (%)	6.7	6.1	7.9	6.5	6.8

Source: Company, MIDFR

Maintain BUY. We maintain our BUY call unchanged **TP** of **RM4.28**. Our valuation continues to peg MBM at unchanged 8x FY22F earnings, at par to historical mean. MBM is a cheap proxy to Perodua, trading at undemanding 6.1x FY22F PER, a 24% discount to historical mean. Perodua in turn, is one of the prime beneficiaries of a cyclical recovery in the auto sector given its dominant ~40% market share. This is coupled with MBM's auto parts and dealership units, which are spillover beneficiaries of a recovery in TIV and TIP, especially for the national cars which are highly localised. Net cash of 57sen/share makes up 17% of market cap, while dividend yields are attractive at 6.5% (at conservative 40% payout assumption). Key risk to our call is further lockdowns, a weaker than expected demand recovery, an aggressive interest rate normalization and a worse than expected chip shortage impact on auto production.

Exhibit 1: Sales Performance by Operations

% Changes *	Q2'22 vs Q1'22	Q2'22 vs Q2'21	YTD Jun'22 vs YTD Jun'21
Total Industry Volume (TIV) **	+ 7.3	+ 69.8	+ 33.0
Total Industry Production (TIP) **	+ 6.2	+ 73.9	+ 31.8
Total Group's Vehicles Sales	+ 10.5	+ 72.8	+ 29.8
Subsidiaries			
DMSB : Daihatsu & Hino trucks	- 13.3	+ 16.5	+ 42.0
DMMS : Perodua vehicles	+ 9.4	+ 73.8	+ 25.0
FAHB : Volvo & Volkswagen vehicles	+ 45.0	+ 120.1	+ 89.5
HASB	- 1.2	+ 80.8	+ 34.9
OMI	+ 3.2	+ 85.6	+ 38.5
Service throughputs	+ 12.2	+ 40.4	+ 16.8
Joint Venture			
AHSB	+ 18.1	+ 86.0	+ 34.4
Associated companies			
Perodua vehicles	+ 52.8	+ 60.4	+ 27.3
Hino trucks and buses	- 3.5	+ 52.8	+ 21.3

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 : Malaysian Automotive Association (MAA) 2022 and 2021*

Source: Company, MIDFR

MBM RESOURCES: 2QFY22 RESULT REVIEW

FYE Dec (RMm)	2Q21	1Q22	2Q22	YoY	QoQ	1H21	1H22	YTD
Revenue	320.9	478.5	557.0	73.6%	16.4%	739.2	1035.5	40.1%
Operating profit	**7.8**	**43.5**	**20.2**	160.4%	-53.6%	**14.7**	**63.7**	334.3%
Net finance cost	0.8	1.0	0.8	-1.9%	-23.4%	1.6	1.8	10.8%
JCE	1.6	3.1	3.6	121.5%	16.6%	5.8	6.7	16.3%
Associates	12.6	50.9	54.3	330.0%	6.8%	55.8	105.2	88.5%
Pretax income	**22.8**	**98.5**	**78.9**	**245.9%**	**-19.9%**	**77.9**	**177.4**	**127.9%**
Tax	(3.0)	(6.6)	(5.5)	84.6%	-16.9%	(5.3)	(12.1)	129.8%
PAT	19.9	91.9	73.5	270.0%	-20.1%	72.6	165.4	127.7%
MI/Discontinued Ops	3.1	6.7	(0.6)	-119.1%	-109.0%	8.8	2.0	-77.0%
Net profit	16.7	85.2	74.1	342.8%	-13.1%	63.8	163.3	155.9%
Core net profit	**16.7**	**50.8**	**74.1**	**342.8%**	**45.7%**	**63.8**	**128.9**	102.0%
GDPS (sen)	5.00	0.00	16.00	NA	NA	5.00	16.00	220.0%
Core EPS (sen)	4.29	13.02	18.98	342.8%	45.7%	16.36	33.04	102.0%
Operating margin	2.4%	9.1%	3.6%			2.0%	6.2%	
Pretax margin	7.1%	20.6%	14.2%			10.5%	17.1%	
Tax rate	-13.0%	-6.7%	-6.9%			-6.7%	-6.8%	
Core net profit margin	5.2%	10.6%	13.3%			8.6%	12.4%	
Revenue by division	**2Q21**	**1Q22**	**2Q22**	**YoY**	**QoQ**	**1H21**	**1H22**	**YTD**
Motor trading	282.0	408.7	485.4	72.1%	18.8%	636.6	894.1	40.5%
Parts Manufacturing	38.4	69.3	71.1	84.9%	2.5%	101.8	140.4	37.9%
Others	*0.4*	*0.5*	*0.6*	*28.3%*	*3.0%*	*0.9*	*1.1*	*26.9%*
Pretax by division (subsidiaries)								
Motor trading	9.1	10.6	17.2	88.1%	61.9%	14.1	27.8	97.7%
Parts Manufacturing	0.6	4.9	4.9	737.1%	1.2%	5.4	9.8	82.9%
Others	*(1.2)*	*(1.4)*	*(1.1)*	-3.4%	-17.9%	*(3.1)*	*(2.5)*	*-20.2%*
Pretax margin (subsidiaries)								
Motor trading	3.2%	2.6%	3.5%	*0.30*	*0.94*	2.2%	3.1%	40.8%
Parts Manufacturing	1.5%	7.0%	7.0%	*5.42*	*(0.09)*	5.3%	7.0%	32.6%
Others	*-268.2%*	*-253.0%*	*-201.8%*			*-361.3%*	*-227.0%*	
P2 TIV (units)- MAA	39,381	61,624	65,719	66.9%	6.6%	97,290	127,343	30.9%

Source: Company, MIDFR

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)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

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 MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment 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. MIDF Investment and its affiliates and related companies and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loess, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such companies mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

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