

Bermaz Auto Berhad

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

Maintain BUY

Another Feather in the Cap

Unchanged Target Price: RM3.39

KEY INVESTMENT HIGHLIGHTS

- **Awarded distribution rights for XPeng smart EVs**
- **Technically strong principal with backing from established OEMs**
- **Minimal capex expected during initial stages**
- **Positioning for future growth in electrification**
- **Maintain BUY at TP of RM3.39**

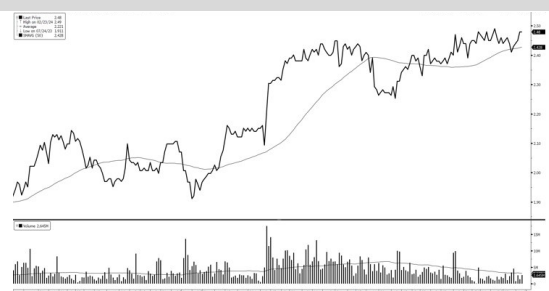
What's new? BAuto announced that it was awarded distributorship & rights for sale of spare parts and provision of after sales services of XPeng marque smart EVs in Malaysia. XPeng is a Guangzhou-based EV start-up listed on the NYSE and HKSE. Although its market share is currently small, the group counts the VW Group as a strategic investor and under the partnership, is looking to launch two EV models by 2026 and will collaborate on platform and software development, among others. XPeng prides itself as an R&D-driven company with in-house development of advanced driver assistance systems and in-car intelligent operating system as well as core vehicle systems (powertrain/E&E architecture). The group registered sales of 141,601 units in 2023 (+17%yoy) with production mainly from its Zhaoqing and Guangzhou plants. XPeng's product portfolio is mainly positioned in the mid-market comprising the P7 & P5 sedan, G9 & G6 SUV/crossover as well as the X9 large MPV. XPeng had last year acquired Didi's smart EV unit and under the partnership, intends to launch an A-segment model under a new brand MONA to expand into the mass market segment.

What are BAuto's plans? Details of this new venture are still sketchy, but we understand BAuto is eyeing a majority stake in the distribution business. We also gather that 'minimal' capex is expected at the initial stages as BAuto is looking at CBU imports for the initial seeding and market testing phase, capitalising on the excise duty exemption for CBU BEVs which runs until December 2025. One firm model is in the pipeline i.e., the G6 midsize SUV, whereby the G6 will also be XPeng's first RHD model, scheduled for launch in 2H24. Based on pricing in China of between RMB210K-277K, we reckon the G6 might be positioned around the RM150K-RM200K price point for the Malaysian market, which will pit it against the BYD Atto and Tesla Model-Y. There is no firm indication on CKD plans yet but we believe this is a possibility given that CKD BEVs are extended excise duty exemption further out until December 2027. We believe BAuto will initially leverage its existing distribution network given small volumes expected for now. Additionally, 'minimal' investment in after sales is expected as BAuto has ready BEV capability having launched other BEV models such as the Kia EV6, Kia Niro EV and Mazda MX30 in recent years. BAuto has so far invested >RM5m into EV capabilities and infra to prepare itself for the move into electrification. In terms of charging network rollout, BAuto is looking to work with 3rd parties.

RETURN STATISTICS

Price @ 14 th March 2024 (RM)	2.41
Expected share price return (%)	+40.8
Expected dividend yield (%)	9.5
Expected total return (%)	+50.3

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-6.1	-6.2
3 months	-7.6	0.4
12 months	8.3	10.0

INVESTMENT STATISTICS

FYE April (RMm)	2023A	2024F	2025F
Revenue	3,548	3,769	3,735
Operating Profit	377	430	442
Profit Before Tax	421	470	484
Core PATAMI	305	335	345
Core EPS (sen)	26.2	28.8	29.6
PER (x)	9.2	8.4	8.1
DPS (sen)	22.0	23.0	23.7
Dividend Yield (%)	9.1	9.5	9.8

KEY STATISTICS

FBM KLCI	1,543.75
Issue shares (m)	1167.60
Estimated free float (%)	51.96
Market Capitalisation (RM'm)	2,813.92
52-wk price range	RM1.96-RM2.55
3-mth average daily volume (m)	3.20
3-mth average daily value (RM'm)	7.73
Top Shareholders (%)	
Dynamic Milestone Sdn Bhd	14.85
Employees Provident Fund Board	12.09
Amanah Saham Nasional Bhd	6.13

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Eyeing ASEAN as part of global expansion. We believe the move is part of XPeng's global expansion strategy, which counts ASEAN and EMEA as some of the key regions it is eyeing. For ASEAN, the group has made public of its plans to enter the Singapore, Thailand and Malaysian market via partnership with local distributors. As far as we have gathered, BAuto might consider negotiating for distribution rights for the Philippines market where it has a ready distribution network for the Mazda brand. Broadly, we believe XPeng's expansion mirrors Chinese auto players' strategy to diversify away from the competitive Chinese EV market which is currently facing oversupply and severe price competition. XPeng has been implementing measures to reduce production cost to remain competitive, which includes launch of the Smart Electric Platform Architecture (SEPA) 2.0 which is expected to shorten R&D cycle for future models by 20% and reduce cost on adaptations for advanced driver assistance systems (ADAS) and smart infotainment systems - the G6 was the first model built on this SEPA 2.0 platform.

Sowing the seed for future growth. While still early days, we believe the addition of XPeng fills an important gap in BAuto's electrification plan considering China auto industry's dominance and technical competence in the BEV space. BAuto is currently heavily reliant on Japanese marques and more recently a Korean marque, to drive sales. ICE is expected to remain the group's mainstay for now in line with still meagre BEV penetration in Malaysia which stood at 1.3% in CY23. However, the Malaysian Government has set a target of hitting 15%/38% xEV penetration by 2030/40; the transition to BEV is expected to pick up pace once BEV cost moves closer to parity with ICE and regulated price floors are eventually removed in the market - this partnership positions BAuto well to capture such growth opportunities in the transition.

Earnings estimates. We leave our projections unchanged at this juncture pending further detailed plans on the rollout of the XPeng distribution business.


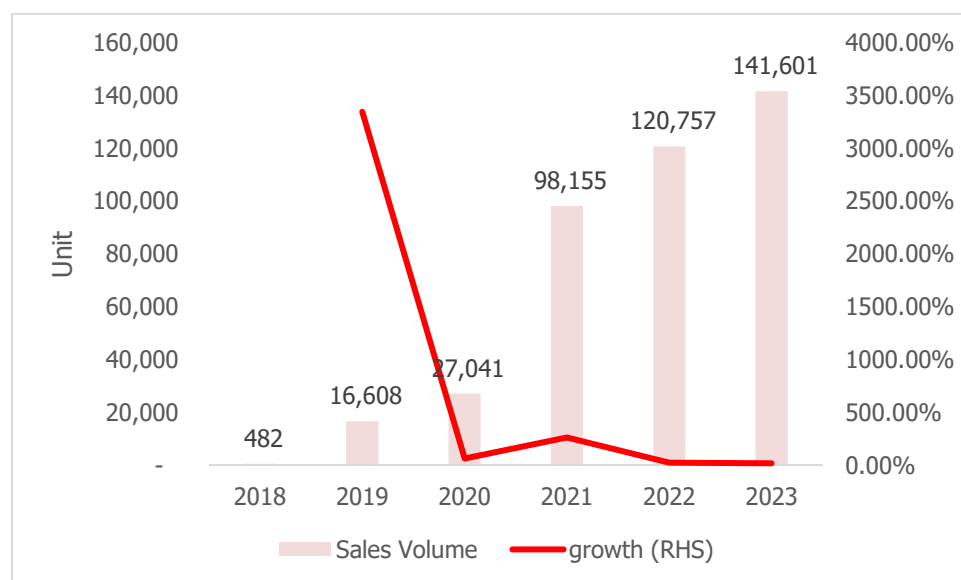
Recommendation. Maintain **BUY** on BAuto at unchanged **TP of RM3.39**. Our valuation pegs BAuto at 11.8x FY24F earnings, at par to its 7-year historical mean. Broadly, we view this latest development as a mid-to-long term positive. We like BAuto for its above-industry earnings and volume growth throughout our forecast horizon driven by acquisition of the Kia brand and expansion of its Mazda/Kia CKD line-up. Valuation is cheap at 8.4x FY24F PER while dividend yield is attractive at 9.5% (80% DPR). Balance sheet is solid given an asset light corporate structure with its net cash of RM395m (RM0.34/share) accounting for 14% of market cap. Key catalysts: (1) Rollout of the Kia Sportage, (2) Weak JPY, (3) 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 & Niro EV), Mazda (MX30 EV) and the upcoming XPeng EV models. 

Chart 1: XPeng Historical Sales Volume



Source: Company, MIDFR

Table 1: XPeng EV Portfolio

	Model	Segment	Price (RMB)	Price (converted to MYR)
	P7	Mid-size Sedan	229,900 – 349,900	149,824 – 228,026
	P5	Mid-size Sedan	156,900 – 174,900	102,250 – 113,981
	G9	Mid-to-Large SUV	263,900 – 359,900	171,981 – 234,543
	G6	Small SUV	209,900 – 276,900	136,790 - 180,453
	X9	Large MPV	359,800 – 419,800	234,478 – 273,580

FINANCIAL SUMMARY

Income Statement (RM'm)	2021	2022	2023	2024F	2025F
Revenue	2,287.9	2,325.1	3,548.2	3,769.2	3,735.5
Operating profit	159.6	204.5	376.8	430.3	442.2
Net interest expense	-7.4	-3.9	5.4	1.4	2.2
Associates	20.5	18.1	39.0	38.0	39.7
PBT	172.7	218.6	421.2	469.7	484.1
Taxation	-41.1	-59.7	-94.0	-103.6	-106.7
Minority Interest	-2.4	3.1	23.5	31.1	32.1
Net profit	133.9	155.7	303.7	335.0	345.3
Core net profit	134.8	157.0	304.7	335.0	345.3
Balance Sheet (RM'm)	2021	2022	2023	2024F	2025F
Fixed Assets	37.2	41.6	44.5	47.0	49.1
Investments in associate	233.3	275.7	314.5	359.4	405.2
Others	139.1	163.2	177.4	177.4	177.4
Non-current assets	409.6	480.5	536.3	583.8	631.7
Inventories	277.8	230.4	498.3	529.4	524.6
Receivables	131.3	142.5	197.6	209.9	208.0
Others	19.8	(0.1)	7.1	7.1	7.1
Cash & equivalent	563.3	694.4	537.6	566.7	623.3
Current assets	992.2	1,067.2	1,240.6	1,313.0	1,363.0
Long-term borrowings	99.8	99.8	0.0	0.0	0.0
Others	238.8	297.2	343.9	343.9	343.9
Non-current liabilities	338.5	397.1	343.9	343.9	343.9
Short-term borrowings	105.7	100.0	100.0	100.0	100.0
Payables	247.6	253.0	351.1	373.0	369.6
Others	97.9	108.6	142.6	142.6	142.6
Current liabilities	451.1	461.6	593.7	615.5	612.2
Share capital	609.3	609.4	619.6	619.6	619.6
Minority Interest	46.7	54.8	76.6	107.7	139.8
Others	(43.9)	24.9	143.1	210.1	279.2
Total Equity	612.1	689.1	839.4	937.4	1,038.6

Cash Flow Statement (RM'm)	2021	2022	2023	2024F	2025F
PBT	172.7	218.6	421.2	469.7	484.1
Depreciation & Amortization	4.9	6.3	8.2	3.8	4.1
Chgs in working capital	281.1	41.6	(224.9)	(21.5)	3.3
Others	(3.7)	26.7	(89.6)	(142.8)	(146.5)
Operating cash flow	455.0	293.2	114.9	309.2	345.0
Capex	(6.0)	(37.5)	(12.2)	(12.2)	(12.2)
Others	5.2	8.7	13.2	0.0	0.0
Investing cash flow	(0.8)	(28.8)	1.0	(12.2)	(12.2)
Dividends paid	(37.2)	(78.4)	(154.0)	(268.0)	(276.2)
Net movement in borrowings	67.7	(31.5)	(99.8)	0.0	0.0
Others	(19.6)	(22.0)	(14.8)	0.0	0.0
Financing cash flow	10.9	(131.9)	(268.7)	(268.0)	(276.2)
Net cash flow	465.1	132.5	(152.8)	29.1	56.6
Beginning cash	100.2	563.4	694.4	537.6	566.7
Forex adjustments	(2.0)	(1.5)	(4.0)	0.0	0.0
Ending cash	563.3	694.4	537.6	566.7	623.3

Key Ratios	2021	2022	2023	2024F	2025F
Operating profit margin	7.0%	8.8%	10.6%	11.4%	11.8%
Core net profit margin	5.9%	6.7%	8.5%	8.9%	9.2%
ROE	22.0%	22.8%	36.3%	35.7%	33.2%
ROA	9.6%	10.1%	17.2%	17.7%	17.3%
Net gearing (%)	-58.5%	-71.8%	-52.1%	-49.8%	-50.4%
Book value/share (RM)	0.53	0.59	0.72	0.80	0.89
PBV (x)	4.6	4.1	3.3	3.0	2.7
PER (x)	20.8	17.9	9.2	8.4	8.1

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 <i>rise</i> 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 <i>fall</i> 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