MBM Resources Berhad

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

Maintain BUY

On Track for A Record Year

Unchanged Target Price: RM4.70

KEY INVESTMENT HIGHLIGHTS

- **Perodua order backlog remains strong post-Penjana tax holiday, on track to hit record 314K sales target**
- **New bookings picked up momentum in May despite some slowdown in premium segment**
- **Margin trends are stabilising**
- **Maintain BUY at TP of RM4.70**

We came away from MBM Resources' (MBMR) analyst briefing broadly positive on the group's prospects. Below are key takeaways of the briefing:

A record start. To recap, MBMR's registered a record high 1QFY23 core net profit, which grew +54%yoy to RM78m. 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. The motor trading division saw a +13%yoy earnings growth which similarly was driven by the Penjana-tax holiday delivery rush.

Momentum looks sustainable. Management is confident that Perodua will hit (or even exceed) its record 314K sales target (+11%yoy) for 2023 notwithstanding resurfacing chip supply issues, which is being managed via alternative sourcing by Daihatsu Motor Corporation. As of 1QFY23, 25% of the sales target has been met. Perodua TIV is expected to be underpinned by a still strong order backlog of close to 200K currently, which predominantly comprises post-Penjana tax holiday bookings. There is however, an estimated ~2K Penjana tax holiday bookings which will be delivered beyond the 31st March 2023 deadline, though we expect any SST subsidy offered for this small group (1% of outstanding bookings) will have minor impact to group earnings.

Strong new booking momentum. Management also highlighted that Perodua's new bookings for May have picked up considerably, on track to hit 40K by month end – for context this is 53% higher than Perodua's average monthly TIV of 26.2K in 1Q23. We believe this momentum could have been driven by the launch of the new Axia, as well as potentially, the impact of downtrading. The Bezza is still seeing strong demand despite the launch of the new Axia, given that demand for the latter is mostly centered on the mid-spec variant, while the former's demand is focused on the high spec variant.

RETURN STATISTICS	
Price @ 26th May 2023 (RM)	3.45
Expected share price return (%)	+36.23
Expected dividend yield (%)	7.25
Expected total return (%)	**+43.48**

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 (%)	12.5	7.3	7.3

KEY STATISTICS	
FBM KLCI	1,402.98
Issue shares (m)	390.9
Estimated free float (%)	31.5
Market Capitalisation (RM'm)	1,348.61
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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Seeing gradual slowdown in premium segment. In contrast to trends at Perodua, management indicated that it is seeing some gradual slowdown in new bookings for the higher price segments (>RM200K price points) with minimal waiting list currently. MBMR intends to address this by active new launches throughout the year to sustain interest. That said, ~90% of the group's motor trading volume is generated from its Perodua dealerships. Notwithstanding the trends in the premium segment (which makes up a small portion of TIV), the group is confident of overall industry TIV breaching the 700K mark again this year, primarily due to the strong order backlog in the market currently.

Margin trends stabilising. Autoliv Hirotako (JCE) benefited from a lump-sum cost recovery (typically done either quarterly or semi-annually with the OEMs taking into account fluctuation in raw material prices and forex) of RM1.9m in 1QFY23. There was also around RM1m cost recovery recognized at the subsidiary level for the auto parts manufacturing units in the quarter. For Perodua, management indicated that 1QFY23 margin has improved compared to 4QFY22 given: (1) Higher production volume, (2) Absence of prosperity tax this year, (3) Backloaded internal costs in 4QFY22. Additionally, raw material prices (such as steel and aluminum) have fallen well off its peaks and are expected to gradually trickle down to Perodua's manufacturing margins.

Earnings estimates. No change to our FY23F/24F projections at this juncture.

Reaffirm BUY. We keep our **TP** at **RM4.70**. Our valuation pegs MBMR at 7.5x FY23F earnings, close to mean PER. MBMR is a cheap proxy to Perodua trading at 5.5x 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.

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*
P2 TIV (units)- MAA	61,625	85,666	78,565	27.5%	-8.3%

Source: Company, MIDFR **Includes a one-off RM30.4m gain on disposal of land and factory*

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	5.7	5.5	5.5

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