Bermaz Auto Berhad

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

Key volume catalyst materialises

***Maintain* BUY**

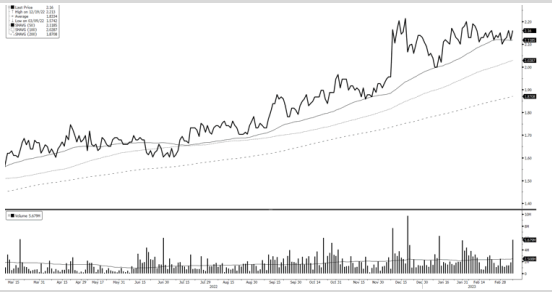
***Unchanged* Target Price: RM2.67**

KEY INVESTMENT HIGHLIGHTS

- **CKD CX30 launched, priced more competitively than CBU variants**
- **Catapults the CX30 to become the 2nd largest volume driver for Mazda**
- **Overall Mazda outstanding bookings remain solid**
- **Re-affirm BUY at unchanged TP of RM2.67**

RETURN STATISTICS	
Price @ 8th March 2023 (RM)	2.16
Expected share price return (%)	+23.47
Expected dividend yield (%)	5.76
Expected total return (%)	**+29.23**

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

What's new? Bermaz Auto (BAuto) launched the CKD CX30 yesterday. The CKD CX30 is available in 4 variants priced from RM128K-156K, while the CBU version will be discontinued. The CKD version is effectively 8%-15% cheaper than comparable CBU variants. Despite lower price points, the CKD CX30 is expected to generate better margins than the outgoing CBU variants given significant cost savings from localization incentives. At this juncture, the CX30 will only be produced for the domestic market.

Volume gap-up. BAuto is targeting sales volume of around 6K units/annum for the CKD CX30, a significant increase vs. the 1,924 units sales generated in FY21 (FY22 was impacted by supply constraint, hence is not comparable). This will catapult the CX30 to become the 2nd largest volume driver for Mazda after the CKD CX5, which generates 7K-8K unit sales/annum. We gather that BAuto has collected some 1.6k bookings for the CKD CX30 (including conversions from previous CBU bookings), which suggests good feedback relative to its annual target.

Sales momentum gaining traction. Overall outstanding bookings for Mazda now stands at close to 7K units, equivalent to around 6 months of Mazda monthly sales with the bulk comprising post-tax holiday bookings (only 1K of tax holiday bookings remaining to be delivered). Meanwhile, outstanding bookings at Kia/Peugeot stand at 500/300 units. As mentioned in our prior updates, BAuto offered a 50% SST rebate for orders placed between July till December 2022, but this could be partly offset by lower A&P cost.

Some upside risk to projections. We keep our projections at this juncture pending the group's 3QFY23 result release next week. However, key upside risks to our projection are: (1) Better than expected margins as we had earlier conservatively factored in weaker margins in 2HFY23 to reflect impact of BAuto's 50% SST rebate campaign, (2) Higher than expected sales target for the CKD CX30 which will mainly reflect in earnings from FY24 onwards, though we are cognizant of potential cannibalization of CX5 sales given some overlap in price points. Our FY23F/24F groupwide volume forecast currently stands at 18.4K/19.9K.

INVESTMENT STATISTICS

FYE April (RMm)	2022A	2023F	2024F
Revenue	2,325	2,895	3,123
Operating Profit	204	284	308
Profit Before Tax	219	299	333
Core PATAMI	157	207	238
Core EPS (sen)	13.5	17.8	20.4
DPS (sen)	8.8	12.4	14.3
Dividend Yield (%)	4.1	5.8	6.6
PER (x)	16.0	12.1	10.6

KEY STATISTICS	
FBM KLCI	1,454.66
Issue shares (m)	1162.19
Estimated free float (%)	51.66
Market Capitalisation (RM'm)	2,312.76
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

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Recommendation. We re-affirm our **BUY** call on BAuto at unchanged **TP of RM2.67**. Our valuation continues to peg BAuto at 15x FY23F 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 12x FY23F PER against an expected earnings CAGR of +23% over our forecast horizon, as well as attractive dividend yield (5.8%-6.6%), BAuto remains as one of our top 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 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), Peugeot (2008 EV) and Mazda (MX30 EV).

Table 1: Key volume assumptions

Volume assumptions (units)	FY21	FY22	FY23F	FY24F
Mazda	13,439	12,038	13,460	14,344
Kia	-	360	2,500	3,070
Peugeot	242	964	2,400	2,520
Total	**13,681**	**13,362**	**18,360**	**19,934**
Growth	*44.3%*	*-2.3%*	*37.4%*	*8.6%*

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RMm)	2020	2021	2022	2023F	2024F
Revenue	**1,759.0**	**2,287.9**	**2,325.1**	**2,895.2**	**3,123.0**
Operating profit	**108.1**	**159.6**	**204.5**	**283.7**	**307.7**
Net interest expense	-2.9	-7.4	-10.6	-4.8	-1.0
Associates	26.5	20.5	18.1	20.0	26.8
PBT	**131.8**	**172.7**	**218.6**	**298.9**	**333.5**
Tax	-28.3	-41.1	-59.7	-69.7	-76.7
Minority Interest	3.0	-2.4	3.1	22.0	18.7
Net profit	100.5	133.9	155.7	207.1	238.1
Core net profit	**100.5**	**134.8**	**157.0**	**207.1**	**238.1**

Balance Sheet (RMm)	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	302.1	328.7
Others	136.9	139.1	163.2	163.2	163.2
Non-current assets	**385.7**	**409.6**	**480.5**	**508.6**	**536.7**
Inventories	679.2	239.1	230.4	287.2	309.8
Receivables	100.9	131.3	142.5	177.7	191.7
Others	31.6	60.4	0.4	0.4	0.4
Cash & equivalent	91.1	561.3	693.9	710.3	750.6
Current assets	**902.7**	**992.2**	**1,067.2**	**1,175.6**	**1,252.5**
Long-term borrowings	0.0	99.8	99.8	99.8	99.8
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**	**320.8**	**320.8**
Short-term borrowings	137.8	105.7	100.0	90.0	80.0
Payables	327.0	183.1	253.0	315.5	340.3
Others	116.6	162.4	108.6	108.6	108.6
Current liabilities	**581.4**	**451.1**	**461.6**	**514.0**	**528.8**
Share capital	608.8	609.3	609.4	609.4	609.4
Minority Interest	51.2	46.7	54.8	76.8	95.5
Others	(138.8)	(43.9)	24.9	163.2	234.7
TOTAL EQUITY	**521.2**	**612.1**	**689.1**	**849.5**	**939.6**

Cash Flow Statement	2020	2021	2022	2023F	2024F
PBT	131.8	172.5	212.8	298.9	333.5
Depreciation & Amortization	4.2	(1.7)	1.4	5.0	8.6
Changes in working capital	(221.3)	255.3	67.4	(29.6)	(11.8)
Interest expense	3.2	12.8	19.5	18.7	18.8
Others	(65.0)	16.0	(10.0)	(110.9)	(121.5)
Operating cash flow	**(147.2)**	**455.0**	**291.1**	**182.1**	**227.6**
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)	(109.0)	(145.0)	(166.7)
Net proceeds in borrowings	137.8	(10.0)	(10.0)	(10.0)	(10.0)
Others	(11.1)	58.1	(12.9)	0.0	0.0
CF from Financing	**(64.9)**	**10.9**	**(131.9)**	**(155.0)**	**(176.7)**
Net cash flow	(225.0)	465.1	132.0	16.5	40.3
Beginning cash	**320.2**	**100.3**	**563.3**	**693.9**	**710.4**
Forex	5.0	(2.0)	(1.5)	0.0	0.0
Ending cash	**100.3**	**563.3**	**693.9**	**710.4**	**750.7**

Ratios	2020	2021	2022	2023F	2024F
Operating margin	6.1%	7.0%	8.8%	9.8%	9.9%
Core net profit margin	4.6%	5.9%	6.7%	7.2%	7.6%
ROE	19.3%	22.0%	22.8%	24.4%	25.3%
ROA	7.8%	9.6%	10.1%	12.3%	13.3%
Net gearing (%)	9.0%	-58.1%	-71.7%	-61.3%	-60.7%
Book value/share (RM)	0.45	0.53	0.59	0.73	0.81
PBV (x)	4.8	4.1	3.7	3.0	2.7

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