

11 March 2022

Consumer Cyclical | Auto & Autoparts

Bermaz Auto (BAUTO MK)

Neutral (from Buy)

Tapping Into EV Incentives; D/G To NEUTRAL

Target Price (Return): MYR1.74 (0.0%)
 Price (Market Cap): MYR1.74 (USD483m)
 ESG score: 3.10 (out of 4)
 Avg Daily Turnover (MYR/USD) 3.01m/0.72m

- **D/G to NEUTRAL from Buy, with new MYR1.74 TP from MYR1.71, 0% downside.** 9MFY22 (Apr) results missed our expectations on lower-than-expected Mazda vehicle sales YTD. Bermaz Auto declared a higher dividend of 2.25 sen in 3QFY22 on a stronger set of results, bringing YTD DPS to 4.25 sen. We downgrade the stock following robust share performance (3M: +17%). Valuation is fair at 12.8x FY23F P/E (+1SD from its 5-year mean) – its niche asset light business model should steer the company comparatively better in a challenging CY22 outlook.
- **Missed expectations.** BAUTO reported 3QFY22 net profit of MYR40.7m (+56% QoQ, +23% YoY), bringing 9MFY22 core earnings to MYR77m (+15% YoY). This led to a higher third interim dividend of 2.25 sen DPS (3QFY21 DPS: 1.5 sen), bringing YTD DPS to 4.25 sen (9MFY21 DPS: 3.25 sen). Despite that, we view this set of results as below our estimates at 54% but in line with Street's.
- **Results review.** 3QFY22 revenue improved +29% QoQ on higher group vehicle sales (+29% QoQ) following the relaxation of containment measures. This was also helped by new vehicle contributions from the Kia Carnival CBU and Peugeot 2008. Malaysia Mazda's vehicle sales grew 17% QoQ but were still 12% lower than that of 3QFY21, leading to a 23% YoY decline in 9MFY22 sales to 7,487 units. On the margin front, 3QFY22 saw group EBIT expanding 0.7ppt to 7.2%, mainly on higher EBIT margins achieved by Mazda and Kia.
- **Healthy order backlog.** Our check with management suggests that the order backlog remains healthy. Management reassured us there were no shortages in parts and local production is operating as planned.
- **Tapping into electric vehicle (EV) incentives.** The Kia Carnival (11-seater) is popular amongst the local crowd with its CBU allocation fully taken up. We understand there are plans to bring in additional units to cater for the demand. The CKD is expected to be available around May. In terms of EV, we should see four EV models in 2H22, across the marques they represent (Figure 4).
- **We adjust our FY22F-24F earnings by -8%, +1%, and +2%.** This is to account for lower FY22F Malaysia sales volume of 11,540 units for Mazda from 12,140 units given the weaker-than-expected 9MFY22's 7,487 units. Looking forward, we are expecting 4QFY22 to be stronger QoQ, but lower YoY in the absence of a reversal of over-accrued provisions. Our TP incorporates an ESG premium of 2% on the intrinsic value.
- **Downside risks** include a softer MYR vs the JPY and weak consumer sentiment. Slower-than-expected normalisation in demand post Sales & Services Tax exemption at end 2021 and sustained disruptions in semiconductor chip supplies are other key risks. The converse represents the upside risks.

Analyst

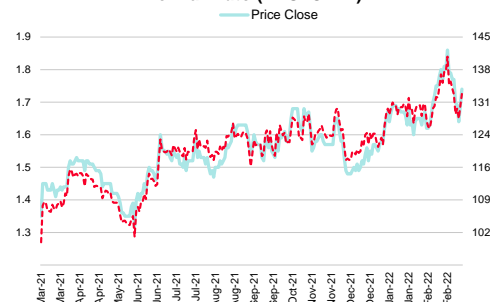
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	10.1	6.7	16.8	8.8	28.9
Relative	9.3	6.0	10.6	8.5	32.5
52-wk Price low/high (MYR)				1.32 – 1.86	

Bermaz Auto (BAUTO MK)



Source: Bloomberg

Overall ESG Score: 3.10 (out of 4)

E: GOOD

BAUTO focuses on environmentally conscious manufacturing, production and assembly processes. Major suppliers are subjected to an environmental risk assessment to ensure their complete compliance with the group's environmental standards.

S: GOOD

BAUTO upholds the highest environmental and social standards in the suppliers' code of conduct, and familiarises all suppliers with these guidelines.

G: EXCELLENT

BAUTO has applied and adopted the majority of best practices of the Malaysian Code on Corporate Governance. Nevertheless, we note that the board has two female directors out of a total of eight (<30%). The board also does not disclose on a named basis the top five senior management's remuneration components in bands of MYR50,000. The company practices a high level of transparency and actively engages with the investment community.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Forecasts and Valuation	Apr-20	Apr-21	Apr-22F	Apr-23F	Apr-24F
Total turnover (MYRm)	1,759	2,288	2,251	2,768	3,172
Recurring net profit (MYRm)	108	134	130	158	198
Recurring net profit growth (%)	(59.5)	24.7	(3.2)	21.6	25.3
Recurring P/E (x)	18.80	15.06	15.56	12.79	10.21
P/B (x)	4.3	3.6	3.4	3.1	2.8
P/CF (x)	na	4.65	na	13.25	17.50
Dividend Yield (%)	4.3	3.7	4.0	5.1	6.5
EV/EBITDA (x)	16.72	9.19	10.15	7.84	6.25
Return on average equity (%)	19.4	25.0	22.4	25.5	29.1
Net debt to equity (%)	7.2	net cash	net cash	net cash	net cash

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

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Financial Exhibits

Asia	Financial summary (MYR)	Apr-20	Apr-21	Apr-22F	Apr-23F	Apr-24F
Malaysia	Recurring EPS	0.09	0.12	0.11	0.14	0.17
Consumer Cyclical	DPS	0.07	0.07	0.07	0.09	0.11
Bermaz Auto	BVPS	0.40	0.49	0.51	0.56	0.61
BAUTO MK	Return on average equity (%)	19.4	25.0	22.4	25.5	29.1
Neutral						
	Valuation metrics	Apr-20	Apr-21	Apr-22F	Apr-23F	Apr-24F
Valuation basis	Recurring P/E (x)	18.80	15.06	15.56	12.79	10.21
12x FY23F P/E	P/B (x)	4.3	3.6	3.4	3.1	2.8
	FCF Yield (%)	(6.1)	21.3	(4.1)	6.8	5.0
Key drivers	Dividend Yield (%)	4.3	3.7	4.0	5.1	6.5
i. Strong growth from the Philippines;	EV/EBITDA (x)	16.72	9.19	10.15	7.84	6.25
ii. Better-than-expected consumer spending;	EV/EBIT (x)	17.56	9.54	10.56	8.11	6.43
iii. New model launches.						
	Income statement (MYRm)	Apr-20	Apr-21	Apr-22F	Apr-23F	Apr-24F
Key risks	Total turnover	1,759	2,288	2,251	2,768	3,172
Downside risks include a softer MYR vs the JPY and weak consumer sentiment. Slower-than-expected normalisation in demand post Sales & Services Tax exemption at end 2021 and sustained disruptions in semiconductor chip supplies are other key risks.	Gross profit	216	294	309	368	434
	EBITDA	113	161	169	213	272
	Depreciation and amortisation	(5)	(6)	(6)	(7)	(8)
	Operating profit	108	155	162	206	264
	Net interest	(3)	(7)	(6)	(5)	(4)
	Pre-tax profit	132	168	180	228	291
	Taxation	(28)	(41)	(43)	(55)	(70)
	Reported net profit	101	130	130	158	198
	Recurring net profit	108	134	130	158	198
The converse represents the upside risks.						
Company Profile	Cash flow (MYRm)	Apr-20	Apr-21	Apr-22F	Apr-23F	Apr-24F
Bermaz Auto is involved in the distribution, assembling, retailing and also the provision of after sales service of Mazda vehicles in Malaysia. The group is also involved in the domestic distribution of locally assembled Mazda vehicles and the export of the locally assembled Mazda vehicles. Its subsidiary Bermaz Auto Philippines distributes Mazda vehicles in the Philippines.	Change in working capital	(233)	255	(130)	(6)	(86)
	Cash flow from operations	(109)	435	(67)	153	115
	Capex	(15)	(4)	(15)	(15)	(15)
	Cash flow from investing activities	(28)	(4)	(25)	(25)	(25)
	Dividends paid	(192)	(37)	(81)	(103)	(132)
	Cash flow from financing activities	(65)	10	(81)	(148)	(127)
	Cash at beginning of period	320	100	561	328	336
	Net change in cash	(202)	440	(173)	(20)	(36)
	Ending balance cash	118	540	388	309	301
	Balance sheet (MYRm)	Apr-20	Apr-21	Apr-22F	Apr-23F	Apr-24F
	Total cash and equivalents	100	561	328	336	333
	Tangible fixed assets	39	37	102	109	115
	Total investments	213	236	237	237	237
	Total assets	1,288	1,343	1,444	1,540	1,685
	Short-term debt	138	106	100	50	50
	Total long-term debt	0	100	100	100	100
	Total liabilities	767	726	795	821	877
	Total equity	521	617	649	719	808
	Total liabilities & equity	1,288	1,343	1,444	1,540	1,685
	Key metrics	Apr-20	Apr-21	Apr-22F	Apr-23F	Apr-24F
	Revenue growth (%)	(29.4)	30.1	(1.6)	22.9	14.6
	Recurrent EPS growth (%)	(59.5)	24.8	(3.2)	21.6	25.3
	Gross margin (%)	12.3	12.9	13.7	13.3	13.7
	Operating EBITDA margin (%)	6.5	7.0	7.5	7.7	8.6
	Net profit margin (%)	5.7	5.7	5.8	5.7	6.2
	Dividend payout ratio (%)	86.1	58.3	62.5	65.2	66.7
	Capex/sales (%)	0.9	0.2	0.7	0.5	0.5
	Interest cover (x)	16.2	12.1	13.7	19.0	26.9

Source: Company data, RHB

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Results At a Glance

Figure 1: Results review

FYE Apr (MYRm)	3QFY21	2QFY22	3QFY22	QoQ (%)	YoY (%)	9MFY21	9MFY22	YoY (%)	Comments
Revenue	598.0	483.8	623.1	28.8	4.2	1,646.7	1,427.8	(13.3)	QoQ improvement was due to higher domestic sales of vehicles.
- Malaysia	549.9	449.6	580.4	29.1	5.5	1,530.0	1,300.6	(15.0)	
- Philippines	48.1	34.2	42.8	25.0	(11.1)	116.7	127.1	8.9	
EBIT	35.6	31.7	44.6	40.8	25.4	88.1	92.6	5.2	Higher EBIT margins for Mazda and Kia
- Malaysia	35.6	30.5	47.8	56.7	34.5	86.1	91.3	6.1	
- Philippines	0.0	1.2	0.7	(36.9)	2,175.0	2.0	3.4	72.0	
<i>EBIT Margin (%)</i>	6.0	6.5	7.2			5.3	6.5		
Interest expense	(2.4)	(2.4)	(2.6)	10.8	7.2	(9.7)	(7.8)	(20.2)	
Interest income	1.7	1.3	6.6	395.2	282.6	3.7	9.7	160.5	
Associates	7.4	2.9	6.6	124.9	(10.7)	7.2	8.6	19.6	Driven by higher contribution from MMSB on cost reduction campaigns.
Pre-tax profit	42.2	33.5	55.1	64.3	30.6	89.2	103.1	15.6	
<i>Pre-tax margin (%)</i>	7.1	6.9	8.8			5.4	7.2		
Tax	(9.6)	(8.6)	(12.4)	43.6	28.5	(23.5)	(25.2)	6.9	
<i>Effective tax rate (%)</i>	(22.8)	(25.7)	(22.5)			(26.4)	(24.4)		
Minority interest	0.5	1.1	(2.0)	(280.0)	(492.0)	1.4	(1.0)	(167.7)	
Net profit	33.1	26.0	40.7	56.3	23.1	67.1	77.0	14.8	Below our expectations.
Core profit	33.1	26.0	40.7	56.3	23.1	67.1	77.0	14.8	
<i>Net margin (%)</i>	5.5	5.4	6.5			4.1	5.4		

Source: Company data, RHB

Figure 2: Invoiced Mazda vehicle sales in Malaysia

FYE Apr (units)	3QFY21	2QFY22	3QFY22	QoQ (%)	YoY (%)	9MFY21	9MFY22	YoY
Mazda 2	41	39	79	102.6	92.7	230	144	(37.4)
Mazda 3	230	371	76	(79.5)	(67.0)	809	665	(17.8)
Mazda 5	0	0	0	nm	nm	1	0	nm
Mazda 6	7	37	29	(21.6)	314.3	55	70	27.3
Biante	0	0	0	nm	nm	2	0	nm
CX-3	2	328	212	(35.4)	10,500.0	235	540	129.8
CX-30	429	126	166	31.7	(61.3)	1,196	452	(62.2)
CX-5	2,514	1,437	2,074	44.3	(17.5)	5,827	4,474	(23.2)
MX-30	0	0	1	nm	nm	0	1	nm
CX-8	345	334	467	39.8	35.4	1,290	1,040	(19.4)
CX-9	26	13	17	30.8	(34.6)	101	33	(67.3)
MX-5	1	12	5	(58.3)	400.0	12	20	66.7
BT-50	1	2	43	2,050.0	4,200.0	21	48	128.6
	3,596	2,699	3,169	17.4	(11.9)	9,779	7,487	(23.4)

Source: Company data

Figure 3: Invoiced sales of Mazda vehicles in the Philippines







FYE April (units)	3QFY21	2QFY22	3QFY22	QoQ (%)	YoY (%)	9MFY21	9MFY22	YoY
Mazda 2	13	0	27	#DIV/0!	107.7	38	27	(28.9)
Mazda 3	64	18	18	0.0	(71.9)	219	68	(68.9)
Mazda 6	12	2	1	(50.0)	(91.7)	15	6	(60.0)
CX-3	4	0	0	#DIV/0!	(100.0)	11	8	(27.3)
CX-30	48	13	25	92.3	(47.9)	75	74	(1.3)
CX-5	64	65	55	(15.4)	(14.1)	131	182	38.9
CX-8	35	52	67	28.8	91.4	59	172	191.5
CX-9	40	34	0	(100.0)	(100.0)	82	106	29.3
MX-5	15	26	11	(57.7)	(26.7)	66	54	(18.2)
BT-50	57	5	132	2,540.0	131.6	115	169	47.0
	352	215	336	56.3	(4.5)	811	866	6.8

Source: Company data

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Figure 4: Products pipeline

BAuto EV Model 2022	2022			
			Q3	Q4
			New MX-30 EV (Q3/Q4'22)	
			New e-2008 EV (Q4'22)	
			New EV6 EV Q3 2022	
			New PBV1 EV Q4 2022	

Source: Company, RHB

Figure 5: Key assumptions

Sales (Units)	Apr-20A	Apr-21A	Apr-22F	Apr-23F	Apr-24F
Malaysia - Current	9,484	13,439	11,540	12,770	14,220
Malaysia - Previous			12,140	13,370	14,220
Philippines	2,227	1,245	1,250	1,500	1,700
Peugeot			1,000	2,000	2,500
Kia			300	2,000	3,000
MYR/JPY100	3.86	3.91	3.69	3.74	3.74

Source: RHB

Recommendation Chart

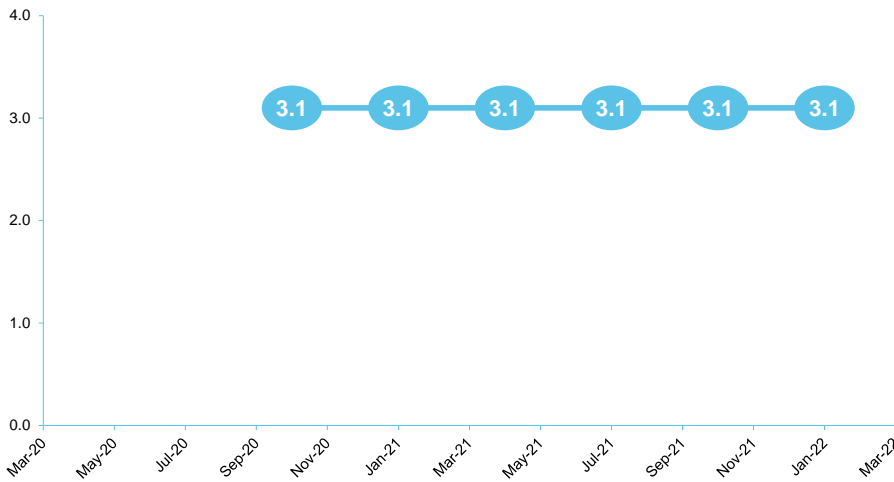


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-12-14	Buy	1.71	1.52
2021-09-06	Neutral	1.77	1.61
2021-06-09	Buy	1.75	1.43
2020-09-11	Buy	1.70	1.37
2020-06-08	Buy	1.80	1.48
2020-06-04	Neutral	1.30	1.32
2020-03-27	Buy	1.50	1.13
2020-03-17	Buy	1.70	1.23
2020-01-24	Buy	2.70	1.93
2019-09-17	Buy	2.75	2.36

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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