MBM Resources Berhad

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

Maintain BUY

Record year in the making

Revised Target Price: RM4.60

(from RM4.28)

KEY INVESTMENT HIGHLIGHTS

- **3Q22 result beats expectations.**
- **Group core earnings up >+100%yoy against a low base last year**
- **Supply improving for key Perodua and VW brands**
- **FY22F/23F earnings revised higher by 8%/3%**
- **Maintain BUY at higher TP of RM4.60, dividend yields attractive at 7.0%**

9M22 beats expectations. MBM's 9M22 result came in above expectations. The group registered a net profit of RM60m for its 3Q22, which brought 9M22 core earnings to RM177m. This accounts for 85% and 82% of our and consensus full year estimates respectively.

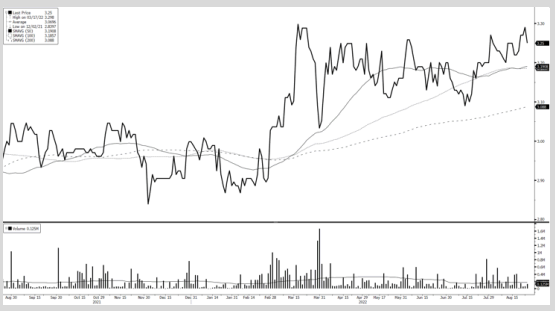
Solid performance. The group's 3Q22 earnings showed significant improvement against 3Q21 due to the low base effect from the lockdowns last year. Supplies from Perodua and VW improved during the quarter but was offset by shortage of supplies from Volvo, which impacted the motor trading division slightly on sequential basis. Additionally, associate earnings were also weaker sequentially, albeit still at elevated levels given still strong demand at Perodua and Hino.

Potentially stronger 2H22. Taking cue from Perodua's target to increase production in 2HFY22, MBM has been guiding for a potentially stronger 2HFY22 performance and record-breaking earnings for FY22. 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).

Earnings revision. We revise up FY22F/23F earnings by 8%/3% to reflect higher Perodua TIV to 254K for both years (from 243.5K previously), higher dealership sales volume assumption and higher production for the auto parts division. We now expect FY22F earnings to grow by +55%yoy, while FY23F earnings is expected to remain flattish against a record year this year. Perodua's 9M22 TIV makes up 77% of our revised FY22 projection.

RETURN STATISTICS	
Price @ 24th Nov 2022 (RM)	3.29
Expected share price return (%)	+40.2
Expected dividend yield (%)	+7.0
Expected total return (%)	**+47.2**

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	1501.88
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

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INVESTMENT STATISTICS

FYE Dec	FY19	FY20	FY21	FY22F	FY23F
Revenue (RM'm)	2,088.5	1,793.5	1,531.9	2,018.7	2,015.6
EBIT (RM'm)	61.0	44.0	42.9	63.4	59.3
Pre-tax Profit (RM'm)	263.2	206.5	207.5	281.3	281.7
Normalised PATAMI (RM'm)	193.3	166.8	145.6	225.0	224.9
FD EPS (sen)	49.5	42.8	37.3	57.7	57.6
EPS growth (%)	14.8	-13.7	-12.7	54.6	-0.1
PER (x)	6.6	7.7	8.8	5.7	5.7
Net Dividend (sen)	22.0	20.0	26.0	23.1	23.1
Net Dividend Yield (%)	6.7	6.1	7.9	7.0	7.0

Source: Company, MIDFR

Maintain BUY. We maintain our BUY call at a higher **TP** of **RM4.60** (from RM4.28 previously). Our valuation continues to peg MBM at unchanged 8x FY23F earnings, at par to historical mean. MBM is a cheap proxy to Perodua, trading at undemanding 5.7x FY23F PER, a 25% 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. Dividend yields are attractive at 7.0% (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.

MBM RESOURCES: 3QFY22 RESULT REVIEW

FYE Dec (RMm)	3Q21	2Q22	3Q22	YoY	QoQ	9M21	9M22	YTD
Revenue	230.6	557.0	621.2	169.4%	11.5%	969.7	1656.7	70.8%
Operating profit	**1.0**	**20.2**	**20.8**	2083.2%	3.1%	**15.6**	**84.5**	441.1%
Net finance cost	0.8	0.8	1.3	73.3%	70.7%	2.4	3.1	30.9%
JCE	0.3	3.6	5.1	1479.4%	40.8%	6.1	11.8	93.6%
Associates	(6.2)	54.3	46.7	-853.3%	-14.0%	49.6	151.9	206.3%
Pretax income	**(4.2)**	**78.9**	**74.0**	**1878.5%**	**-6.3%**	**73.7**	**251.4**	**241.1%**
Tax	(0.9)	(5.5)	(5.8)	553.2%	5.6%	(6.1)	(17.8)	190.8%
PAT	(5.0)	73.5	68.2	1451.8%	-7.2%	67.6	233.5	245.6%
MI/Discontinued Ops	0.2	(0.6)	7.9	4482.1%	-1427.8%	9.0	22.1	144.1%
Net profit	(5.2)	74.1	60.2	1254.9%	-18.7%	58.5	211.5	261.3%
Core net profit	**(5.2)**	**74.1**	**60.2**	**1254.9%**	**-18.7%**	**58.5**	**177.0**	202.5%
GDPS (sen)	0.00	16.00	0.00	NA	NA	5.00	16.00	220.0%
Core EPS (sen)	(1.34)	18.98	15.44	-1254.9%	-18.7%	15.00	45.37	202.5%
Operating margin	0.4%	3.6%	3.4%			1.6%	5.1%	
Pretax margin	-1.8%	14.2%	11.9%			7.6%	15.2%	
Tax rate	21.3%	-6.9%	-7.8%			-8.3%	-7.1%	
Core net profit margin	-2.3%	13.3%	9.7%			6.0%	10.7%	
Revenue by division	**3Q21**	**2Q22**	**3Q22**	**YoY**	**QoQ**	**9M21**	**9M22**	**YTD**
Motor trading	201.6	485.4	529.1	162.4%	9.0%	838.2	1,423.1	69.8%
Parts Manufacturing	28.5	71.1	91.5	221.3%	28.8%	130.3	231.9	78.0%
Others	*0.5*	*0.6*	*0.6*	*22.7%*	*1.1%*	1.3	1.7	*25.5%*
Pretax by division (subsidiaries)	**(4.2)**	**78.9**	**74.0**		-6.3%	**73.7**	**251.4**	
Motor trading	4.6	17.2	16.8	267.7%	-2.0%	18.6	44.6	139.5%
Parts Manufacturing	(1.3)	4.9	6.2	561.4%	25.9%	4.0	46.4	1055.0%
Others	*(1.5)*	*(1.1)*	*(0.9)*	-40.8%	-20.6%	*(4.6)*	(3.4)	-26.9%
Pretax margin (subsidiaries)								
Motor trading	2.3%	3.5%	3.2%	*0.91*	*(0.36)*	2.2%	3.1%	41.0%
Parts Manufacturing	-4.7%	7.0%	6.8%	*11.52*	*(0.16)*	3.1%	20.0%	548.7%
Others	*-328.5%*	*-201.8%*	*-158.6%*			*-349.9%*	*-203.9%*	
P2 TIV (units)- MAA	21,803	65,719	69,020	216.6%	5.0%	119,093	196,363	64.9%

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