Corporate Update | Wednesday, 22 February 2023

MBM Resources Berhad

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

***Maintain* BUY**

Broadly more positive outlook

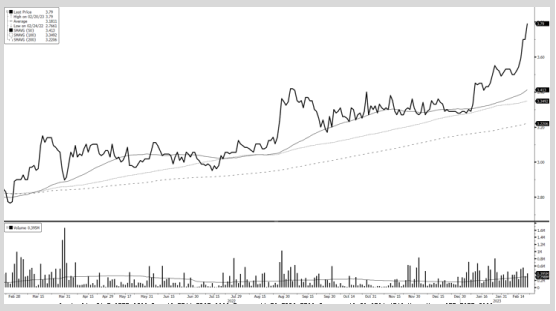
***Unchanged* Target Price: RM4.70**

KEY INVESTMENT HIGHLIGHTS

- **Underlying margins expected to recover**
- **Sharp drop in associate earnings was due to significant exceptionals in 4Q21**
- **Perodua's target looks intact, production keeping up**
- **Bookings for Axia rises further**
- **Maintain BUY at unchanged TP of RM4.70**

RETURN STATISTICS	
Price @ 21st Feb 2023 (RM)	3.90
Expected share price return (%)	+20.5
Expected dividend yield (%)	+6.4
Expected total return (%)	**+26.9**

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	1474.01
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)	1,524.47
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

Margin expected to recover going forward. The lower margins in 4Q22 was exceptional and the group does not expect this to sustain going forward. Bulk of staff-related cost e.g.: bonuses & incentives were backloaded into the fourth quarter while for raw materials, management expects the periodic price review (usually every 3 or 6 months) with OEMs to eventually relieve the pressure on margins. In terms of currency, while the stronger USD had previously impacted cost negatively, this was partly negated by exposure to THB, which had seen some weakness against the RM. Effective tax rates are also expected to normalize (lower) to the usual 8% level going forward.

In terms of associate performance, the sharp -53%yoy drop was due to exceptionally higher Perodua earnings in 4Q21 which was inflated by recognition of 'significant tax savings'. While management was not at liberty to disclose the actual amount, they guided that underlying associate earnings contribution in 4Q21 would have been largely in-line with the quarterly run-rate of RM47-48m/quarter. Assuming this was the case, we estimate the exceptionals from associates amounted to RM55m, which would imply just a -1.3%yoy drop in 4Q22 bottomline (the still weaker earnings is due to lower margins at the operating subsidiaries).

Axia bookings rises further. Management updated that latest bookings for the Axia (now into its 3rd week of order taking) has risen further to 27K (from 20.1K a week ago). Of this, some 10K were fresh bookings while the remaining were converted from existing bookings (estimated at 44K units) for the outgoing generation. The new Axia is priced ~15% higher than the outgoing model – we expect some margin expansion despite the addition of latest safety features in the new Axia.

On Perodua's aggressive target. Perodua has announced an aggressive sales target of 314K units (+11%yoy) for 2023 against strong order backlog of 220K. Perodua's plants are currently running double shift (on weekdays) and single-shift (on weekends). At this rate, Perodua's monthly output is estimated at ~29K, or ~346K annually, which should be sufficient to meet its 314K sales and 330K production target. While there could be issues with selective vendors in keeping up with this production rate, we understand that Perodua is aiding in terms of finances and manpower.

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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)	9.1	10.5	6.5	6.2	6.2
Net Dividend (sen)	20.0	26.0	37.0	25.0	25.1
Net Dividend Yield (%)	5.1	6.7	9.5	6.4	6.4

Source: Company, MIDFR **Core EBIT: RM70.9m* ***Core Pretax profit: RM291.3m*

Maintain BUY. We re-affirm our **BUY** call at unchanged **TP** of **RM4.70**. 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	**57.9**	**60.2**	**57.1**	**-1.3%**	**-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)	14.83	15.44	14.64	-1.3%	-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	10.4%	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