Bermaz Auto Berhad

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

Maintain BUY

Beats estimates, strong momentum ahead

***Revised* Target Price: RM2.67**

(from RM2.36)

KEY INVESTMENT HIGHLIGHTS

- **BAuto's 1HFY23 core earnings beat estimates**
- **1HFY23 interim dividend more than triple last year's**
- **Core 2QFY23 earnings up +31%qoq driven by stronger volume, core operating margin uplift and higher associate contribution**
- **Strong 7 months order backlog; >50% comprise of post-tax holiday bookings**
- **Re-affirm BUY at higher TP of RM2.67**

Beats expectations. BAuto's 1HFY23 result beat expectations. The group reported core net profit of RM66m (+149%yoy) for its 2QFY23, which brought 1HFY23 core earnings (normalized for RM0.7m ESOS expense) to RM117m (+212%yoy), accounting for 64%/66% of our/consensus FY23 estimates. The outperformance against our forecast was mainly due to stronger than expected core operating margins and associate contribution.

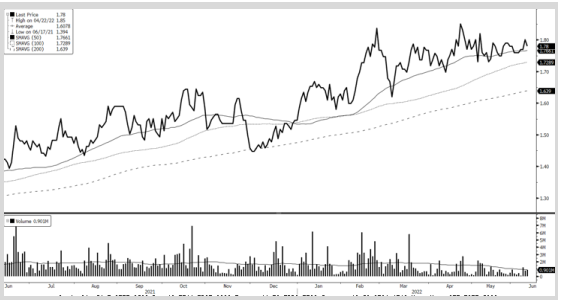
Dividends rising. In line with higher earnings, 2QFY23 interim dividend of 3.5sen/share more than doubled that in 2QFY22. Cumulative interim dividend for 1HFY23 is more than triple last year's at 6.5sen/share, implying 65% payout ratio, closely tracking our target of a 70% payout.

Key takeaways. Group 2QFY23 core earnings were up +31%qoq mainly driven by higher volume (+9%qoq) and operating margins; the latter was driven by higher composition of CKDs in the quarter – 83% of Mazda's 2QFY23 sales mix comprise of CKDs (mainly the CX5) vs. 63% in 1QFY23 due to improved CKD kit supply. Kia also saw higher CKD contribution at 86% of total sales (vs. 41% in 1QFY23) as production of the CKD Carnival gains traction. Associate contribution improved significantly (+130%qoq) mainly due to improved Mazda Malaysia (MMSB) contribution given a +64%qoq increase in volumes. In addition, MMSB and Mazda CBU operations benefited from the weaker JPY.

Order backlog remains elevated. BAuto is currently sitting on outstanding bookings of 8.5K units for the Mazda brand, equivalent to 7 months of Mazda TIV and makes up 60% of our CY23F Mazda TIV. Less than half (i.e., 45%) of the booking bank comprise of orders carried over from the tax holiday. Kia and Peugeot meanwhile entail collective order backlog of 1.5K units equivalent to 5 months collective TIV of the 2 brands. The sizeable order backlog provides strong revenue visibility for the group moving into CY23.

RETURN STATISTICS	
Price @ 8th Nov 2022 (RM)	1.99
Expected share price return (%)	+34.0
Expected dividend yield (%)	+6.3
Expected total return (%)	**+40.3**

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	1,465.93
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)	2,312.76
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	283.7	307.7
Pre-tax Profit (RM'm)	131.8	172.7	218.6	298.9	333.5
Core net profit (RM'm)	100.5	134.8	157.0	207.1	238.1
FD EPS (sen)	8.6	11.6	13.5	17.8	20.4
EPS growth (%)	(62.1)	34.2	16.4	31.9	15.0
PER (x)	23.1	17.2	14.8	11.2	9.7
Net Dividend (sen)	7.5	6.5	8.8	12.4	14.3
Dividend Yield (%)	3.7	3.3	4.4	6.3	7.2

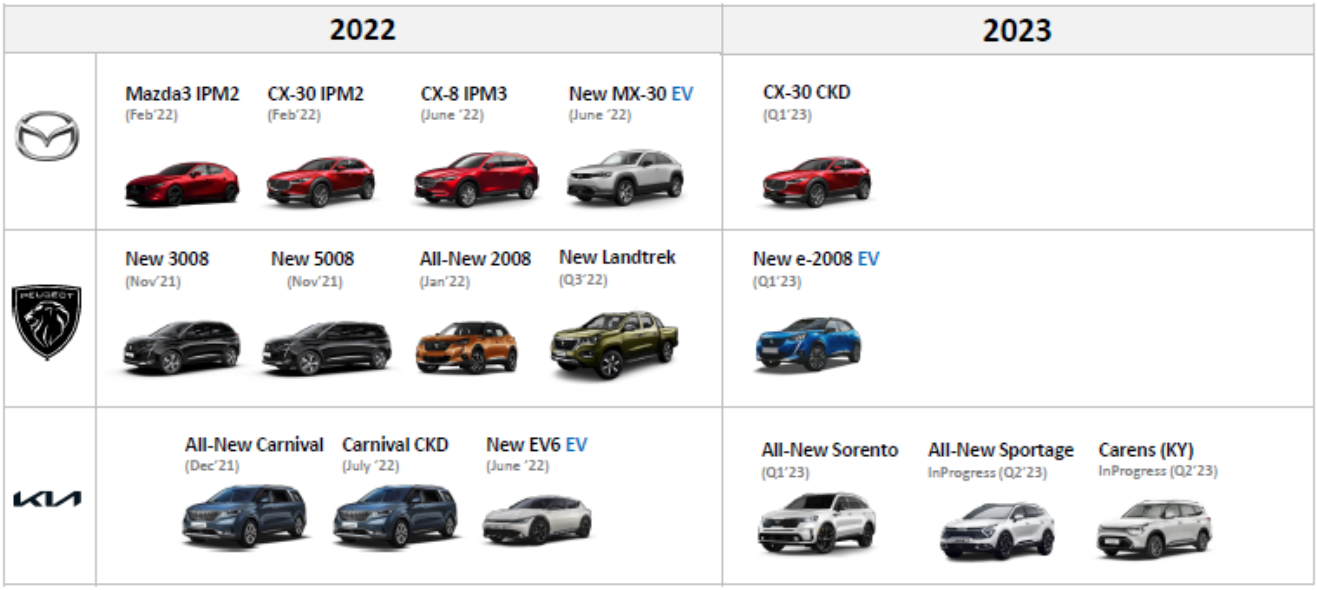
Source: Company, MIDFR

New booking momentum going strong. Despite expiry of the tax holiday on 30th June 2022, new booking momentum largely sustained, driving the elevated order backlog. While there was a dip in July, new bookings swiftly recovered from August onwards with monthly new booking rate of between 1100-1400 units, which is around pre-pandemic monthly new booking levels. This is partly driven by the group's temporary campaign (ending 31st December 2022) to offer a 50% SST subsidy for customers. The cost is expected to be offset by lower dealer incentives and lower A&P, hence we expect this to have minimal impact on margins.

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) has already commenced production recently with a targeted launch in 1QCY23, though volumes are mainly targeted for the overseas markets. Based on input from our prior meeting with management, BAuto is targeting volumes of 150 units/month for the domestic market (while the bulk of the 2K-3K/month production is slated for ASEAN ex-Vietnam). For Mazda, the CX30 CKD has also commenced production this month, with a targeted launch early-CY23 at modest volumes, before mass production gains traction towards March 2023. The CX30 will be the 3rd Mazda CKD model for BAuto. The group is targeting annual volumes of 4K-4.5K/annum for this model vs. 600-700 units in CBU form (around 6% of Mazda TIV) in FY22.

Earnings revision. Given the outperformance, we raise our FY23F/24F by 13%/4%. This is mainly to reflect higher margins from a higher CKD composition in the sales mix as well as a lower JPY:RM assumption for FY23F of JPY(x100):RM3.30 (from our previously conservative assumption of JPY(x100):RM3.60 previously. We have penciled in conservative forex assumption of JPY:RM3.70 for our FY24F. Our volume forecasts are left unchanged as 1HFY23 group TIV of 9059 units was well in-line accounting for 50% our FY23F.

Exhibit 1: Bermaz Auto product rollout



Source: Company, MIDFR

Recommendation. We re-affirm our **BUY** call on BAuto at a higher **TP** of **RM2.67** (from RM2.36 previously) to reflect the upward earnings revision. Our valuation continues to peg BAuto at 15x FY23F earnings, at par to its 5-year historical mean. The group has morphed into a multi-brand auto conglomerate following its recent brand acquisitions, which is driving above-industry earnings and volume growth throughout our forecast horizon. Coupled with reasonably undemanding valuation of 11.2x FY23F PER against an expected earnings CAGR of +23% over our forecast horizon, as well as attractive dividend yield (6.3%-7.2%), BAuto remains as one of our favorite picks in the sector. Key catalysts: (1) Sustained earnings improvement for underlying Mazda operations on improving margins and demand recovery, (2) A weaker JPY, (3) Rollout of new Kia and Mazda models - CKDs from 1QCY23F 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: 1HFY23 Result Summary

FYE Apr (RMm)	2Q22	1Q23	2Q23	QoQ	YoY	1H22	1H23	YTD
Revenue	483.8	716.9	783.0	9.2%	61.8%	804.6	1,499.8	86.4%
Operating profit	**31.7**	**70.2**	**81.2**	**15.7%**	**156.4%**	**48.0**	**151.4**	**215.5%**
Investment income	1.3	2.9	3.3	15.3%	149.7%	3.2	6.2	93.9%
Finance cost	(2.4)	(2.5)	(2.2)	-13.3%	-7.5%	(5.2)	(4.7)	-8.5%
Associates	2.9	4.0	9.3	130.2%	217.4%	2.0	13.3	564.1%
Pretax profit	33.5	74.6	91.6	22.8%	173.0%	48.0	166.2	246.0%
Tax	(8.6)	(18.0)	(20.8)			(12.8)	(38.7)	203.4%
PAT	24.9	56.6	70.8	25.1%	184.1%	35.3	127.4	261.4%
MI	(1.1)	6.5	5.1	-20.5%	559.7%	(1.0)	11.6	1210.3%
Net profit	26.0	50.2	65.7	30.9%	152.2%	36.3	115.8	219.0%
Core net profit	**26.5**	**50.6**	**66.1**	**30.7%**	**149.0%**	**37.4**	**116.5**	**211.5%**
Core EPS (sen)	2.28	4.34	5.67	30.7%	149.0%	3.21	10.00	212%
GDPS (sen)	1.50	3.00	3.50	16.7%	133.3%	2.00	6.50	225%
Operating margin	6.5%	9.8%	10.4%			6.0%	10.1%	
Pretax margin	6.9%	10.4%	11.7%			6.0%	11.1%	
Core net profit margin	5.5%	7.1%	8.4%			4.6%	7.8%	
Tax rate	25.7%	24.1%	22.7%			26.6%	23.3%	
Malaysia revenue (RMm)	449.6	658.0	730.7	11.0%	62.5%	720.3	1,389	92.8%
Philippines revenue (RMm)	34.2	58.9	52.3	-11.2%	52.9%	84.4	111	31.8%
Malaysia EBIT (RMm)	31.0	63.1	75.2	19.1%	142.8%	46.4	138.3	197.8%
Philippines EBIT (RMm)	1.2	7.4	6.6	-11.1%	472.9%	2.3	14.0	519.5%
Malaysia EBIT margin	6.9%	9.6%	10.3%			6.4%	10.0%	
Philippines EBIT margin	3.4%	12.6%	12.6%			2.7%	12.6%	

Source: Company, MIDFR

BAUTO: 1HFY23 Volume Breakdown

Sales volume (units) (subsidiaries)	2Q22	1Q23	2Q23	QoQ	YoY	1H22	1H23	YTD
Mazda (Malaysian operations)	2,699	2,986	3,332	11.6%	23.5%	4,318	6,318	46.3%
Peugeot (Malaysian operations)	133	474	629	32.7%	372.9%	133	1,103	729.3%
Kia (Malaysian operations)	-	448	381	-15.0%	NA	-	829	NA
Mazda (Philippines)	215	422	387	-8.3%	80.0%	530	809	52.6%
Total volume	**3,047**	**4,330**	**4,729**	**9.2%**	**55.2%**	**4,981**	**9,059**	**81.9%**

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