Bermaz Auto Berhad

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

Maintain BUY

Meets expectations

***Unchanged* Target Price: RM2.36**

KEY INVESTMENT HIGHLIGHTS

- **BAuto's 1QFY23 core earnings met expectations**
- **Positive dividend surprise with 3sen/share 1st interim**
- **Core 1QFY23 earnings up +370%yoy driven by strong volume recovery and underlying operating margin uplift**
- **Strong 5-6 months order backlog**
- **New booking momentum sustaining on partial SST subsidy**
- **Re-affirm BUY at unchanged TP of RM2.36, FY23F dividend yield raised to 6%**

Met expectations. BAuto's 1QFY23 result met expectations. The group reported a core net profit of RM50.6m (normalized for RM0.5m ESOS expense), which accounts for 28% of our and 29% of consensus estimates.

Dividend surprise. BAuto announced a generous 1st interim dividend of 3sen/share which is 6x higher than last year's 1st interim and represents a 69% payout against normalized earnings – this is well ahead of our conservative 50% payout assumption. BAuto typically announces interim dividends every quarter throughout the year.

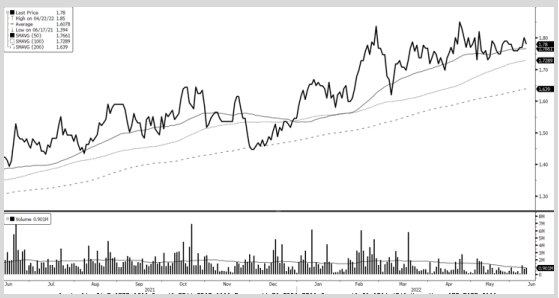
Key takeaways. Group core earnings were up +370%yoy due to improved sales volume this year and a depressed base in 1QFY22 which was hit by lockdowns in June and July 2021. On sequential basis, earnings were down -35%qoq as Mazda sales volume (-14%qoq) was impacted CKD component shortages arising from the China lockdowns. This has been resolved, we gather. However, given the component shortage, CKD proportion of overall Mazda sales were lower at 63% in 1QFY23 vs. 86% in 4QFY22, which dragged overall operating margin for the quarter to 9.8% - though still at commendable levels given that the CBU business is benefitting from the weaker JPY, the margins were lower sequentially. Nevertheless, we expect this to improve in line with improving CKD supply which fetches higher margins.

Strong booking bank. The group has secured outstanding bookings of ~12K for Mazda, >600 for Peugeot and 1200 for Kia as at end June. This will provide good revenue visibility for the group over the next 5-6 months. BAuto is confident of delivering these orders before the March 2023 deadline for SST-exemption qualified bookings.

Sustaining sales momentum post-SST exemption. We gather that new bookings continue to flow in post-SST exemption expiry on 30th June. For the Mazda brand, the group secured around 1K/month bookings in July and August, while so far in September, 500 bookings have been secured. These new booking trends are pretty much in-line with SST-holiday booking momentum. BAuto is currently offering a 50% discount on SST for bookings up till end-CY22 to maintain sales momentum. the cost is expected to be compensated through reduced A&P and dealer incentive spending.

RETURN STATISTICS	
Price @ 12th Sep 2022 (RM)	1.83
Expected share price return (%)	+28.8
Expected dividend yield (%)	+6.0
Expected total return (%)	**+34.8**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	1.1	6.6
3 months	-0.6	9.5
12 months	20.1	29.1

KEY STATISTICS	
FBM KLCI	1,497.96
Syariah compliant	Yes
F4BGM Index	Yes
ESG Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	1162.19
Estimated free float (%)	51.66
Market Capitalisation (RM'm)	2,126.81
52-wk price range	RM1.42 - RM1.88
Beta vs FBM KLCI (x)	0.60
Monthly velocity (%)	0.00
Monthly volatility (%)	19.10
3-mth average daily volume (m)	0.97
3-mth average daily value (RM'm)	1.71
Top Shareholders (%)	
Employees Provident Fund Board	18.20
Dynamic Milestone Sdn Bhd	14.38
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
Operating profit (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	333.2
Core net profit (RM'm)	100.5	134.8	157.0	183.1	228.7
FD EPS (sen)	8.6	11.6	13.5	15.7	19.6
EPS growth (%)	(62.1)	34.2	16.4	16.6	24.9
PER (x)	21.2	15.8	13.6	11.6	9.3
Net Dividend (sen)	7.5	6.5	8.8	11.0	13.7
Dividend Yield (%)	4.1	3.6	4.8	6.0	7.5

Source: Company, MIDFR

Key launches in next two quarters. Two new key CKDs are slated for launch in the next two quarters. The Kia Sorento CKD (7-seater SUV) is on track for launch around October-November, though volumes are mainly targeted for the overseas markets. BAuto is targeting volumes of 150 units/month for the domestic market (while the bulk of the 2K-3K/motnh production is slated for ASEAN ex-Vietnam). Though modest, this could double the current domestic Kia quarterly volume of ~450 units which is currently driven by the Carnival. For Mazda, the CX30 CKD is due for production in December 2022, with a possible launch early CY23. This will be the 3rd Mazda CKD model. BAuto is targeting annual volumes of 4K-4.5K/annum for this model vs. 600-700 units (around 6% of Mazda TIV) in FY22.

Well on track to hit volume targets. Groupwide volumes of 5252 units achieved so far in 1QFY23 is well in line to hit our target, accounting for 29% of our FY23F of 18,360 units (+37%yoy). The two CKD launches in the next 2 quarters as well as SST subsidy offered are expected to underpin volume momentum further. Meanwhile, JPY is hedged for the next 6-7 months, which bodes well for CBU margins. As such, we reaffirm our projections; after a +16%yoy earnings growth last year, we expect BAuto to register another +16%yoy growth for FY23. However, given a more aggressive stance on dividends, we raise our dividend payout assumption to 70% from a conservative 50% previously. Our new dividend forecasts now imply yields of 6.0%/7.5% over FY23F/24F.

Exhibit 1: Bermaz Auto product rollout



Source: Company, MIDFR

Recommendation. We re-affirm our **BUY** call on BAuto at unchanged **TP** of **RM2.36**. Our valuation pegs BAuto at 15x FY23F earnings, at par to its 5-year historical mean. The group is morphing into a multi-brand auto conglomerate following its recent brand acquisitions, which is expected to drive above-industry earnings and volume growth throughout our forecast horizon. Coupled with reasonably undemanding valuation of 11.6x FY23F PER against an expected earnings CAGR of +21% over our forecast horizon, as well as attractive dividend yield (6.0%-7.5%), 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 and Mazda models - CKDs from 4QCY22F onwards, (4) 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).

BAUTO: 1QFY23 Result Summary

FYE Apr (RMm)	1Q22	4Q22	1Q23	QoQ	YoY
Revenue	320.8	897.4	716.9	-20.1%	123.5%
Operating profit	**16.3**	**106.8**	**70.2**	**-34.3%**	**330.2%**
Investment income	1.9	1.9	2.9	49.9%	54.2%
Finance cost	(2.8)	(2.8)	(2.5)	-9.3%	-9.3%
Associates	(0.9)	9.5	4.0	-57.6%	538.6%
Pretax profit	14.5	115.4	74.6	-35.4%	415.1%
Tax	(4.1)	(34.6)	(18.0)		
PAT	10.3	80.8	56.6	-30.0%	447.5%
MI	0.1	2.1	6.5	201.6%	8745.2%
Net profit	10.3	78.7	50.2	-36.3%	388.5%
Core net profit	**10.8**	**77.8**	**50.6**	**-35.0%**	**369.6%**
Core EPS (sen)	0.92	6.68	4.34	-35.0%	369.6%
GDPS (sen)	0.50	4.50	3.00	-33.3%	500.0%
Operating margin	5.1%	11.9%	9.8%		
Pretax margin	4.5%	12.9%	10.4%		
Core net profit margin	3.4%	8.7%	7.1%		
Tax rate	28.6%	30.0%	24.1%		
Malaysia revenue (RMm)	270.6	840.1	658.0	-21.7%	143.1%
Philippines revenue (RMm)	50.2	57.3	58.9	2.9%	17.4%
Malaysia EBIT (RMm)	15.5	105.4	63.1	-40.1%	307.9%
Philippines EBIT (RMm)	1.1	1.6	7.4	374.3%	567.8%
Malaysia EBIT margin	5.7%	12.6%	9.6%		
Philippines EBIT margin	2.2%	2.7%	12.6%		

Source: Company, MIDFR

BAUTO: 1QFY23 Volume Breakdown

Sales volume (units) (subsidiaries)	1Q22	4Q22	1Q23	QoQ	YoY
Mazda (Malaysian operations)	1,619	4,551	3,908	-14.1%	141.4%
Peugeot (Malaysian operations)	0	548	474	-13.5%	NA
Kia (Malaysian operations)	0	203	448	120.7%	NA
Mazda (Philippines)	315	438	422	-3.7%	34.0%
Total volume	**1,934**	**5,740**	**5,252**	**-8.5%**	**171.6%**

Source: Company, MIDFR

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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