MBM Resources Berhad

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

Dividend surprise amid record earnings

***Maintain* BUY**

***Revised* Target Price: RM4.70**

(from RM4.60)

KEY INVESTMENT HIGHLIGHTS

- **FY22 results came in within expectations**
- **FY22 core earnings rose to a record RM234m (+57%yoy), special dividends announced**
- **Vehicle supplies improved but cost pressure seen in 4QFY22**
- **FY23F earnings revised up by 8.5% on stronger outlook for Perodua**
- **Maintain BUY at higher TP of RM4.70**

Within estimates. MBM Resources' (MBM) FY22 core earnings came in within estimates. The group reported 4QFY22 net profit of RM57m, bringing FY22 core earnings to RM234m (normalized for a RM34m one-off gain from sale of the group's alloy wheel plant and land in Serendah in 1QFY22), which marks a record high for the group. The core FY22 earnings accounted for 104% and 103% of our and consensus estimates respectively.

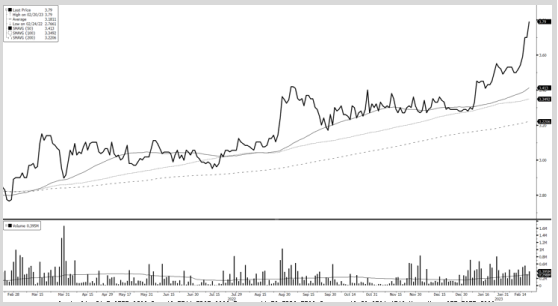
Dividend surprise. In line with the record earnings, MBM declared a 2nd interim dividend of 6sen and proposed a special dividend of 15sen. These bring full year dividends to 37sen, implying an attractive 9.8%yield and a 54% payout against reported earnings.

An exceptionally strong base in 4Q21. Despite record earnings for FY22, 4QFY22 reported earnings were down -49%yoy mainly due to: (1) An inflated base last year which reflected significant one-off tax savings for 22.6%-owned Perodua, (2) Lower margins for operating subsidiaries due to higher raw material cost, revision of minimum wage, higher employee rewards and a stronger USD, (3) Higher effective tax rate of 12.4% in 4QFY22 vs. 6.6% in 4QFY21. On sequential basis, 4QFY22 earnings were slightly lower by -5%qoq mainly from higher effective tax rate and lower margins from operating subsidiaries. Operationally, 4QFY22 revenues continued to improve by +16.5%yoy and +4.9%qoq. This was mainly driven by the motor trading division (+18%yoy/+7%qoq) given improving vehicle supply and increased aftersales throughout. Revenue for the parts manufacturing unit dropped -8%qoq however, due to scheduled plant shutdowns by OEMs in the quarter.

Perodua targets record year, strong demand for new Axia. Perodua is targeting another record year in 2023 with a sales target of 314K units (+11%yoy). Outstanding orders stand at 220K, which already makes up 70% of the 2023 target – as such, we believe this is a realistic target. Sales is expected to be further boosted by the new Axia, which has garnered some 20.1K bookings after just 2 weeks of opening orders. This is equivalent to 3.5 months of the Axia's monthly production target of 5700 units. The Axia is Perodua's 3rd best seller making up an estimated ~20% of sales in recent years. Meanwhile, the Alza has garnered 65K bookings as of the last update in November 2022 with an average 4K/month delivery.

RETURN STATISTICS	
Price @ 20th Feb. 2023 (RM)	3.79
Expected share price return (%)	+24.0
Expected dividend yield (%)	+6.6
Expected total return (%)	**+30.6**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	9.9	11.9
3 months	15.5	12.9
12 months	29.4	39.0

KEY STATISTICS	
FBM KLCI	1473.46
Syariah compliant	Yes
F4BGM Index	No
ESG Grading Band (Star rating)	☆☆
Issue shares (m)	390.89
Estimated free float (%)	30.87
Market Capitalisation (RM'm)	1,481.46
52-wk price range (RM)	RM2.88 - RM3.82
Beta vs FBM KLCI (x)	0.69
Monthly velocity (%)	0.00
Monthly volatility (%)	22.49
3-mth average daily volume (m)	0.30
3-mth average daily value (RM'm)	1.01
Top Shareholders (%)	
Med-Bumikar Mara Sdn Bhd	49.50
Employees Provident Fund Board	9.61
Lembaga Tabung Haji	4.98

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INVESTMENT STATISTICS

FYE Dec	FY20	FY21	FY22	FY23F	FY24F
Revenue (RM'm)	1,793.5	1,531.9	2,308.1	2,389.9	2,337.6
EBIT (RM'm)	44.0	42.9	104.9	69.1	68.4
Pre-tax Profit (RM'm)	206.5	207.5	325.3	300.8	301.0
Normalised PATAMI (RM'm)	166.8	145.6	234.2	244.0	244.8
FD EPS (sen)	42.8	37.3	60.0	62.5	62.7
EPS growth (%)	-13.7	-12.7	60.8	4.2	0.4
PER (x)	8.9	10.2	6.3	6.1	6.0
Net Dividend (sen)	20.0	26.0	37.0	25.0	25.1
Net Dividend Yield (%)	5.3	6.9	9.8	6.6	6.6

Source: Company, MIDFR

Earnings revision. Although the FY22 results were within estimates, we raise our FY23F net profit by +8.5% to factor in higher Perodua TIV, in-line with Perodua's strong order backlog. Our revised FY23F Perodua TIV of 296K (+5%yoy) marks another record high but is still more conservative than Perodua management's internal target of 314K (+11%yoy). Our FY23F net profit implies a +4%yoy growth to another year of record earnings driven mainly by higher Perodua earnings and a normalized effective tax rate post-Cukai Makmur. We introduce our FY24F earnings, which at this point, implies flattish growth against the record FY23 base.

Maintain BUY. Post-earnings revision, we re-affirm our **BUY** call at a higher **TP** of **RM4.70** (from RM4.60 previously). Our valuation pegs MBM at 7.5x FY23F earnings which is close to its mean PER. MBM is a cheap proxy to Perodua, trading at undemanding 6.1x FY23F PER (16% 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%-45% 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 6.6% (at a conservative 40% payout assumption). Net cash has grown to RM283m (0.72/share), accounting for 19% of market cap. Key risk to our call is weaker than expected demand, an aggressive interest rate normalization and a worse than expected component shortage impact on auto production.

MBM RESOURCES: 4QFY22 RESULT REVIEW

FYE Dec (RMm)	4Q21	3Q22	4Q22	YoY	QoQ	FY21	FY22	YTD
Revenue	558.9	621.2	651.4	16.5%	4.9%	1528.7	2308.1	51.0%
Operating profit	**28.2**	**20.8**	**20.3**	-27.8%	-2.4%	**43.8**	**104.9**	139.4%
Net finance cost	0.8	1.3	1.0	27.0%	-28.3%	3.1	4.1	29.9%
JCE	5.0	5.1	4.2	-16.0%	-16.8%	11.1	16.0	44.0%
Associates	103.2	46.7	48.4	-53.1%	3.6%	152.8	200.4	31.1%
Pretax income	**137.1**	**74.0**	**73.9**	**-46.1%**	**0.0%**	**210.8**	**325.3**	**54.3%**
Tax	(9.0)	(5.8)	(9.2)	1.5%	58.9%	(15.2)	(27.0)	78.0%
PAT	128.1	68.2	64.7	-49.5%	-5.0%	195.7	298.3	52.4%
MI/Discontinued Ops	15.2	7.9	7.6	-50.1%	-4.0%	24.3	29.7	22.3%
Net profit	112.9	60.2	57.1	-49.4%	-5.2%	171.4	268.6	56.7%
Core net profit	**90.4**	**60.2**	**57.1**	**-36.8%**	**-5.2%**	**148.9**	**234.2**	57.3%
GDPS (sen)	15.00	0.00	21.00	NA	NA	26.00	37.00	42.3%
Core EPS (sen)	23.16	15.44	14.64	-36.8%	-5.2%	38.16	60.01	57.3%
Operating margin	5.0%	3.4%	3.1%			2.9%	4.5%	
Pretax margin	24.5%	11.9%	11.3%			13.8%	14.1%	
Tax rate	-6.6%	-7.8%	-12.4%			-7.2%	-8.3%	
Core net profit margin	16.2%	9.7%	8.8%			9.7%	10.1%	
Revenue by division	**4Q21**	**3Q22**	**4Q22**	**YoY**	**QoQ**	**FY21**	**FY22**	**YTD**
Motor trading	482.0	529.1	566.6	17.6%	7.1%	1,319.9	1,989.7	50.8%
Parts Manufacturing	76.4	91.5	84.2	10.3%	-8.0%	206.6	316.1	53.0%
Others	*0.5*	*0.6*	*0.6*	*6.6%*	*3.2%*	*2.2*	*2.2*	*2.2%*
Pretax by division (subsidiaries)	**137.1**	**74.0**	**73.9**		0.0%	**210.8**	**325.3**	
Motor trading	23.7	16.8	19.7	-16.7%	17.2%	42.3	64.3	52.0%
Parts Manufacturing	6.4	6.2	3.0	-52.7%	-51.0%	10.5	49.5	373.0%
Others	*(1.2)*	*(0.9)*	*(1.5)*	23.1%	66.4%	*(5.8)*	(4.9)	-16.6%
Pretax margin (subsidiaries)								
Motor trading	4.9%	3.2%	3.5%	*(1.43)*	*0.30*	3.2%	3.2%	0.8%
Parts Manufacturing	8.4%	6.8%	3.6%	*(4.82)*	*(3.18)*	5.1%	15.7%	209.2%
Others	*-221.5%*	*-158.6%*	*-255.8%*			*-266.2%*	*-217.3%*	
P2 TIV (units)- MAA	71,198	69,020	85,666	20.3%	24.1%	190,291	282,029	48.2%

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