"Quarterly improvement due to relaxation of containment measures"

Share price performance

	1M	3M	12M
Absolute (%)	-4.5	-5.1	3.2
Rel KLCI (%)	-2.1	-0.3	16.3

	BUY	HOLD	SELL
Consensus	7	4	-

Stock Data

Sector	Auto & Autoparts
Issued shares (m)	1,162.2
Mkt cap (RMm)/(US$m)	1743.2/412.8
Avg daily vol - 6mth (m)	1.8
52-wk range (RM)	1.29-1.71
Est free float	51.5%
Stock Beta	1.19
Net cash/(debt) (RMm)	171.67
ROE (FY22E)	19.9%
Derivatives	Nil
Shariah Compliant	Yes
FTSE4Good Constituent	Yes
FBM EMAS (Top 200)	Top 25%
ESG Rank	
ESG Risk Rating	10.8 (+ 0.3 yoy)

Key Shareholders

EPF	18.6%
Dynamic Milestone SB	14.5%
PNB	7.9%
Standard Life Aberdeen	5.9%

Source: Bloomberg, Affin Hwang, ESG Risk Rating Powered by Sustainalytics, Bursa Malaysia

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Bermaz Auto (BAUTO MK)

BUY (maintain)
Up/Downside: +13.7%

Price Target: RM1.70
Previous Target (Rating): RM1.96 (BUY)

Improved domestic contributions

- **BAuto's 6MFY22 net core profit (+23.0% yoy) came in within our and consensus estimates**
- **2QFY22 revenue increased by 50.8% qoq due to stronger domestic sales volume (+74.9% qoq)**
- **We reaffirm our BUY rating with a lower TP of RM1.70 after reducing earnings forecasts by 2% for FY22-24E**

6MFY22 revenue dragged by lower sales volume in 1QFY22

BAuto's 6MFY22 core net profit of RM41.5m (+23.0% yoy) came in at 35% and 32% of our and the street's full-year forecasts. We deem this result as in line, as Bauto's earnings are expected to be back-end loaded as per historical trends. Revenue declined to RM804.6m (-23.3% yoy) dragged by weaker sales volume in 1QFY22 (-25.0% yoy) as car showrooms were not allowed to operate due to the MCO 3.0. Even so, pretax profit increased to RM48.0m (+2.2% yoy) attributable to better sales mix, partially offset by initial losses from its newly started Peugeot operations. The group declared a second interim dividend of 1.50sen in 2QFY22, bringing cumulative DPS to 2.00sen for 6MFY22 (vs 1.75sen for 6MFY21).

Improved Malaysia performance in 2QFY22

Quarterly, revenue improved to RM483.8m (+50.8% qoq) on the back of improved domestic sales volume (+74.9% qoq) as Malaysia entered into Phase 2 and 3 of National Recovery Plan (NRP) in 2QFY22. This was partially offset by weaker sales from the Philippines operations (-31.9% qoq) due to lower sales volume (-31.7% qoq). Pretax profit increased to RM33.5m (>100% qoq) contributed by better sales mix, lower interest expenses and higher associates contribution which recorded a profit of RM2.9m in 2QFY22 (vs associates loss of RM0.9m in 1QFY22).

Maintain BUY with lower TP of RM1.70

We reduce our earnings forecasts by 1.9%-2.1% after incorporating the prosperity tax impact and slightly lower sales from the CBU units due to chip supply shortages, and reduce our TP to RM1.70 (from RM1.96) pegging our CY22E EPS to a lower 13.3x PE (in line with 5-year mean forward PE from 15.0x previously). Moving forward, we expect BAuto's earnings to be back-end loaded as Malaysia has started its NRP, and also driven by introduction of new models and facelifts within the Mazda, Peugeot and Kia marques. Management also guided sales are expected to be supported by the CKD units in the near term as they are not as affected by the chip supply shortage as the CBU units. Key downside risks: i) chip supply constraints to meet orders, ii) weaker Ringgit increasing import costs, and iii) decline in consumer sentiment due to increase in COVID-19 cases from new variants.

Earnings & Valuation Summary

FYE 30 Apr	2020	2021	2022E	2023E	2024E
Revenue (RMm)	1,755.4	2,287.9	1,958.7	2,485.6	2,542.9
EBITDA (RMm)	127.4	173.4	130.0	181.7	195.0
Pretax profit (RMm)	132.0	168.9	145.2	207.8	221.8
Net profit (RMm)	100.8	133.8	114.8	166.0	177.1
EPS (sen)	8.7	11.5	9.9	14.3	15.2
PER (x)	17.2	13.0	15.2	10.5	9.8
Core net profit (RMm)	104.1	135.2	114.8	166.0	177.1
Core EPS (sen)	9.0	11.6	9.9	14.3	15.2
Core EPS growth (%)	(61.3)	29.9	(15.1)	44.6	6.7
Core PER (x)	16.7	12.9	15.2	10.5	9.8
Net DPS (sen)	7.5	6.5	5.9	10.7	11.4
Dividend Yield (%)	5.0	4.3	4.0	7.1	7.6
EV/EBITDA	13.9	8.0	11.3	8.7	8.2
Chg in EPS (%)			-2.1	-1.9	-1.9
Affin/Consensus (x)			0.9	1.0	0.9

Source: Company, Affin Hwang forecasts

Fig 1: Results comparison

FYE Apr (RMm)	2QFY21	1QFY22	2QFY22	QoQ % chg	YoY % chg	6MFY21	6MFY22	YoY % chg	Comments
Revenue	599.8	320.8	483.8	50.8	(19.3)	1,048.7	804.6	(23.3)	6MFY22: Lower revenue yoy dragged by decrease in sales volume (-25.0%) in 1QFY22 caused by MCO3.0 Qoq: improved sales volume from domestic operations (+74.9%) with the relaxation of containment measures
Op costs	(561.9)	(297.5)	(444.0)	49.2	(21.0)	(988.5)	(741.6)	(25.0)	
EBITDA	**38.0**	**23.3**	**39.8**	**71.3**	**4.9**	**60.3**	**63.1**	**4.6**	
EBITDA margin (%)	*6.3*	*7.2*	*8.2*	*1.0 ppt*	*1.9 ppt*	*5.7*	*7.8*	*2.1 ppt*	
Depn and amort	(4.0)	(4.8)	(5.1)	5.1	28.3	(8.1)	(9.9)	22.1	
EBIT	34.0	18.4	34.7	88.7	2.2	52.2	53.2	1.9	
EBIT margin (%)	*5.7*	*5.7*	*7.2*	*1.4 ppt*	*1.5 ppt*	*5.0*	*6.6*	*1.6 ppt*	Margin normalising from a low base in 6MFY21: BAuto borne the costs of first-time offer with six-year warranty for cars sold during the period
Int expense	(3.2)	(2.8)	(2.4)	(15.0)	(26.7)	(7.3)	(5.2)	(29.3)	
Int and other inc	1.4	1.9	1.3	(28.8)	(4.9)	2.0	3.2	57.3	
Associates	1.8	(0.9)	2.9	n.m	66.6	(0.2)	2.0	n.m	Yoy & qoq: Inokom profit was partially offset by lower losses from Mazda Malaysia
EI	(0.0)	(2.1)	(3.1)	46.3	n.m	0.3	(5.2)	n.m	
Pretax	**33.9**	**14.5**	**33.5**	131.7	(1.0)	**47.0**	**48.0**	2.2	Yoy: marginally dampened by initial losses from its newly started Peugeot operations Qoq: higher sales volume from domestic operations
Tax	(9.4)	(4.1)	(8.6)	108.5	(7.9)	(13.9)	(12.8)	(8.1)	
Tax rate (%)	*27.6*	*28.6*	*25.7*	*-2.9 ppt*	*-1.9 ppt*	*29.6*	*26.6*	*-3.0 ppt*	
MI	0.3	(0.1)	1.1	n.m	334.6	0.9	1.0	14.1	
Net profit	24.8	10.3	26.0	153.6	5.0	34.0	36.3	6.7	
EPS (sen)	2.14	0.88	2.24	153.6	4.9	2.9	3.1	6.7	
Core net profit	**24.8**	**12.4**	**29.1**	135.4	17.4	**33.7**	**41.5**	**23.0**	Earnings within estimates

Source: Affin Hwang, Company

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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