MBM Resources Berhad

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

Beats Estimates

***Maintain* BUY**

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

KEY INVESTMENT HIGHLIGHTS

- **1QFY23 slightly ahead of expectations**
- **Driven by rush to deliver Penjana-tax holiday bookings**
- **Large order bank and new launches to sustain momentum**
- **Maintain BUY at unchanged TP of RM4.70**

RETURN STATISTICS	
Price @ 25th May 2023 (RM)	3.49
Expected share price return (%)	+34.67
Expected dividend yield (%)	7.17
Expected total return (%)	**+41.84**

Ahead of expectations. MBM Resources' (MBMR) 1QFY23 results were slightly ahead of expectations. The group reported core earnings of RM78m, accounting for 32% of both our and consensus' full year estimates given stronger than expected Perodua earnings.

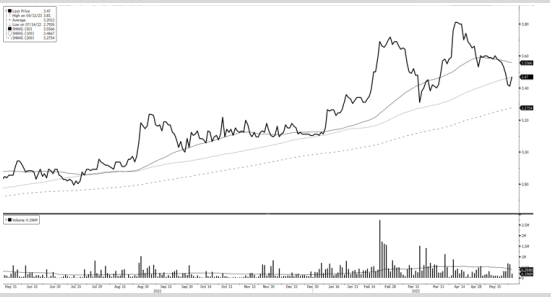
Key takeaways. 1QFY23 core net profit grew +54%yoy. Associate contribution (comprising mostly Perodua earnings) rose +34%yoy on the back of a +29%yoy increase in volumes driven mainly by the rush to deliver Penjana-tax holiday bookings ahead of the deadline on 31st March 2023. The auto part division saw a +55%yoy increase in earnings as the increased TIV and TIP during the period translated into higher manufacturing volumes. This was coupled with a lump-sum RM1.9m cost recovery received from certain OEMs. The motor trading division saw a +13%yoy earnings growth which similarly was driven by the Penjana-tax holiday delivery rush.

Momentum looks sustainable. To recap, Perodua is targeting another record year with 2023 sales target of 314K units (+11%yoy) – as of 1QFY23, 25% of this target has been met. We expect prospects to be underpinned by strong Perodua order bank of an estimated 9-months, coupled with launch of the new Axia back in February which is expected to sustain sales momentum. Additionally, the 1QFY23 result seems to indicate that margins have stabilized on the back of easing raw material and logistics costs.

Earnings estimates. Pending an analyst briefing this morning, we see potential upside to our projections following the stronger than expected 1QFY23 performance. Our FY23F Perodua TIV of 296K (+5%yoy) is now looking conservative given sustained booking momentum post-Penjana tax holiday.

Reaffirm BUY. We keep our **TP** at **RM4.70** at this juncture. Our valuation pegs MBMR at 7.5x FY23F earnings, close to mean PER. MBMR is a cheap proxy to Perodua trading at 5.6x FY23F PER (23% discount to mean). Perodua in turn, is one of the prime beneficiaries of a cyclical recovery in the auto sector given its dominant ~40% market share, while MBMR's auto parts and dealership units are spillover beneficiaries of a recovery in TIV and TIP. Dividend yields are attractive at 7% (DPR: 40%). Net cash stands at RM195m (50sen/share), accounting for 14% of market cap. Key risk to our call is weaker than expected demand and a worse than expected component shortage impact on auto production.

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-4.9	-3.4
3 months	2.0	-2.8
12 months	17.2	28.3

INVESTMENT STATISTICS

FYE Dec (RMm)	2022A	2023F	2024F
Revenue	2,308.1	2,389.9	2,337.6
Operating Profit	104.9	69.1	68.4
Profit Before Tax	325.3	300.8	301.0
Core PATAMI	234.2	244.0	244.8
Core EPS (sen/share)	60.0	62.5	62.7
DPS (sen/share)	43.0	25.0	25.1
Dividend Yield (%)	12.3	7.2	7.2

KEY STATISTICS

FBM KLCI	1,402.48
Issue shares (m)	390.9
Estimated free float (%)	31.5
Market Capitalisation (RM'm)	1,356.4
52-wk price range	RM2.88-RM3.88
3-mth average daily volume (m)	0.4
3-mth average daily value (RM'm)	1.5
Top Shareholders (%)	
Med-Bumikar Mara Sdn Bhd	49.5
Employees Provident Fund Board	8.1
Lembaga Tabung Haji	4.8

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Table 1: MBMR 1QFY23 Result Summary

FYE Dec (RMm)	1Q22	4Q22	1Q23	YoY	QoQ
Revenue	478.5	651.4	555.8	16.2%	-14.7%
Operating profit	**43.5**	**20.3**	**16.8**	-61.3%	-17.2%
Net finance cost	1.0	1.0	1.5	46.0%	55.6%
JCE	3.1	4.2	7.3	137.6%	74.0%
Associates	50.9	48.4	68.0	33.6%	40.4%
Pretax income	**98.5**	**73.9**	**93.6**	**-4.9%**	**26.7%**
Tax	(6.6)	(9.2)	(4.8)		
PAT	91.9	64.7	88.9	-3.3%	37.3%
MI/Discontinued Ops	6.7	7.6	8.9	33.6%	17.0%
Net profit	85.2	57.1	80.0	-6.2%	40.0%
Core net profit	**50.8**	**57.1**	**78.1**	**53.6%**	**36.6%**
GDPS (sen)	0.00	21.00	0.00	NA	NA
Core EPS (sen)	13.02	14.64	20.00	53.6%	36.6%
Operating margin	9.1%	3.1%	3.0%		
Pretax margin	20.6%	11.3%	16.8%		
Tax rate	-6.7%	-12.4%	-5.1%		
Core net profit margin	10.6%	8.8%	14.0%		
Revenue by division	**1Q22**	**4Q22**	**1Q23**	**YoY**	**QoQ**
Motor trading	408.7	566.6	476.8	16.7%	-15.9%
Parts Manufacturing	69.3	84.2	78.4	13.1%	-6.9%
Others	*0.5*	*0.6*	*0.6*	*17.6%*	*9.5%*
Pretax by division					
Motor trading	10.6	19.7	12.0	13.0%	-39.2%
Parts Manufacturing	4.9	3.0	7.6	55.1%	148.4%
Others	*(1.4)*	*(1.5)*	*(1.2)*	10.7%	17.8%
Pretax margin					
Motor trading	2.6%	3.5%	2.5%	*(0.08)*	*(0.97)*
Parts Manufacturing	7.0%	3.6%	9.7%	*2.61*	*6.04*
Others	*-253.0%*	*-255.8%*	*-192.1%*		
P2 TIV (units)- MAA	61,625	85,666	78,565	27.5%	-8.3%

FINANCIAL SUMMARY

Income Statement (RMm)	FY20	FY21	FY22	FY23F	FY24F
Revenue	**1,793.5**	**1,531.9**	**2,308.1**	**2,389.9**	**2,337.6**
Operating expenses	-1,749.5	-1,489.0	-2,203.2	-2,320.8	-2,269.2
EBIT	**44.0**	**42.9**	**104.9**	**69.1**	**68.4**
Net interest expense	3.0	3.0	4.1	4.0	5.5
Associates/JCE	159.5	161.6	216.3	227.7	227.1
PBT	**206.5**	**207.5**	**325.3**	**300.8**	**301.0**
Taxation	-16.3	-15.6	-27.0	-22.0	-22.0
Minority Interest	23.4	23.8	29.7	34.8	34.2
Net profit	166.8	168.1	268.6	244.0	244.8
Core net profit	**166.8**	**145.6**	**234.2**	**244.0**	**244.8**
Balance Sheet (RMm)	**FY20**	**FY21**	**FY22**	**FY23F**	**FY24F**
PPE	214.2	181.4	174.5	178.1	181.4
Investments in associate	1,335.6	1,415.1	1,527.6	1,592.1	1,655.5
Others	176.4	213.4	205.0	220.2	236.3
Non-current assets	**1,726.1**	**1,809.8**	**1,907.0**	**1,990.3**	**2,073.1**
Inventories	56.1	92.3	115.6	143.9	140.8
Receivables	157.9	164.6	199.2	256.8	251.2
Others	44.8	33.4	21.4	21.4	21.4
Cash & equivalent	271.0	260.9	282.7	324.0	426.7
Current assets	**529.8**	**551.2**	**619.0**	**746.3**	**840.1**
Share capital	391.7	391.7	391.7	392.7	393.7
Minority Interest	277.0	270.3	287.1	322.0	356.2
Reserves	1,434.1	1,526.3	1,664.0	1,809.5	1,955.4
Total Equity	**2,102.7**	**2,188.3**	**2,342.8**	**2,524.1**	**2,705.3**
Long-term borrowings	0.1	0.0	0.0	0.0	0.0
Deferred tax liabilities	4.6	5.1	4.3	4.3	4.3
Others	4.6	3.2	2.8	2.8	2.8
Non-current liabilities	**9.3**	**8.4**	**7.1**	**7.1**	**7.1**
Short-term borrowings	6.9	23.3	4.3	4.3	4.3
Payables	132.8	141.5	169.5	198.7	194.3
Others	4.3	-0.5	2.2	2.2	2.2
Current liabilities	**144.0**	**164.4**	**176.0**	**205.3**	**200.8**

Cash Flow Statement (RMm)	FY20	FY21	FY22	FY23F	FY24F
PBT	206.5	207.5	325.3	300.8	301.0
Depreciation & Amortization	17.2	17.5	18.4	16.4	16.7
Chgs in working capital	33.6	-34.1	-30.0	-56.7	4.3
Others	-177.4	-181.5	-273.2	-249.7	-249.1
CF from Operations	**79.9**	**9.3**	**40.4**	**10.9**	**72.9**
Capex	-4.7	-9.0	-6.3	-20.0	-20.0
Others	54.9	85.1	172.2	148.0	147.6
CF from Investments	**50.2**	**76.1**	**165.9**	**128.0**	**127.6**
Dividends paid	-92.2	-109.2	-157.5	-97.6	-97.9
Movement in borrowings	0.0	18.1	-19.0	0.0	0.0
Others	-31.8	-2.7	-3.8	0.0	0.0
CF from Financing	**-124.0**	**-93.8**	**-180.3**	**-97.6**	**-97.9**
Net changes in cash	**6.1**	**-8.4**	**26.1**	**41.4**	**102.7**
Beginning cash	258.8	265.0	256.6	282.7	324.0
Adjustment for Overdrafts & Deposits	6.1	4.3	0.0	0.0	0.0
Ending cash	**271.0**	**260.9**	**282.7**	**324.0**	**426.7**

Key Ratios	FY20	FY21	FY22	FY23F	FY24F
Operating margin	2.5%	2.8%	4.5%	2.9%	2.9%
Core net profit margin	9.3%	9.5%	10.1%	10.2%	10.5%
ROE	9.1%	7.6%	11.4%	11.1%	10.4%
ROA	7.4%	6.2%	9.3%	8.9%	8.4%
Net gearing (%)	-14.5%	-12.4%	-13.5%	-14.5%	-18.0%
Book value/share (RM)	4.68	4.92	5.27	5.64	6.02
PBV (x)	0.7	0.7	0.7	0.6	0.6
PER (x)	8.2	9.4	5.8	5.6	5.6

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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