

Bermaz Auto Berhad

(5248 | BAUTO MK) Automotive & Parts | Personal Goods

Maintain BUY

Driven by recovery and brand expansion

Unchanged Target Price: RM1.98

KEY INVESTMENT HIGHLIGHTS

- **9MFY22 result met our expectation**
- **Interim dividend of 2.25sen/share declared**
- **Core 3QFY22 earnings up +55%yoy driven by strong performance across the board, Kia and Peugeot contribution**
- **Strong 2-4 months order backlog**
- **Maintain BUY albeit at lower TP of RM1.98**

Met our expectation but 4QFY22 could be a wildcard. BAuto's 9MFY22 results came in within our expectation but slightly short of consensus estimates. Nonetheless, a potentially strong 4QFY22 ahead could be a wildcard. BAuto reported a core net profit of RM41m for its 3QFY22, which brought 9MFY22 core earnings to RM79m. This accounted for 72% of our full year estimate and 60% of consensus.

Interim dividend declared. A 2.25sen/share interim dividend was declared for 3QFY22, which brings 9MFY22 dividends to 4.25sen/share (+31%yoy). This represents a generous 63% payout against core 9MFY22 earnings.

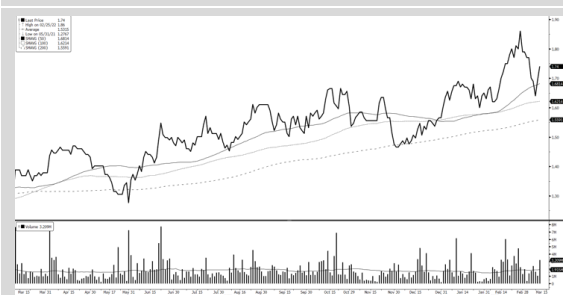
Strong recovery across the board. In a nutshell, BAuto's 3QFY22 core net profit (+55%yoy) reflects strong recovery across the board, driven by improved Mazda sales, mix and margins, a turnaround in the Philippines as well as new contribution from Kia and Peugeot. Mazda's (Malaysia operations) pretax profit rose +14%yoy in 3QFY22, Mazda (Philippines) turned around from losses in 3QFY21 into profits, while Peugeot and Kia provided fresh contributions this year. Meanwhile, overall group operating margins rose to 8% (+2ppts yoy) on better sales mix (higher CKD ratio at the Malaysian operations) and higher volumes (improved operating leverage). The performance underlines our underlying thesis on BAuto, which is premised on above-industry earnings growth driven by brand expansion coupled with underlying cyclical sector recovery, as demonstrated in the current results.

Solid order backlog. Order backlog is solid supported by the tax holiday, demand recovery and new launches. Mazda entails 3800 units order backlog (equivalent to around 3-4 months of sales), while Peugeot entails 200 units order backlog (around 2 months of sales). Kia also entails around 200 units order backlog driven by just one model i.e. the recently launched CBU Carnival (launched in Dec21).

RETURN STATISTICS

Price @ 10 th March 2022 (RM)	1.74
Expected share price return (%)	+13.8
Expected dividend yield (%)	+3.8
Expected total return (%)	+17.6

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-5.7	-2.8
3 months	-5.7	1.7
12 months	-2.1	6.8

KEY STATISTICS

FBM KLCI	1,580.53
Syariah compliant	Yes
F4BGM Index	Yes
ESG Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	1161.43
Estimated free float (%)	51.49
Market Capitalisation (RM'm)	2,020.89
52-wk price range	RM1.28 - RM1.71
Beta vs FBM KLCI (x)	1.19
Monthly velocity (%)	0.00
Monthly volatility (%)	19.10
3-mth average daily volume (m)	1.71
3-mth average daily value (RM'm)	2.72
Top Shareholders (%)	
Employees Provident Fund Board	18.63
Dynamic Milestone Sdn Bhd	14.47
Amanah Saham Nasional Bhd	7.89

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INVESTMENT STATISTICS

FYE Apr	FY19	FY20	FY21	FY22F	FY23F
Revenue (RM'm)	2,492.1	1,759.0	2,287.9	2,184.7	2,919.5
Operating profit (RM'm)	284.0	108.1	159.6	134.5	209.0
Pre-tax Profit (RM'm)	342.3	131.8	172.7	146.6	230.1
Core net profit (RM'm)	265.3	100.5	134.8	109.2	162.1
FD EPS (sen)	22.8	8.6	11.6	9.4	13.9
EPS growth (%)	89.4	(62.1)	34.2	(19.0)	48.4
PER (x)	7.6	20.2	15.0	18.6	12.5
Net Dividend (sen)	21.3	7.5	6.5	6.6	7.0
Dividend Yield (%)	12.2	4.3	3.7	3.8	4.0

Source: Company, MIDFR

New launches in the pipeline. The CKD Kia Carnival is on track for launch in May22, while a slew of other new Kia models are in the pipeline including the all new Sorento (targeted launch 3QCY22), the EV6 (3QCY22) and the all new Niro (4QCY22). The new Sportage and Seltos meanwhile, are slated for launch by 2QCY23. Mazda's new launches are dominated by facelifts since early CY22. The CX8 IPM3 (facelift) is slated for launch in Jun22 while the new MX30 EV is targeted for 3QCY22. For Peugeot, upcoming new launch includes the new Landtrek (pick-up) (3QCY22) and the new e-2008 EV (4Q22). The all new ICE 2008 model was recently launch in Jan22.

Exhibit 1: Bermaz Auto product rollout

2022								
	CX-3 IPM4 (Jan'22) 	MX-5 IPM5 (Feb'22) 	Mazda3 IPM2 (Feb'22) 	CX-30 IPM2 (Feb'22) 	CX-8 IPM3 (June '22) 	New MX-30 EV (Q3'22) 		
	New 3008 (Nov'21) 	New 5008 (Nov'21) 	All-New 2008 (Jan'22) 	New Landtrek (Q3'22) 	New e-2008 EV (Q4'22) 			
	All-New Carnival (Dec'21) 	Carnival CKD (May'22) 	All-New Sportage (Q2'23) 	All-New Sorento (Q4'22) 	New EV6 EV (Q3'22) 	New PBV1 EV (Q4'22) 	All-New Niro (Q4'22) 	All-New Seltos (Q2'23) 

Source: Company, MIDFR

Recommendation. We re-affirm our **BUY** call on BAUTO at unchanged **TP** of **RM1.98** at this juncture. Our valuation continues to peg BAUTO at 16x CY22F earnings, at 1SD above historical mean given brand expansion-driven growth and a cyclical recovery in the auto sector. The group is morphing into a multi-brand auto conglomerate following its recent brand acquisitions, which is expected to drive above-industry earnings and volume growth throughout our forecast horizon. Coupled with reasonably undemanding valuation of 12.5x FY23F PER against an expected +48%yoy earnings growth (FY23F) coupled with attractive dividend yield (3.8%-4.0%), we continue to advocate BAUTO as our top sector pick. Key catalysts: (1) Sustained earnings improvement for underlying Mazda operations on normalizing margins and demand recovery, (2) A weaker JPY, (3) Rollout of new Kia models - CKDs from CY22F onwards, (4) Rollout of Peugeot 2008 CKD in Jan22', (5) Budget 2022's EV 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, Sportage PHEV), Peugeot (2008 EV) and Mazda (MX30 EV).

BAUTO: 3QFY22 Result Summary

FYE Apr (RMm)	3Q21	2Q22	3Q22	QoQ	YoY	9M21	9M22	YTD
Revenue	598.0	483.8	623.1	28.8%	4.2%	1,646.7	1,427.8	-13.3%
Operating profit	35.6	31.7	49.6	56.7%	39.5%	88.1	97.6	10.9%
Investment income	1.7	1.3	1.5	15.6%	-10.7%	3.7	4.7	26.1%
Finance cost	(2.4)	(2.4)	(2.6)	10.8%	7.2%	(9.7)	(7.8)	-20.2%
Associates	7.4	2.9	6.6	124.9%	-10.7%	7.2	8.6	19.6%
Pretax profit	42.2	33.5	55.1	64.3%	30.6%	89.2	103.1	15.6%
Tax	(9.6)	(8.6)	(12.4)			(23.5)	(25.2)	6.9%
PAT	32.6	24.9	42.7	71.4%	31.2%	65.7	78.0	18.7%
MI	(0.5)	(1.1)	2.0	280.0%	-92.0%	(1.4)	1.0	167.7%
Net profit	33.1	26.0	40.7	56.3%	23.1%	67.1	77.0	14.8%
Core net profit	33.7	26.5	41.1	54.9%	22.1%	69.3	78.5	13.3%
Core EPS (sen)	2.89	2.28	3.53	54.9%	22.1%	5.95	6.74	13%
GDPS (sen)	1.50	1.50	2.25	50.0%	50.0%	3.25	4.25	31%
Operating margin	6.0%	6.5%	8.0%			5.3%	6.8%	
Pretax margin	7.1%	6.9%	8.8%			5.4%	7.2%	
Core net profit margin	5.6%	5.5%	6.6%			4.2%	5.5%	
Tax rate	22.8%	25.7%	22.5%			26.4%	24.4%	
Mazda TIV (Malaysia, units)	3,596	2,699	3,169	17.4%	-11.9%	9,779	7,487	-23.4%
Malaysia revenue (RMm)	549.9	449.6	580.4	29.1%	5.5%	1,530.0	1,300.6	-15.0%
Philippines revenue (RMm)	48.1	34.2	42.8	25.0%	-11.1%	116.7	127.1	8.9%
Malaysia EBIT (RMm)	36.4	31.0	48.7	57.4%	33.7%	86.9	95.1	9.5%
Philippines EBIT (RMm)	0.0	1.2	1.1	-2.9%	3396.9%	2.0	3.4	72.0%
Malaysia EBIT margin	6.6%	6.9%	8.4%			5.7%	7.3%	
Philippines EBIT margin	0.1%	3.4%	2.6%			1.7%	2.7%	
BAP (P'pines) volume (units)	352	215	336	56.3%	-4.5%	811	866	6.8%
MMSB volume (units)	3,242	2,341	2,766	18.2%	-14.7%	5,940	6,536	10.0%
Inokom volume (units)	4,736	5,411	8,380	54.9%	76.9%	12,495	16,034	28.3%

Source: Company, MIDFR

BAUTO: 3QFY22 Result Summary (Pretax breakdown)

Pretax Profit (RMm)	3Q21	2Q22	3Q22	QoQ	YoY	9M21	9M22	YTD
Subsidiaries:								
Mazda (Malaysian operations)	36.5	33.7	41.6	23.2%	13.9%	83.0	90.0	8.4%
Peugeot (Malaysian operations)	0.0	-3.6	0.9	-124.6%	NA	0.0	-2.6	NA
Kia (Malaysian operations)	0.0	-0.9	4.5	-607.8%	NA	0.0	3.4	NA
Bermaz Auto Parts (Malaysian operations)	0.0	0.6	0.9	45.5%	NA	0.0	1.5	NA
Mazda (Philippines)	-0.9	0.8	0.7	-2.9%	-185.6%	-0.6	2.2	-448.4%
Investment holding	-0.8	-0.0	0.0	-370.0%	-103.5%	-0.3	0.2	-169.2%
Total operating profit	34.9	30.6	48.6	58.5%	39.3%	82.1	94.6	15.2%
Associates:								
Mazda Malaysia Sdn Bhd	4.8	0.1	5.0	3925.0%	3.8%	0.8	3.2	296.8%
Inokom Corporation	2.5	2.8	2.2	-19.7%	-10.7%	6.3	6.0	-5.3%
Bermaz Auto Alliance	0.0	0.0	0.0	NA	NA	0.0	0.1	71.9%
Kia Malaysia Sdn Bhd	0.0	0.0	-0.7	NA	NA	0.0	-0.7	NA
Others	0.0	0.0	-0.0	NA!	NA	0.0	-0.0	NA
Total associate earnings	7.4	2.9	6.6	124.9%	-10.7%	7.2	8.6	19.6%
Total pretax profit	42.2	33.5	55.1	64.3%	30.6%	89.2	103.1	15.6%

Sales volume (units) (subsidiaries)	3Q21	2Q22	3Q22	QoQ	YoY	9M21	9M22	YTD
Mazda (Malaysian operations)	3,596	2,699	3,169	17.4%	-11.9%	9,779	7,487	-23.4%
Peugeot (Malaysian operations)	0	133	283	112.8%	NA	0	416	NA
Kia (Malaysian operations)	0	0	157	NA	NA	0	157	NA
Mazda (Philippines)	352	215	336	56.3%	-4.5%	811	866	6.8%
Total Group	3,948	3,047	3,945	29.5%	-0.1%	10,590	8,926	-15.7%

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 <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
HOLD	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