Bermaz Auto Berhad

(5248 | BAUTO MK) Main | Consumer Products & Services

Maintain BUY

Record-Breaking Quarter

Revised Target Price: RM3.20
(previously RM2.67)

KEY INVESTMENT HIGHLIGHTS

- **9MFY23 strongly outperforms expectations**
- **Record-breaking quarter driven by strong volumes, sustained margins and higher associate earnings**
- **Strong outstanding bookings underpinned further by new CKDs**
- **FY23F/24F earnings raised +27%/+22%; re-affirm BUY at higher TP of RM3.20**

Smashes estimates. Bermaz Auto (BAuto) strongly outperformed expectations in 9MFY23. The group reported a record-breaking 3QFY23 core net profit of RM88m (+113%yoy), which brought 9MFY23 core earnings to RM204m (+160%yoy). This accounted for 99%/96% of our/consensus full year estimates. Margins, sales volume and associate contribution surprised on the upside.

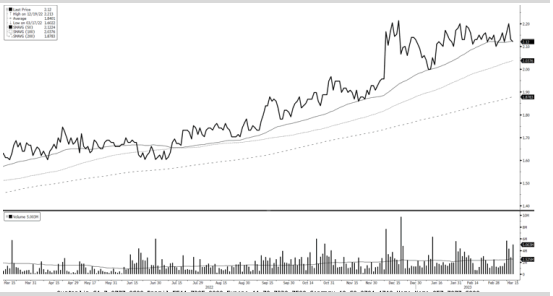
Solid dividends. In line with the strong earnings, a higher 3rd interim dividend of 4.5sen was declared (+100%yoy), bringing 9MFY23 dividends to 11sen (+159%yoy), representing a 63% payout. This is still slightly short of our 70% payout target, but we expect much higher payout in the final quarter, in-line with the past 2-year trend.

Earnings doubled to a record high. 3QFY23 core earnings was up +113%yoy on the back of stronger revenue (+57%yoy) and margins. Groupwide sales volume rose +47%yoy to 5,796 units driven by +41%yoy/+31%yoy/+296%yoy/+4%yoy growth at Mazda (MY)/Peugeot/Kia/Mazda (PH) respectively. Associate earnings more than doubled to RM15m driven mainly by a +71%yoy volume increase at 30%-owned MMSB - the production growth is in-line with strong end-demand for Mazda CKD models (CX5, CX8).

Strong momentum. Outstanding bookings now stand at 6.8K/400/250 units for Mazda/Kia/Peugeot. The outstanding Mazda bookings make up almost half of our revised FY24F Mazda TIV of 15.7K. Of the 6.8K, 21% comprise of Penjana tax-holiday bookings, 37% are on BAuto's 50% SST rebate campaign and the remaining 43% on normal pricing. FY24F Mazda sales will be further supported by launch of the CKD CX30 this month – some 1.6K bookings have been collected, which is already 27% of BAuto's aggressive 6K/annum sales target for the model (FY21 CBU CX30 sales: 1924 units). In addition, 80% of existing CBU CX30 bookings have been converted to the CKD variant, which is at normal catalogue price without SST subsidy or Penjana tax holiday. The CKD CX30 is expected to leapfrog to become Mazda's 2nd largest volume driver after the CX5, which generates 7K-8K/annum sales volume. We also gather that BAuto is negotiating for a 4th Mazda CKD model, which could catalyse volume growth further out. Meantime, the next CKD will be the Kia Sportage (C-segment SUV), expected to be rolled out 2Q-4QCY23.

RETURN STATISTICS	
Price @ 13th March 2023 (RM)	2.12
Expected share price return (%)	+50.71
Expected dividend yield (%)	7.45
Expected total return (%)	**+58.16**

SHARE PRICE CHART



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

INVESTMENT STATISTICS

FYE April (RMm)	2022A	2023F	2024F
Revenue	2,325	3,110	3,305
Operating Profit	204	310	331
Profit Before Tax	219	351	380
Core PATAMI	157	263	290
Core EPS (sen)	13.5	22.6	24.9
DPS (sen)	8.8	15.8	17.4
Dividend Yield (%)	4.1	7.5	8.2
PER (x)	15.7	9.4	8.5

KEY STATISTICS	
FBM KLCI	1,421.83
Issue shares (m)	1162.19
Estimated free float (%)	51.66
Market Capitalisation (RM'm)	2,643.84
52-wk price range	RM1.42 – 1.88
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

Analyst
Hafriz Hezry
hafriz.hezry@midf.com.my

Earnings revision. We raise FY23F/24F net profit by +27%/+22% to reflect higher groupwide TIV of 19.5K/20.9K, stronger margins given lower A&P expenses offsetting the group's 50% SST rebate campaign (which ran from Jul22'-Dec22'), and higher associate earnings which is in-line with the higher groupwide TIV expectation. We now expect FY23F earnings growth of +67%yoy driven by the Penjana tax holiday, while FY24F is expected to see a further +10%yoy growth on full year contribution of the CKD CX30, though we are cognizant of potential cannibalization of CX5 sales given some overlap in price points.

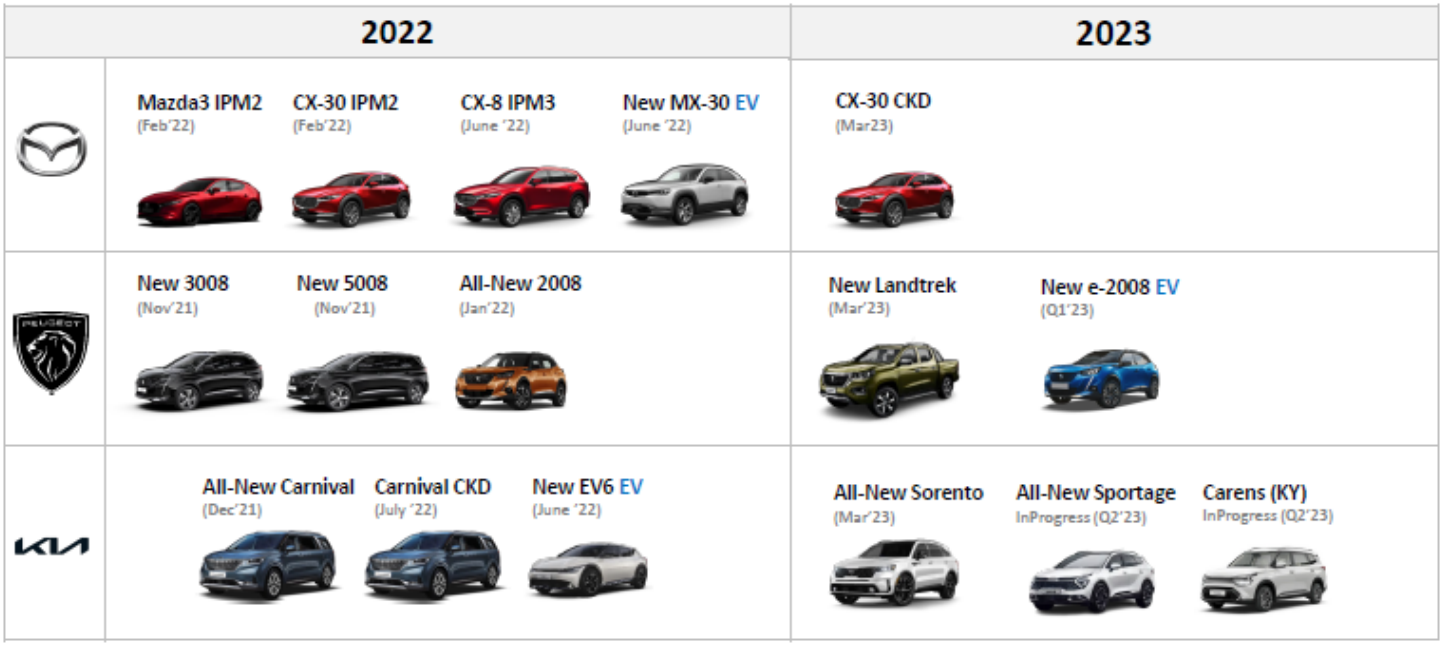
Recommendation. We re-affirm our **BUY** call on BAuto at higher **TP of RM3.20** (from RM2.67 previously) given the upward earnings revision and as we rollover our valuations to FY24F. Our valuation pegs BAuto at 13x FY24F earnings, at par to its 5-year historical mean. We like BAuto for its above-industry earnings and volume growth (throughout our forecast horizon) driven by recent acquisitions of Kia and Peugeot brands, as well as expansion in its Mazda CKD line-up. Coupled with reasonably undemanding valuation of 8.5x FY24F PER against an expected earnings CAGR of +36% over our forecast horizon, as well as attractive dividend yield (7.5%-8.2%), BAuto remains one of our top picks in the sector. Net cash now stands at RM428m (RM0.37/share). 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 2023's BEV 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 & one more compact model to be announced), Peugeot (e-2008 EV) and Mazda (MX30 EV).

Table 1: Key volume assumptions

Volume assumptions (units)	FY21	FY22	FY23F	FY24F
Mazda	13,439	12,038	14,996	15,706
Kia	-	360	2,500	3,070
Peugeot	242	964	2,000	2,100
Total	**13,681**	**13,362**	**19,496**	**20,876**
Growth	*44.3%*	*-2.3%*	*45.9%*	*7.1%*

Source: Company, MIDFR

Exhibit 1: BAuto Product Map



Source: Company, MIDFR

Table 2: BAuto 9MFY23 Result Summary

FYE Apr (RMm)	3Q22	2Q23	3Q23	QoQ	YoY	9M22	9M23	YTD
Revenue	623.1	783.0	976.0	24.6%	56.6%	1,427.8	2,475.8	73.4%
Operating profit	**49.6**	**81.2**	**99.0**	**21.9%**	**99.4%**	**97.6**	**250.4**	**156.5%**
Investment income	1.5	3.3	4.5	35.0%	191.5%	4.7	10.6	125.6%
Finance cost	(2.6)	(2.2)	(2.7)	23.1%	2.8%	(7.8)	(7.4)	-4.7%
Associates	6.6	9.3	14.8	59.5%	125.1%	8.6	28.0	227.6%
Pretax profit	55.1	91.6	115.5	26.1%	109.6%	103.1	281.7	173.1%
Tax	(12.4)	(20.8)	(23.3)			(25.2)	(62.1)	
PAT	42.7	70.8	92.2	30.2%	115.8%	78.0	219.6	181.6%
MI	2.0	5.1	4.9	-4.7%	143.5%	1.0	16.5	1605.1%
Net profit	40.7	65.7	87.3	32.9%	114.4%	77.0	203.1	163.7%
Core net profit	**41.1**	**66.1**	**87.7**	**32.7%**	**113.3%**	**78.5**	**204.2**	**160.1%**
Core EPS (sen)	3.53	5.67	7.53	32.7%	113.3%	6.74	17.53	160%
GDPS (sen)	2.25	3.50	4.50	28.6%	100.0%	4.25	11.00	159%
Operating margin	8.0%	10.4%	10.1%			6.8%	10.1%	
Pretax margin	8.8%	11.7%	11.8%			7.2%	11.4%	
Core net profit margin	6.6%	8.4%	9.0%			5.5%	8.2%	
Tax rate	22.5%	22.7%	20.2%			24.4%	22.0%	
Payout ratio	64%	62%	60%			63%	63%	
Malaysia revenue (RMm)	580.4	730.7	927.7	27.0%	59.8%	1,300.6	2,316	78.1%
Philippines revenue (RMm)	42.8	52.3	48.3	-7.6%	13.0%	127.1	159	25.4%
Malaysia EBIT (RMm)	48.7	75.2	92.3	22.9%	89.6%	95.1	230.6	142.4%
Philippines EBIT (RMm)	1.1	6.6	7.0	6.4%	528.2%	3.4	21.1	522.4%
Malaysia EBIT margin	8.4%	10.3%	10.0%			7.3%	10.0%	
Philippines EBIT margin	2.6%	12.6%	14.6%			2.7%	13.2%	

Sales volume (units) (subsidiaries)	3Q22	2Q23	3Q23	QoQ	YoY	9M22	9M23	YTD
Mazda (Malaysian operations)	3,169	3,332	4,453	33.6%	40.5%	7,487	10,771	43.9%
Peugeot (Malaysian operations)	283	629	371	-41.0%	31.1%	416	1,474	254.3%
Kia (Malaysian operations)	157	381	622	63.3%	296.2%	157	1,451	824.2%
Mazda (Philippines)	336	387	350	-9.6%	4.2%	866	1,159	33.8%
Total volume	**3,945**	**4,729**	**5,796**	**22.6%**	**46.9%**	**8,926**	**14,855**	**66.4%**

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2020	2021	2022	2023F	2024F
Revenue	**1,759.0**	**2,287.9**	**2,325.1**	**3,109.7**	**3,305.1**
Operating profit	**108.1**	**159.6**	**204.5**	**309.6**	**330.7**
Net interest expense	-2.9	-7.4	-10.6	2.4	3.0
Associates	26.5	20.5	18.1	39.1	46.0
PBT	**131.8**	**172.7**	**218.6**	**351.0**	**379.6**
Taxation	-28.3	-41.1	-59.7	-74.9	-80.1
Minority Interest	3.0	-2.4	3.1	13.3	9.5
Net profit	100.5	133.9	155.7	262.9	290.1
Core net profit	**100.5**	**134.8**	**157.0**	**262.9**	**290.1**

Balance Sheet (RM'm)	2020	2021	2022	2023F	2024F
Fixed Assets	38.4	37.2	41.6	43.4	44.8
Investments in associate	210.4	233.3	275.7	321.2	367.1
Others	136.9	139.1	163.2	163.2	163.2
Non-current assets	**385.7**	**409.6**	**480.5**	**527.7**	**575.1**
Inventories	679.2	277.8	230.4	308.5	327.9
Receivables	100.9	131.3	142.5	190.9	202.9
Others	22.5	19.8	0.4	0.4	0.4
Cash & equivalent	100.2	563.3	693.9	598.2	637.3
Current assets	**902.7**	**992.2**	**1,067.2**	**1,098.0**	**1,168.5**
Long-term borrowings	0.0	99.8	99.8	0.0	0.0
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0
Others	185.8	238.8	297.2	220.9	220.9
Non-current liabilities	**185.8**	**338.5**	**397.1**	**220.9**	**220.9**
Short-term borrowings	137.8	105.7	100.0	100.0	100.0
Payables	327.0	247.6	253.0	338.8	360.1
Others	116.6	97.9	108.6	108.6	108.6
Current liabilities	**581.4**	**451.1**	**461.6**	**547.4**	**568.7**
Share capital	608.8	609.3	609.4	609.4	609.4
Minority Interest	51.2	46.7	54.8	68.1	77.5
Others	(138.8)	(43.9)	24.9	180.0	267.0
Total Equity	**521.2**	**612.1**	**689.1**	**857.5**	**954.0**

Cash Flow Statement (RM'm)	2020	2021	2022	2023F	2024F
PBT	131.8	172.7	218.6	351.0	379.6
Depreciation & Amortization	4.2	4.9	6.3	5.0	5.8
Chgs in working capital	(221.3)	281.1	41.6	(40.7)	(10.1)
Others	(61.9)	(3.7)	24.6	(116.5)	(122.6)
Operating cash flow	**(147.2)**	**455.0**	**291.1**	**198.9**	**252.8**
Capex	(15.0)	(6.0)	(37.5)	(10.6)	(10.6)
Others	2.2	5.2	10.4	0.0	0.0
Investing cash flow	**(12.8)**	**(0.8)**	**(27.1)**	**(10.6)**	**(10.6)**
Dividends paid	(191.7)	(37.2)	(78.4)	(184.0)	(203.1)
Net movement in borrowings	137.8	67.7	(31.5)	(99.8)	0.0
Others	(11.1)	(19.6)	(22.0)	0.0	0.0
Financing cash flow	**(64.9)**	**10.9**	**(131.9)**	**(283.9)**	**(203.1)**
Net cash flow	(225.0)	465.1	132.0	(95.6)	39.1
Beginning cash	**320.2**	**100.2**	**563.3**	**693.9**	**598.2**
Forex adjustments	*5.0*	*(2.0)*	*(1.5)*	*0.0*	*0.0*
Ending cash	**100.2**	**563.3**	**693.9**	**598.2**	**637.3**

Ratios	2020	2021	2022	2023F	2024F
Operating profit margin	6.1%	7.0%	8.8%	10.0%	10.0%
Core net profit margin	4.6%	5.9%	6.7%	8.5%	8.8%
ROE	19.3%	22.0%	22.8%	30.7%	30.4%
ROA	7.8%	9.6%	10.1%	16.2%	16.6%
Net gearing (%)	7.2%	-58.5%	-71.7%	-58.1%	-56.3%
Book value/share (RM)	0.45	0.53	0.59	0.74	0.82
PBV (x)	4.7	4.0	3.6	2.9	2.6
PER (x)	24.6	18.3	15.7	9.4	8.5

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